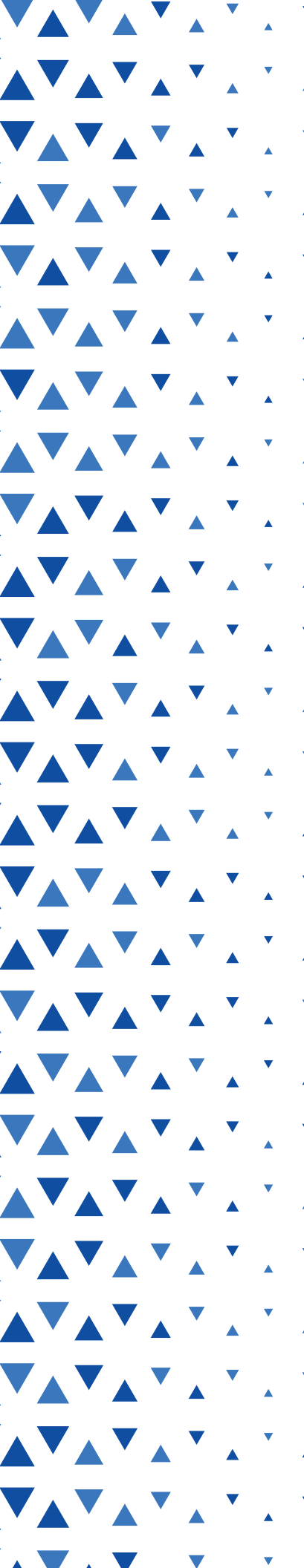


Staying Resilient ▲



Scan this QR Code with your smart device to view this Annual Report online or to download visit www.unionb.com



Staying Resilient ▶

It was a year that tested our limits, sharpened our focus, and kept us agile. We stood resolute and resilient in the face of cutbacks and compromise without exceptions to our business ethics and customer centricity. The year under review revolved around providing respite to our customers, employees and stakeholders to overcome a challenging period, whilst re-aligning our strategies for business resilience. Our digital prowess augmented our adaptability and connectivity in providing uninterrupted banking convenience. Staying resilient will fortify and augment the connections that we have built over the years, as we endeavour to grow, driven by our values of stability, accessibility, and empathy.

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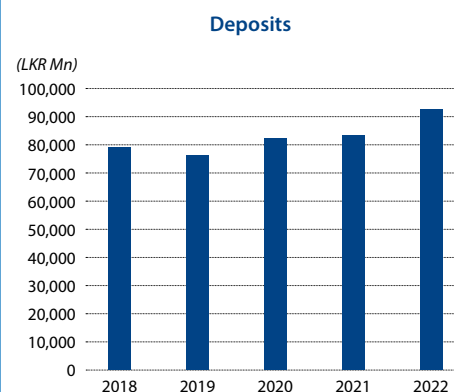
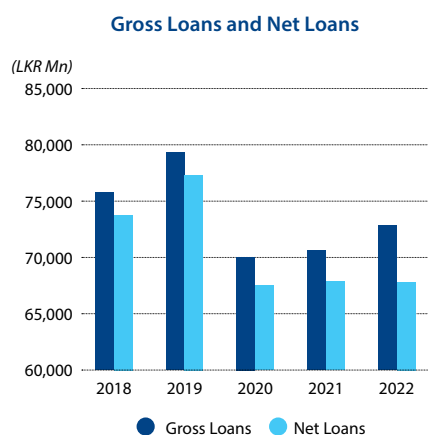
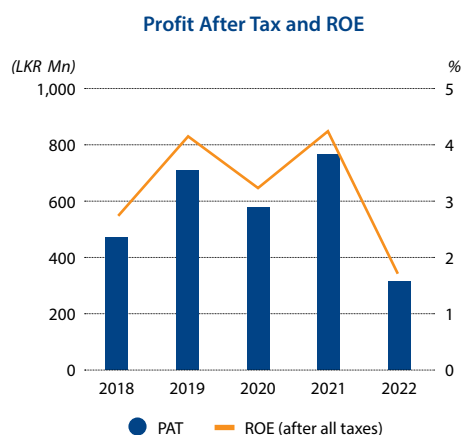
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Financial Highlights

UNION BANK
Annual Report 2022

3

	2022	BANK 2021	Change %	2022	GROUP 2021	Change %
Results for the year (LKR '000)						
Gross Income	18,966,036	10,978,924	72.75	21,091,781	12,723,121	65.78
Total operating income	7,749,645	5,895,140	31.46	8,845,457	6,988,214	26.58
Impairment for loans and other losses	2,555,959	932,879	173.99	2,970,048	1,136,663	161.30
Profit attributable to equity holders of the parent	314,188	764,919	(58.93)	434,065	836,834	(48.13)
Assets and Liabilities (LKR '000)						
Gross loans and advances to customers	72,810,492	70,560,551	3.19	82,203,105	78,722,989	4.42
Due to customers	92,591,545	83,416,119	11.00	98,942,753	87,618,235	12.92
Total assets	129,482,953	118,406,101	9.35	136,679,005	124,092,925	10.14
Total liabilities	110,670,122	100,480,882	10.14	117,663,256	106,072,073	10.93
Total equity attributable to equity holders of the Bank	18,812,831	17,925,219	4.95	18,745,003	17,737,514	5.68
Profitability (%)						
Net Interest Margin	4.69%	3.53%		N/A	N/A	
Impaired Loans (Stage 3) Ratio (%)	8.19%	4.46%		N/A	N/A	
Return on average shareholders' funds (ROE)	1.71%	4.25%		2.38%	4.71%	
Return on average assets (ROA)	0.25%	0.63%		0.33%	0.66%	
Investor Information						
Earnings per share - Basic (LKR)	0.29	0.71		0.40	0.77	
Net asset value per share (LKR)	17.36	16.54		17.30	16.37	
Market value per share as at 31 December (LKR)	6.60	11.10		N/A	N/A	
Market capitalisation (LKR 000)	7,151,485	11,919,142		N/A	N/A	
Regulatory Ratios (%)						
Capital Adequacy Ratios (%)						
Common Equity Tier 1 Capital Ratio	17.15%	15.51%		18.18%	16.58%	
Tier 1 Capital Ratio	17.15%	15.51%		18.18%	16.58%	
Total Capital Ratio	18.26%	16.47%		19.29%	17.60%	
Leverage Ratio	9.76%	9.94%		10.50%	10.81%	
Liquid Asset Ratio (%)						
Domestic Banking Unit	28.05%	23.50%		N/A	N/A	
Foreign Currency Banking Unit	27.18%	23.56%		N/A	N/A	
Liquidity Coverage Ratio (%)						
Rupee	486.70%	348.21%		N/A	N/A	
All Currency	413.12%	252.85%		N/A	N/A	
Net Stable Funding Ratio (%)	123.48%	124.56%		N/A	N/A	



Established in 1995, as the 8th local bank in Sri Lanka, Union Bank counts over 25 years of service to the nation. As one of Sri Lanka's highest capitalised private commercial banks, Union Bank offers a wide range of 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 of the largest foreign direct investments to Sri Lanka.

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. The Bank continues to implement its cohesive plan for accelerated growth with substantial innovations and developments to its product offering and technological and delivery platforms in providing a differentiated banking experience to its customers. Union Bank's amplified network consists of 67 branches island-wide aptly supplemented by alternate channels including a dedicated sales force for Asset and Liability products, a 24-hour call centre, Digital banking platforms, Agent Banking Services and an ATM network with access to all ATMs in Sri Lanka connected to LankaPay.

Union Bank's strategic diversifications within the financial services sphere include its subsidiaries National Asset Management Limited, Sri Lanka's pioneering Asset Management company and UB Finance Company Limited, a licensed finance company with a strong capital adequacy base. Delivering a unique value proposition and backed by the strength of TPG - the US based global private investment firm with over \$100 Bn in capital under management and an extensive global network, Union Bank continues to expand its horizons as a preferred financial solutions provider.

ABOUT TPG

TPG is a leading global private investment firm founded in 1992 with over \$135 Bn of assets under management and offices in San Francisco, Fort Worth, Washington, D.C., Dubai, Shanghai, Beijing, Hong Kong, London, Luxembourg, Melbourne, Mumbai, New York, Seoul, Shanghai, and Singapore. TPG has been present in Asia since 1994 and is currently investing out of its eighth 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.



Overview

Disclosure 2-3

The report reviews the operations of the Bank and its respective subsidiaries during the financial year from 1st of January 2022 to 31st of December 2022, complying with all the due financial and non-financial requirements. The report precisely exhibits the Bank's strategy, operational performance and stakeholder management processes which contributes significantly to the Bank's sustainable growth journey to achieve its strategic objectives within identified boundaries. Currently, the Bank functions only within the territory of Sri Lanka, and provides a comprehensive range of financial solutions to its customer bases within the respective boundaries. Union Bank publishes its financial and non-financial performance on an annual basis and the most recent previous report published was for the financial year 2021.

This report has been prepared in accordance with the GRI Standards. According to the GRI sustainability reporting guidelines, the Bank's prioritisation of GRI content aspects have been based on the principle of materiality and stakeholder inclusiveness. The GRI content index is set out on pages 131-133 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 2022, 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

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

Disclosure 2-5

We have appointed M/s Ernst and 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

Disclosure 2-4

This report is primarily about the performance of Union Bank's operations within the boundaries of Sri Lanka. Reporting is mainly

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

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

Material Topics and Boundaries

Disclosure 3-1/3-2/3-3

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 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 14-15. The Bank continues to place high significance on 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.

Procurement Practices GRI 204

Reasons for Materiality	The Bank's procurement process is recognised as a prominent feature of its supply chain, which significantly contributes towards maintaining its corporate image, as a high-quality service provider. The Bank also indirectly contributes towards strengthening the economy through its procurement, by empowering and sourcing through a growing network of local suppliers and partners.
Management Strategy	The Bank identifies its suppliers as strategic business partners, and the selection of goods and services sourcing partners is mainly based on compatibility with the Bank's ethics, processes, culture and social responsibility. The Bank's comprehensive approach towards its sourcing partners has been documented in the Board-approved Procurement Policy, where transparency, ethical business practices, environmental friendliness, competitive pricing and value for money in the respective deliverables are recognised as main factors for a supplier to be qualified as a suitable product/service provider for the Bank. The Bank calls for supplier registrations once in every two years, providing opportunities for interested sourcing parties to enrol under twenty-six (26) supplier categories. Procurement is conducted through a competitive bidding process, which is open to all registered suppliers as well as those nominated by internal stakeholders. If any sourcing party continuously fails to participate in the quotation process and/or repeatedly fails to meet supply deadlines, the Bank's Procurement Committee takes measures to penalise/blacklist such suppliers to maintain the credibility of the process. Currently, 95% of the Bank's supplier portfolio consists of local businesses while several suppliers that provide specialised technology and technical services, remain outside Sri Lanka's geographic boundaries.
Evaluation Mechanism	Supplier registration and all procurement related aspects are governed by the Bank's Procurement Policy which is a Board-approved document and are reviewed every year, in order to incorporate any required amendments based on the market dynamics and best practices in the industry. Evaluations are conducted considering both financial and technical aspects of the proposals by the Procurement Committee.

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 dedicated managerial resource has been assigned to ensure that the Bank is in line with prevailing tax laws which are volatile in nature due to unstable economic conditions. Currently, the Bank adheres to the main tax requirements of 30% Income Tax on Bank operations and Value Added Tax (VAT) liability of 18% on Financial Services and 15% on Non-Financial Services and Social Security Contribution Levy (SSCL) of 2.5% on Bank's liable turnover. The Bank maintains a core focus towards rapid changes in taxation and remains flexible to incorporate respective changing 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. The Compliance department also conducts regular reviews on respective tax regulations to ensure that the Bank is compliant with these and is consistent in its commitment to be conceived as a responsible corporate citizen.

Energy {GRI 302} Disclosure 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.

Anti-Competitive Behaviour/Employment GRI 206 / 401

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 headcount 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, and the same would be evaluated through periodic audits taken up by the Compliance Department and the Internal Audit Department.
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.

Labour Management Relations /Training and Education GRI 402/ 404

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 the set service standards 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. Clear and continued communications with staff further supports 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. Any changes to the operations or the existing designation changes of the Bank will be informed to the staff via global emails, town hall meetings and the staff intranet. Town hall meetings are held on a bi-annual basis where all employees receive a summarised update on the financial and non-financial performance highlights 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 process allows the employees and line managers to highlight particular training requirements needed. This information is duly considered when nominating employees for programmes or when designing learning interventions. Overall sentiments of employees regarding learning and development are also gathered through the feedback of the employee engagement survey. Updates related to Bank's operations/ employee procedures etc. are shared with staff by the HR department on a timely basis.

Occupational Health and Safety GRI 403

Reasons for Materiality	Providing a safe and healthy environment for employees to work in 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. The Bank also imposed effective controlling mechanisms and health and safety measures such as daily temperature checks, providing face masks, surgical gloves and hand sanitising facilities to ensure employee safety from the prevailing pandemic. Further, the Bank has taken steps to minimise staff exposure at work by facilitating Work-From-Home (WFH) options while allowing selected staff to perform their duties on roster basis as a part of the Bank's ongoing concern towards employee safety. In addition, all employees on the permanent cadre are covered by Personal Accident, Critical Illness and Life Insurance covers along with surgical and hospitalisation insurance with OPD bill reimbursements. 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 is checked and maintained frequently. All department heads along with the HR department are committed to ensure employee safety from COVID-19, by enhancing awareness on the safety guidelines of the Bank and maintaining regular communications with their teams in this regard. An annual review of the surgical and hospitalisation insurance service provider is conducted to ensure that the best packages are extended to employees.

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 Whistle-blowing 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 at 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.

Marketing and Labelling /Customer Privacy and Socio-Economic Compliance

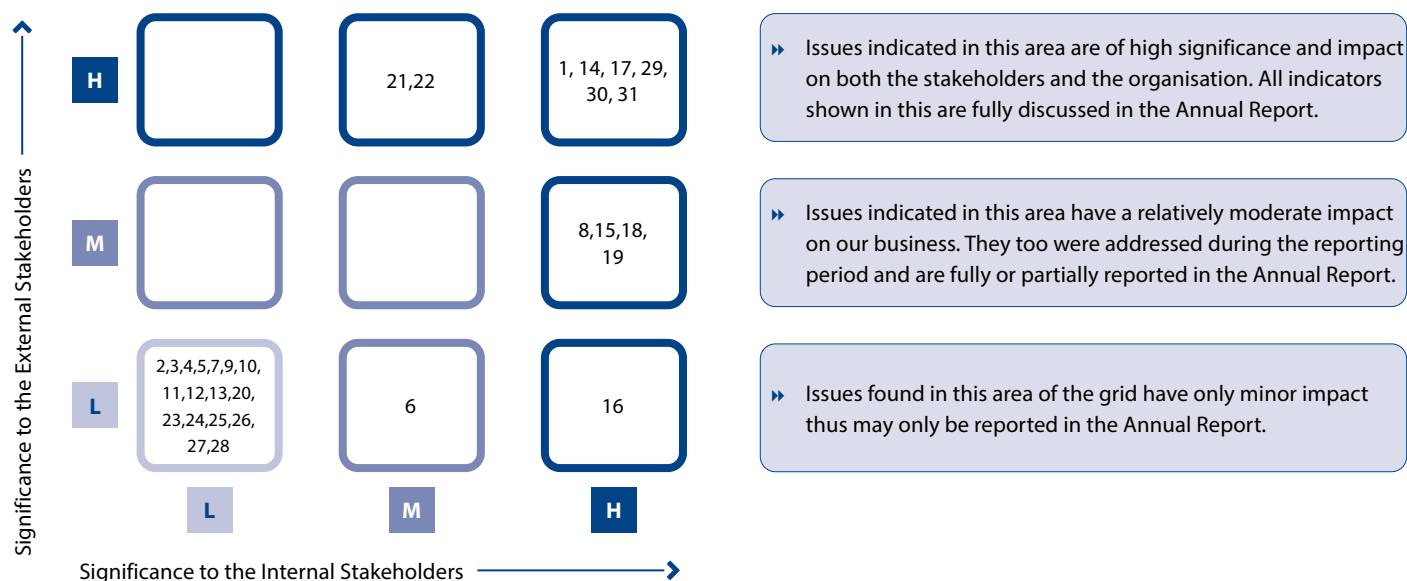
GRI 417 /418//419

Reasons for Materiality	As one of the fastest growing commercial banks in Sri Lanka with a growing island-wide 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 hold legal onus to protect the confidentiality of existing and former customers under the Banking Act and the Banks' 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 to breach of trust and confidence in customers, which would bear a negative influence on the corporate reputation 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, IT Security and Operational Risk Management teams ensure continuous evaluation of the Bank's processes and systems add value to the evaluation mechanism.

Other GRI Prospects

Disclosure 402-1

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.



1. Economic Performance
2. Market Presence
3. Indirect Economic Impacts
4. Procurement Practices
5. Anti-corruption
6. Anti-competitive Behaviour
7. Materials
8. Energy
9. Water and Effluents
10. Bio-diversity
11. Emissions
12. Effluents and Waste

13. Supplier Environmental Assessment
14. Employment
15. Labour/Management Relations
16. Occupational Health and Safety
17. Training and Education
18. Diversity and Equal Opportunity
19. Non-discrimination
20. Freedom of Association and Collective Bargaining
21. Child Labour
22. Forced and Compulsory Labour
23. Security Practices

24. Rights of Indigenous People
25. Local Communities
26. Supplier Social Assessment
27. Public Policy
28. Customer Health and Safety
29. Marketing and Labelling
30. Customer Privacy
31. Tax

Contact Disclosure 2-3

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

Chief Financial Officer,
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 319 of this report.

Creating Sustainable Corporate Values

Disclosure 2-29/207-3

	MISSION	GOALS
Shareholders	» Provide favourable returns on 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 within 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

Disclosure 2-29 / 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 feedback from customers who visit the Bank » Customer surveys » SMS alerts and Call Centre » Internet banking/Mobile app » Social media interactions » Official website	» 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 and 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

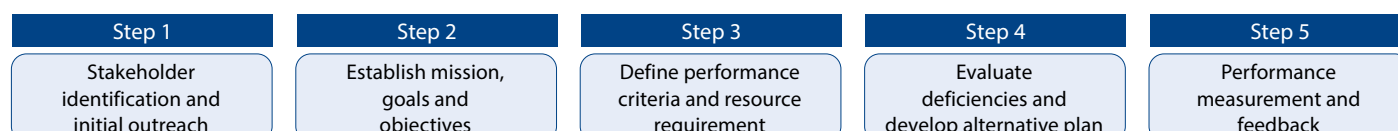
Disclosure 2-29

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

Primary stakeholders – direct beneficiaries and users of banking services (shareholders, customers, and employees)

Secondary stakeholders – intermediary and external authorities that bear influence over the banking activities (regulators, society, and environment).

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



Feedback

We value your suggestions to enhance our processes. For your suggestions please find attached the Stakeholder Feedback Form on page 319 of this report.

Key Performance Indicators

UNION BANK
Annual Report 2022

14



Environment

No. of Trees Saved

460

Litres of Water

818,018

Litres of Oil

45,212

Cubic meters of Landfill

77

KWH of Electricity

102,960



Employees

Employee Composition Ratio

1:1.2
(Female : Male)

Work Force

1,164



Network

No. of Branches

67

On-site/Off-site ATMs

109



Shareholders

ROE - Before all Taxes

4.29%

ROE - After all Taxes

1.71%



Regulators

Taxes Paid to the Government

LKR 506 Mn

Taxes Collected on Behalf of the Government

LKR 71 Mn



Financial

Results from Operating Activities

LKR 925 Mn

Total Assets

LKR 129,483 Mn

Stage 3 Ratio

8.19%

Tier 1 Capital Ratio

17.15%

Total Capital Ratio

18.26%

Deposits

11% (Growth)

Net Interest Margin

4.69%

Gross Loans to Deposits Ratio

78.64%

CASA Ratio

23%

Sustainability Impacts, Risks and Opportunities

Disclosure 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 impacts 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 and 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.



**Resilient in
providing
continuous
stability.**





As a trusted banking partner, Union Bank continued to place great emphasis on supporting customers and businesses to navigate through a difficult period and provided the much-needed support to reinvigorate and revive businesses amidst mounting challenges. ►

Dear Stakeholders,

Staying resilient against continued challenges

During the year, continued pressures and impacts of the global and domestic macro-economic and political landscapes stifled livelihoods and the existence of millions of people all over the world and here in Sri Lanka. Sri Lanka's recovery from a long and hard pandemic was muted by the burdens of the economic crisis that followed, impacting normalcy at large for both people and businesses alike, making survival and sustenance an even bigger challenge. In this backdrop, the banking sector continued to support the National agendas for economic stability and provided immediate respite and support whilst facing further challenges to business performance and prospects.

Amidst these impediments, I'm pleased to say that Union Bank stood resilient through the tough operating conditions of yet another challenging year. Swift strategic manoeuvring aided by prudent risk management, enabled the Bank to realign its focus to secure and maintain its existing portfolios and customer bases and minimise the impacts of these external shocks to customers and operations.

As a trusted banking partner, Union Bank continued to place great emphasis on supporting customers and businesses to navigate through a difficult period and provided the much-needed support to reinvigorate and revive businesses amidst mounting challenges. We have been unwavering in our efforts to be empathetic towards our customers' needs and the Bank continued to play an advisory role to customers, providing hope for revitalisation and new dimensions for business growth whilst extending the relief measures mandated by CBSL and the Government and other customised plans.

Continuing our customer-centric ethos, the Bank facilitated uninterrupted services to customers even during the critical times and made several process and service enhancements with a focus on digital, providing further flexibility and convenience to customers. During the year prudent cost

management mechanisms were implemented to ensure cost optimisation. We were equally committed to ensuring the health and safety of our employees who worked tirelessly in a year where normalcy was largely impacted. New working models and processes ensured business continuity.

Despite the challenges, the Bank recorded an improved overall income for the year. The continued impacts on business and pressures on collections and impairments strained the Bank's year-on-year profitability. The Bank's Treasury prudently managed the Bank's critical liquidity, providing the much-needed stability to its overall operations. The Bank continued to provide value to stakeholders and despite the monetary policy stance for economic stability, the Bank prudently managed its net interest margins. The rating of the bank was reaffirmed at BBB-(lka) with a Negative Rating Watch by Fitch in September 2022 due to the stresses in the operating environment.

Your Bank's strong capital position has enabled the Bank to withstand the many challenges of the macro-environment and the Bank will remain resolute and continue to prudently uphold this position. During the year 2022, Union Bank continued to remain a positive enabler, leveraging on the Bank's robust capital position, its prudent risk framework, and the ability to be agile to challenges and changes.

Looking ahead with optimism

Looking ahead to a new year and beyond that ring hope and optimism, we will augment from our experiences of standing resolute against challenges and build on new paths for progress and growth in delivering greater value to our customers and stakeholders.

We will align ourselves with the National agenda, while driving a business that is scalable and profitable. We will explore new dimensions for business and our growth strategies will encompass profitable segments targeted with differentiated offerings. We will

continue to offer respite to our customers to overcome the challenges of a difficult year gone by and support to reinvigorate their lives and businesses while staying committed to cost optimisation and our risk and governance principles. We will continue to build on our customer-centric ethos in delivering unique experiences through customised financial solutions to the evolving needs of our customers, aptly supported by continuous dialogue and digitisation.

Your Bank will continue to remain resolute to face the challenges of 2023 and beyond and embark on a journey for enhanced growth, solidified by our strengths of a robust capital base and our ability to align and manoeuvre strategic direction to demanding environments.

Appreciation

2022 was a year that brought greater challenges to businesses and people alike, testing their sustenance further. In this backdrop, the Bank withstood yet another challenging year with resilience and continued to uphold its position as a robust entity.

We sincerely thank our valued customers who continued to place their trust in us during yet another difficult year and re-assure our commitment to building even stronger partnerships as we steer towards a new year and beyond with hope and buoyancy.

The Central Bank, particularly the Governor and the Deputy Governors, have provided astute counsel which has been greatly beneficial. The Board of Directors of Union Bank and the Chairpersons and members of Board Committees have provided able guidance which has enabled the Bank to record a sustainable performance during the year. A big thank you to Union Bank employees at all levels for their inspiring and unwavering efforts and commitment that enabled the Bank to ensure uninterrupted services to customers amidst tough operating conditions. My appreciation to all other

stakeholders who supported the Bank in numerous ways during the year. In addition, I would like to thank our shareholders for continuing to place their trust in Union Bank.

Wishing you all the very best in the year 2022/23.



Atul Malik
Chairman

Colombo
28 February 2023

Chief Executive Officer's Message

UNION BANK
Annual Report 2022

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Union Bank continued to be resilient throughout 2022, leveraging on its strong capital position and remained agile, posting an increased overall income for the year. ►

Dear Stakeholders,

Resilient amidst tough operating conditions

In 2022 we experienced the impacts of the world economy suffering from a series of destabilising shocks from the pandemic to the Russian Federation's invasion of Ukraine that steepened the slowdown in global growth. Impacted by the global scenario as well as an adverse local scenario, Sri Lanka witnessed its worst economic crisis during the year, resultant from continued impacts of the pandemic and political instability. With the much-needed political resolves and immediate respite measures of the Government coming into effect during the latter part of the year, Sri Lanka's economy signalled developments towards gradual recovery by the year end.

During the year, the banking sector faced multiple headwinds with the impact of the sharp rupee depreciation, foreign currency scarcity, rising interest rates, an upward revision of taxes, higher impairments and import restrictions which led to impeding credit growth for banks. The Central Bank of Sri Lanka (CBSL) and the Government continued to implement monetary and other policy measures to aid the much-needed economic revival and stability.

Against this backdrop, Union Bank continued to be resilient throughout 2022, leveraging on its strong capital position and remained agile, posting an increased overall income for the year. The Bank managed its businesses within a stringent risk and recovery framework, whilst pursuing new growth opportunities.

During the period under review, the Bank continued to maintain a robust liquidity position both in LKR and FCY. Deposits remained stable and increased, aided by carefully managed margins amidst rate revisions. The average CASA of the Bank also remained healthy, posting a CASA ratio of 23% for the year under review.

With the contraction in private sector credit growth and lending opportunities, the Bank's gross loans and advances at the end of the year was LKR 72,810 Mn. Whilst expanding lending to existing customers and assisting them to sustain and reinvigorate businesses, the Bank secured a funding line from the Asian Development Bank (ADB) during the first quarter which aided further funding to SMEs throughout 2022 with a focus on women entrepreneurs and tea smallholders.

The sharp depreciation of the rupee, supply constraints and import restrictions, continued to impact the Bank's trade business opportunities. However, the Treasury was instrumental in providing the much-needed support to importers by way of foreign exchange by prioritising trade payments for essential items such as food, pharmaceuticals, fertiliser, fuel, etc. whilst re-aligning the impacted Government Securities portfolio at a much faster pace, through focused investment strategies and timely pricing.

Amidst tough operating conditions, the results from operating activities of the Bank were LKR 3,480 Mn before impairments, a 57.14% increase over 2021. However, the stresses stemming from the macro-economic and political environments compelled the Bank to prudently provision for increased impairments and management overlays which impacted the Bank's profitability. The impairment charge for the period was LKR 2,556 Mn, an increase of 173.99% compared to the corresponding period. Though costs were prudently managed, the Total Operating Expenses of the Bank also increased by 16% due to the impacts of the depreciation of the Sri Lankan rupee and the significant increase in fuel expenses and utility tariffs.

Within this challenging backdrop that was prevalent for most of 2022, the Bank along with its ownership interest in subsidiaries recorded a profit before all taxes of LKR 788 Mn for the year ended 31st December 2022. The Profit After Tax (PAT) for the period was LKR 314 Mn.

All business segments followed a highly cautious approach to lending during 2022 focusing on credit quality whilst ensuring strong risk and recovery measures which aided the Bank to control its stage 3 loan ratio at 8.19% by end of the reporting period.

The Bank continued to maintain its capital adequacy ratios well above the regulatory requirements and reported a robust Total Capital Ratio of 18.26% as at the reporting date. Further, Union Bank continued to be listed in the LMD Most Valuable Brands in Sri Lanka in the latest rankings for 2022. During the year, the Bank was also listed amongst the LMD Most Respected Entities and the LMD Leading 100 Listed Companies.

Maintaining customer centricity

Steering through the challenges, Union Bank remained committed to providing a continuous offering of the Bank's products and services to its customer bases through uninterrupted banking services with focus on enhanced access to the Bank's digital platforms.

The Bank's IT enablers provided a backdrop conducive for the Bank to operate its functions remotely. Supported by a well-managed business continuity plan, the Bank was able to provide uninterrupted services to customers through the Bank's digital platforms and also selectively operated branches and ATMs, enabling them to conduct a host of banking services even when heightened constraints to travel prevailed. Further assistance was provided to customers round-the-clock through the Bank's Contact Centre.

The Bank acted with empathy in understanding the evolving needs of customers during a challenging year and rolled out several sustenance programmes to aid customers and businesses. Supporting business revival and providing immediate respite for the financial challenges faced by customers, in addition to extending relief measures mandated by the Central Bank, the Bank offered impacted borrowers with guidance and customised payment plans.

In sync with the National Agenda to reinvigorate and revitalise businesses, Union Bank continued its unstinted support to the Corporate and SME customers to revive their businesses by extending customised funding and payments plans whilst enabling a prioritised and schematic flow of foreign currency for continued trade activities of essential goods.

Maintaining an ethos of customer centricity would have not been possible if not for the commitment and the unwavering support showcased by our employees at a time when constraints were many whilst the effects of COVID-19 continued, and the economic crisis stifled the Nation's transport system, resulting in a year where normalcy was largely impacted. Whilst staying alert to these macro-economic impacts and ensuring business continuity and operations, we placed equal importance on the well-being of our employees who worked tirelessly during this period.

Union Bank's digital connect

The Bank's digital channels acted as a primary source of convenience to customers during a year that was gripped with challenges to reach bank branches and ATMs due to travel constraints.

During the year, the Bank invested in several key digital transformation and IT infrastructure projects including the Data centre upgrade with the latest technologies such as application centric infrastructure, software defined networks, security infrastructure enhancements, enterprise storage and backup systems, with focus on improved security and reliability of the IT infrastructure and application landscape whilst providing the required operational support to manoeuvre through the challenges.

The Bank commenced its ATM switch upgrade for enhanced operational efficiencies and security and strived to ensure its island-wide ATM network was operational even during the power crisis to aid customer needs. The Bank's mobile app UBgo

continuously provided multiple banking services to customers to swiftly carry out transactions and be up-to-date on their Banking relationships with convenience from their homes. Connecting the Bank from closer to home for our customers, the Union Bank Agent Banking Service added Cargills FoodCity network of outlets in addition to SLT Mobitel outlets for customers to transact with Union Bank for deposits and credit card payments. The Bank came on board with the Lanka Online Payment Platform to facilitate Inland Revenue Department, Customs and Ports Authority payments for customers, enabling convenience for business operations. Providing ease to business operations and efficiencies the Bank continued to support the Corporate and SME customers with its cash management solution Union Bank BizDirect, facilitating a host of services including convenience of on-site cheque printing and the ease of payment and collections, enabling customers time to focus on providing respite for the revival of their businesses. Whilst providing enhanced digital convenience to our customers to minimise the impacts faced by the challenges that prevailed for most of the year, the Bank also ensured the safety and convenience of employees by adapting to the new normal and facilitated new working models including remote working, mobility, enhanced digital space for management decision making and online collaboration, enabling them to have continuous dialogues with customers.

The developments carried out thus far to improve the Bank's IT infrastructure landscape and capabilities have enabled the Bank to establish a solid foundation for the implementation of the Bank's future plans for the launch and enhancement of its digital transformation solutions.

Looking ahead to 2023 and beyond

The year 2023 brings new hope with the expectation of continued progress towards economic stability. Looking ahead with optimism, the Bank will embark on a cohesive strategic plan that will support to reinvigorate business growth in all our business segments. Our financial soundness as a Bank with the highest capital adequacy further amplifies our resilience and ability towards our tenacious growth journey in the year ahead and beyond. We will focus on the evolving opportunities from the anticipated recovery and turnaround of the economy and continue to focus on prioritised segments and customised offerings to expand our portfolios and customer bases in building a sustainable and profitable business whilst consolidating our partnerships towards enhanced group synergies.

In the year ahead, we will continue to offer respite and financial guidance to our customers to overcome the challenges of another difficult year gone by and support to rebuild their lives and businesses. We will align with the National Agenda to uplift the much impacted Small and Medium Enterprises sector whilst pursuing growth objectives for enhanced credit in the positive segments identified in line with the macro-economic developments. The Bank will focus on the utilisation of the Asian Development Bank (ADB) credit line in a prudent manner and will continue to build on further partnerships for funding lines with a view of enhancing the Bank's lending potential and enabling to channel low-cost funding to SMEs.

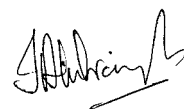
Digitisation will play a pivotal role in how we will engage with our customers in creating an omni-channel experience. Our cohesive plans will focus on further strengthening our

information technology capabilities with the objective of supporting business growth that will provide a platform for a total experience and process optimisations. The planned initiatives will aptly support the Bank's strategic manoeuvring through partnerships, product upgrades, reach and expansion. We will be cautious about expenses whilst making every effort to enhance our systems and processes for improved productivity and efficiencies.

We will continue to make it a top priority to ensure that the Union Bank Team is provided with the required support and resources needed to face the new agendas of the coming year and beyond whilst continuing to be committed to creating value for our customers and shareholders, and ensuring the well-being of our employees.

Appreciation

I extend my sincere appreciation to our valued customers and other stakeholders for their continued trust and partnership that enabled us to steer through a challenging year and yet remain resolute. I also extend my gratitude to the leadership team, management, and staff members at all levels for their continued commitment, which enabled the Bank to provide uninterrupted banking services to our customers. My sincere appreciation to the Chairman, Deputy Chairman, and members of the Board of Directors for their continued support and guidance.



Indrajit Wickramasinghe
Director/Chief Executive Officer

Colombo
28 February 2023

**Resilient in
adapting to a
challenging
environment.**





Management Discussion and Analysis

UNION BANK
Annual Report 2022

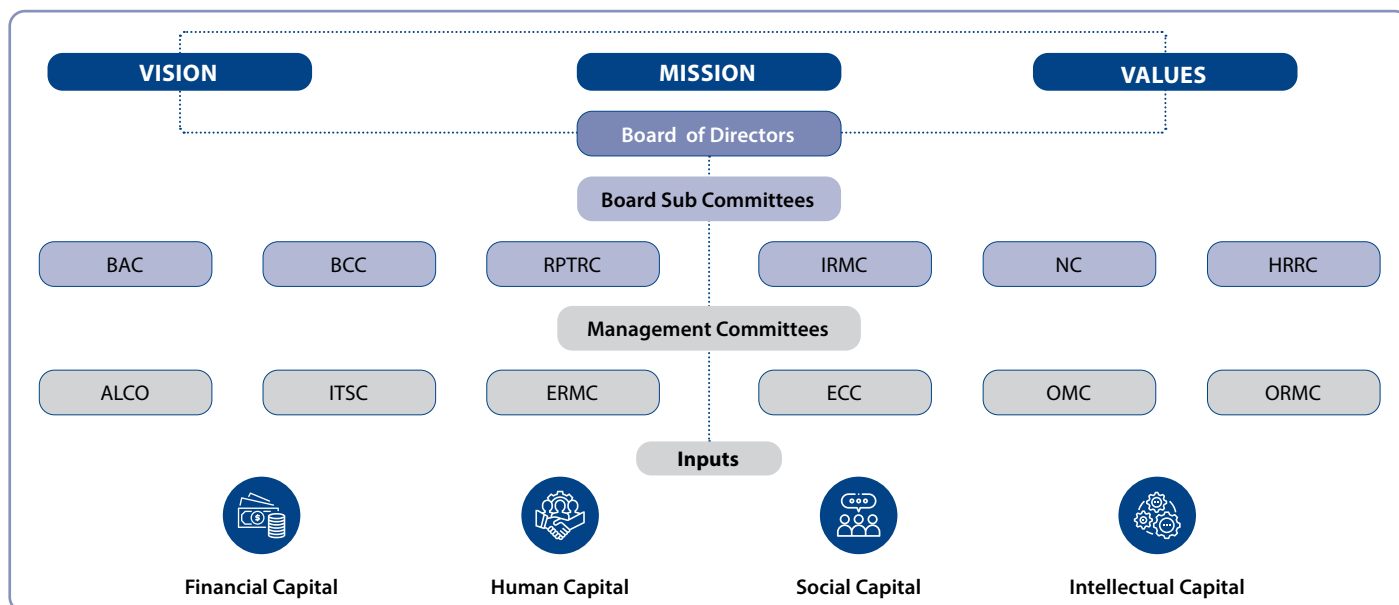
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Disclosure 2-6

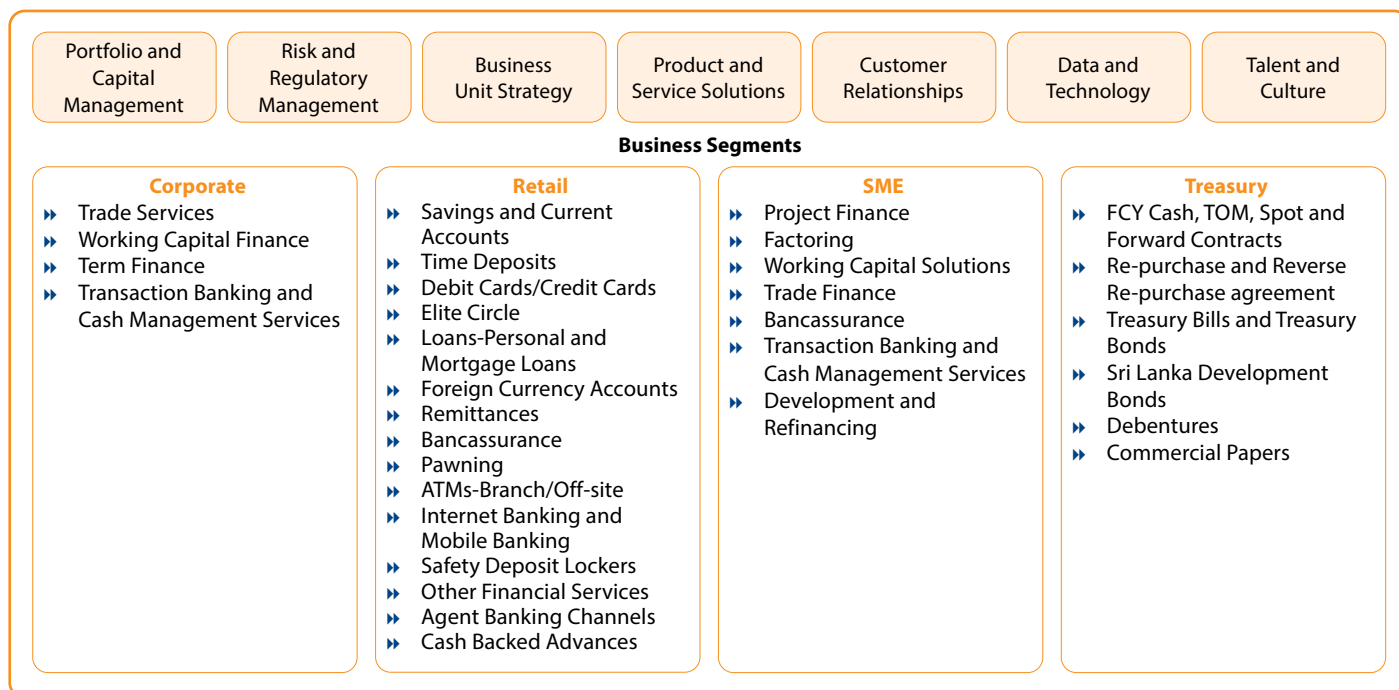
OUR BUSINESS MODEL



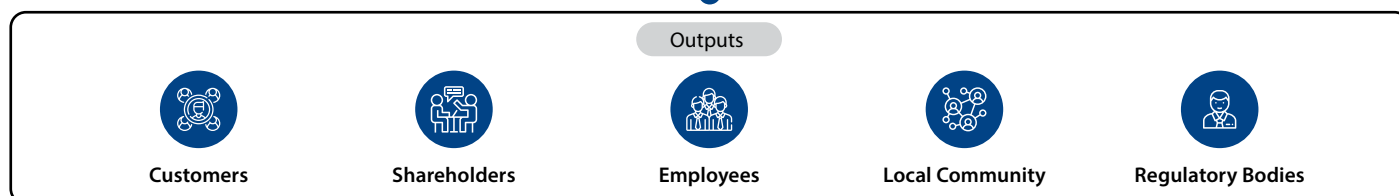
Corporate Philosophy



Governance



Outputs



Sri Lanka's Macro-Economic Review

2022 was a year of hope that turned into turmoil for the small island nation. Sri Lanka's acute economic crisis that was brought to light because of the depletion of foreign reserves and twin deficits, resulted in unprecedented levels of inflation, followed by a significantly tighter monetary policy stance by the Central Bank. However, the economy has started its recovery with an IMF bailout on its way, along with prudent policy measures being introduced in the budget for the upcoming year.

The budget for 2023, and the Inland Revenue Amendment Bill included varied tax reforms; the removal of several VAT exemptions, changes to both corporate and personal taxes, measures to increase non-tax revenue and the cut down of several non-essential expenditures. An IMF-friendly budget was a necessity to ensure the approval of the US\$ 2.9 Bn loan to establish its path to recovery.

By the end of the first quarter of the year the CBSL projected GDP growth to reach 1.0% for the year 2022 following the 3.7% growth in 2021. However, as the GDP shrunk by 1.6% in the first quarter, 8.4% in the second and 11.8% in the third, combined with the unexpected developments in the political arena, the CBSL revised its growth projections down to -8.0% for the year 2022. During the third quarter of the year, all three major economic activities; agricultural, industrial and services activities have recorded negative growth rates of 8.7%, 21.2% and 2.6% respectively.

Factors such as high inflation, backed by an acute fuel and energy crisis, prevailed during the early part of the year. A shortage of inputs required for manufacturing activities combined with high prices of inputs are cited as the main causes behind such a decline. Further the reduction in real income of the people have resulted in a decrease in demand for both essential and non-essential commodities. Headline inflation, based on both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI) soared as it reached levels of 70% YoY with food inflation soaring even higher. The YoY inflation reached a tipping point in September and remained on a disinflationary path since then.

In a bid to arrest the sharp rise in price levels the CBSL enacted a series of policy rate hikes, increasing the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) to 14.50% and 15.50% and continued to maintain it throughout the second half of 2022. The maintenance of a tight monetary policy stance was noted as necessary to contain any demand-driven inflationary pressures in the economy, while helping to further strengthen disinflation expectation. Such measures have led to a substantial decline in private sector credit. Nevertheless, net credit to the Government by the banking system expanded notably amidst low Government revenue and limited access to foreign financing sources.

Given the strict import regulations, the cumulative external deficit for the first ten months of 2022 was US\$ 4.4 Bn, a decline from US\$ 6.5 Bn recorded over the same period in 2021. The major contributing factors for such a decline were the increase in exports of textiles and garments, coupled with a decrease in imports of machinery and equipment. Moreover, earnings from tourism crossed over the US\$ 1 Bn threshold during the first ten months in 2022, showing signs of recovery from the pandemic. However, the recovery lost momentum due to the energy crisis that led to rolling power cuts. In the meantime, workers' remittances reached about US\$ 3 Bn during the first ten months of 2022. Meanwhile, in the first nine months Sri Lanka recorded a BOP deficit of US\$ 2.9 Bn while the country's foreign reserves hovered between the US\$ 1.7 to US\$ 1.8 Bn mark during the second half of the year, which included a People's Bank of China (PBOC) swap equivalent to around US\$ 1.4 Bn, which is subject to conditionalities on usability.

The LKR which hovered around the 200 mark per US dollar at the beginning of the year was subjected to a rapid depreciation during the first quarter as the peg to 200 was removed and currently stands at approximately 365 per US dollar, depreciating by 82% during the year. The currency stabilised during the second half of the year owing to the macroprudential regulations undertaken by the Central Bank.

Sri Lanka's stocks that gained over 80% in 2021 started to plunge as the country's exchange rate collapsed. The country's stocks lost 30.5% in 2022 as the economic crisis and the political instability due to years of policy mismanagement took the toll, but analysts expect the second half of 2023 to be stronger. The stock market generated a net foreign inflow of LKR 30 Bn this year compared to a LKR 51.08 Bn net foreign outflow in 2021.

Given the turbulent economic conditions witnessed over the year, all three major credit rating agencies downgraded Sri Lanka while Fitch Ratings downgraded Sri Lanka's long term local currency rating to 'CC' from 'CCC' and has affirmed the long-term foreign currency rating to 'RD' (Restricted Default). The challenging domestic financing outlook and the external debt restructure were cited among many other reasons for such a downgrade.

The Sri Lankan economy, which faced extreme headwinds and heightened uncertainties in the first half of 2022, has shown signs of stability in the second half of the year thus far, aided by a variety of multifaceted policy interventions aimed at steering the economy toward a path of stable and sustainable growth over the medium term. An external debt restructure is on the table as the Island Nation is negotiating its way forward with its bilateral and multilateral creditors. On several fronts, the engagement with the IMF on a macroeconomic adjustment programme has proceeded, with a staff-level agreement for an EFF (Extended Fund Facility) reached early in September 2022 and the first set of funds expected to flow in during the first half of 2023. The IMF EFF programme will give an opportunity to engage on long-overdue structural reforms in a more organised and timely way, which will be critical in structuring the economy to move on a path of greater stability and sustainable growth. Given the progress made thus far in the IMF-EFF programme and debt restructuring discussions, as well as the changes that have already been implemented and those that will be implemented in the coming months, the CBSL expects the economy to begin to recover in the latter half of 2023.

Global Economic Overview

The global economy faced a challenging year in 2022, with rising inflation, supply shocks from the Ukraine-Russia war, and rising interest rates causing multiple shocks for most economies across the world. However, the reduction in economic impacts from the COVID-19 pandemic helped an overall recovery.

On the back of these events, the IMF in its October 2022 – World Economic Outlook projected the global economy to grow 3.2% in 2022, down from its previous projections of 3.6% given in April 2022 and 4.9% given in October 2021. Most of this slowdown was reflected in the performance of advanced economies, especially the US and Eurozone, which were expected to grow a mere 2.4% in 2022.

Impacts from COVID-19 were relatively lower in 2022 than in 2021, despite a few sharp increases in cases from the Omicron variant, primarily in January 2022 across the world and later in the year in China. The recovery in global demand that began in 2021 continued into the first half of 2022 as well, with most indicators of retail and manufacturing performance continuing to show a recovery from the lows of 2020. However, as rising inflation and supply disruptions from the Ukraine-Russia war led to a continuation of interest rate hikes by major central banks, this momentum slowed down, resulting in the overall weaker performance seen than was anticipated at the start of the year.

In February 2022, Russia announced a military operation into Ukraine, which led to varied rounds of sanctions and geopolitical tensions between the West and Russia. A consequence of the war and the ensuing geopolitics was a rise in global commodity prices, chiefly of crude oil. The international benchmark Brent crude oil prices rose from a low of US\$ 68.87 per barrel in December 2021 to a peak of US\$127.98 per barrel on the 8th of March 2022. Oil prices remained volatile in a range around the high \$120s to the low \$90s per barrel until around June 2022, when it started to gradually fall to US\$ 85.91 per barrel by year end.

Global inflation continued to rise across most of 2022, with the IMF forecasting 2022 average global inflation to rise to 8.8% compared

to a 2021 value of 4.7%. In the US, inflation reached a 40-year peak, with the Consumer Price Index rising to a high of 9.1% YoY in July 2022. Similar trends were seen across other economies as well, with a high of 10.6% in December 2022 in the Eurozone, 11.1% in November 2022 in UK, and even Japanese inflation rose from negative inflation in 2021 to a high of 3.8% by December 2022. Most major emerging markets didn't see inflation rise as much in 2022, with many recording lower inflation rates than advanced economies. Much of the frontier markets saw a much sharper increase in inflation, including Pakistan, Ghana and Sri Lanka, alongside increased debt distress.

Driven by the sharply rising inflation, most central banks across the world continued to hike policy interest rates across 2022, resulting in 2022 seeing some of the sharpest increases in monetary policy in decades. The US Federal Reserve led this push among the advanced economies, raising interest rates to a 4.25-4.5% rate corridor, up from the 0-0.25% rate corridor at the start of the year. Most other advanced economy central banks, Bank of England, the European Central Bank, and the Swiss National Bank, raised rates as well. Although the Bank of Japan didn't raise interest rates, it did tighten other forms of its monetary policy. However, driven by sharper hikes in the US as well as increased global demand for US dollar denominated assets as interest rates rose, the US dollar appreciated sharply for most of 2022, leading to a broad-based depreciation in many other currencies. Whereas, this trend reversed somewhat in the last quarter of the year, as the appreciation of the US dollar slowed down.

This sharp tightening in monetary policy across the developed world along with the relative strength of the US dollar led to many emerging markets following suit as well. India raised rates by 225 bps, Mexico 450 bps, Brazil 450 bps, and South Africa 325. Egypt and Argentina, EM economies facing external pressures of their own, raised rates by 800 bps and 4700 bps respectively. China was a notable exception to this global trend, as the People's Bank of China instead chose to cut rates by 15 bps in 2022, mostly to deal with the continued domestic economic pressures.

China's domestic economy was another source of global economic weakness in 2022. As the

country stuck to a strict "Zero-COVID" policy to deal with the COVID-19 pandemic, involving strict lockdowns and travel restrictions. GDP growth was estimated to be 3.2% for 2022, down from 8.1% seen in 2021. As the impacts of the Zero-COVID policy continued to impact the Chinese populace, a rare spate of public protests led to a sharp reversal of the Zero-COVID policy at the end of the year, resulting in a spike of cases. As China re-opens, there is hope that Chinese tourists will begin to return in 2023.

On the back of the negative economic developments, global financial markets saw one of their worst years in the recent period. Major stock markets fell significantly from the beginning of the year to the bottom reached in the year; SandP 500 index by 20.8%, Euro Stoxx 50 index by 24.3% and the MSCI Emerging Markets index by 31.7%. However, they recovered in the last quarter of the year, and the 3 indices ended the year down only 13.7%, 22.5%, and 12.4% respectively. Global bond markets also took a beating in 2022, as some reports estimated a market value loss of about US\$ 30 trillion in 2022 driven by rising yields reducing prices, although losses slowed down substantially in the last quarter.

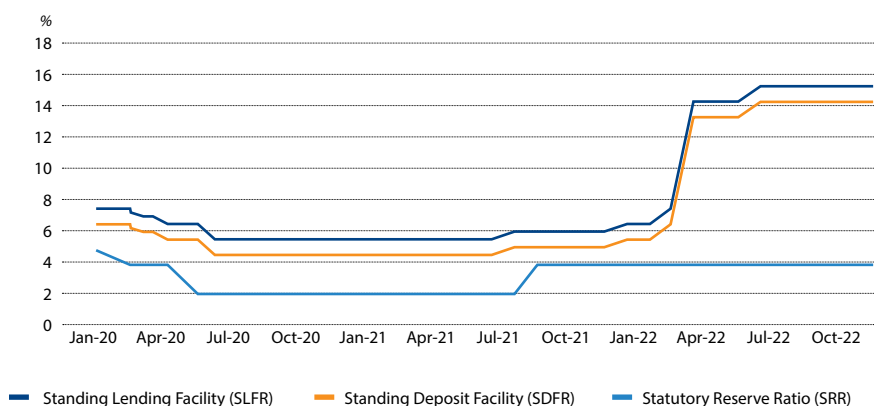
Following on from a difficult 2022 for the global economy, 2023 is expected to be a tough year as well. The full impact of the high interest rate regime globally is expected to be felt in 2023, with the IMF noting that a third of the world economy could be in recession. In its October 2022 - World Economic Outlook, global GDP growth was expected to slow down further to 2.7% in 2023. While most central banks project further hikes in interest rates in 2023, most market participants seem to differ. Market expectations according to varied platforms expect a slower pace of policy rate hikes and possible rate cuts in 2023, driven largely by inflation slowing down sharply on the back of a global growth slowdown.

Banking Sector Overview – 2022

In the aftermath of COVID-19, Sri Lanka's banking sector was faced with bigger challenges stemming from the country's acute economic fallout in 2022. Certain vulnerabilities induced by the pandemic culminated to impose severe debt distress and foreign currency shortages on the economy

and consequently the financial sector. As the lagged effects of the CBSL's accommodative monetary policy stance worked through the economy, inflation surged to double digit levels, prompting the Central Bank to further tighten monetary policy by way of raising the Standard Deposit Facility Rate and Standard Lending Facility Rate by 950 basis points since December 2021. Sri Lanka announced a debt standstill in April 2022, followed by rating downgrades by rating agencies, yielding widespread impacts on the banking and financial sector. Despite the unfavourable developments, the banking sector has remained resilient to withstand external pressures though concerns about the banking sector's profitability, solvency and liquidity persisted during the crisis.

Policy Interest Rates

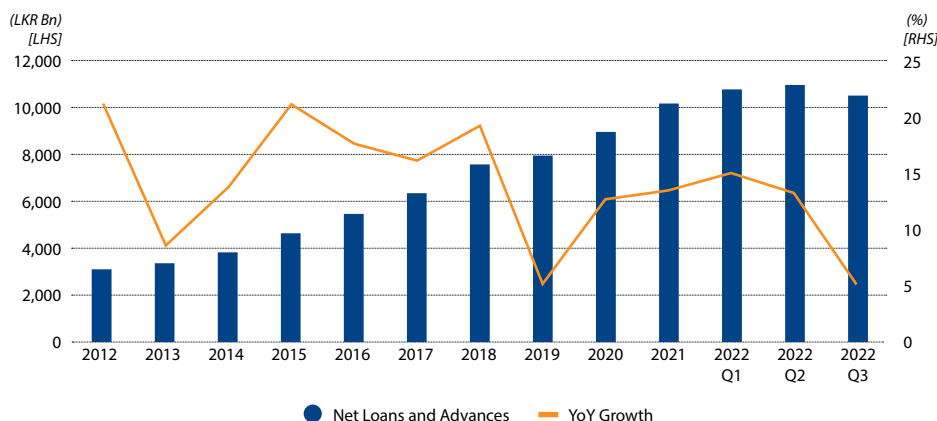


Asset quality in the banking sector deteriorated with the Stage 3 Loans to Total Loans ratio increasing since end-2021. With debt moratoria ceased across most sectors, non-performing loans swelled, particularly in the construction, trade, manufacturing, agriculture, and tourism sectors. Higher impairment losses were also booked as a result of reporting requirements being shifted from time-based provisioning to SLFRS-9 stage-wise classification of loans and receivables, pushing up Stage-2 loans in the sector.

Despite economic woes, the banking sector was able to witness its impairment provision coverage ratio improve in September 2022, in comparison to the same period in the previous year, cushioning the sector from impending impairment losses on investments in government securities as debt restructuring negotiations come to a close.

The Statutory Liquid Assets Ratio remained above regulatory minimums, but the interbank call money market illiquidity drove commercial banks to rely heavily on the Central Bank liquidity facilities. Foreign currency liquidity at banks were affected as foreign currency deposits declined. Local currency denominated deposits dropped YoY, potentially due to inflation inducing higher levels of spending. Foreign currency deposits swelled due to high depreciation in the exchange rate.

Net Loans and Advances



Credit growth decelerated, and deposits swelled amid monetary policy tightening

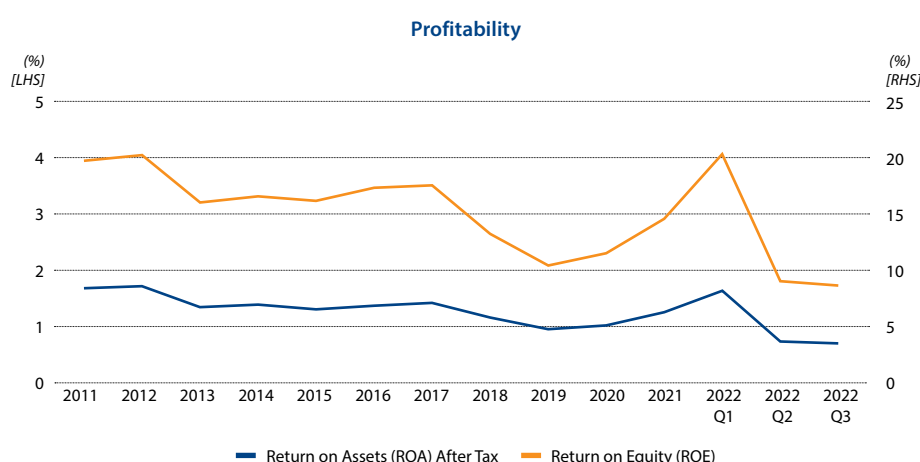
Functioning within a high interest rate environment, the banking sector saw credit growth decelerate as lagged effects of monetary contraction materialised towards the latter half of 2022. Gross loan growth decelerated on a YoY basis to 10% in September 2022, in comparison to 16% growth recorded in the corresponding period in 2021. Rupee denominated loans and advances saw a YoY contraction of 2%, while foreign currency denominated loans were repriced at higher exchange rates recording a YoY growth of 56%. Demand for credit fell short as borrowing was discouraged by higher rates. On the credit supply side, appetite to lend suffered a setback as dreary economic conditions led banks to lend more cautiously.

Profitability of the sector weighed down by high impairment charges but remains resilient

Assisted by the prevailing high interest environment, net interest income expanded by 45% YoY in September 2022, in comparison to 27% seen in the corresponding period in 2021. Despite seeing substantially higher interest expenses, the growth in interest income outpaced the growth in interest expenses, boosting net interest income. Accordingly, the sector's net interest margin showed an improvement to benefit bottom-line growth. Further, on the back of higher fee and commission income and foreign exchange trading gains, non-interest income improved YoY to 72%.

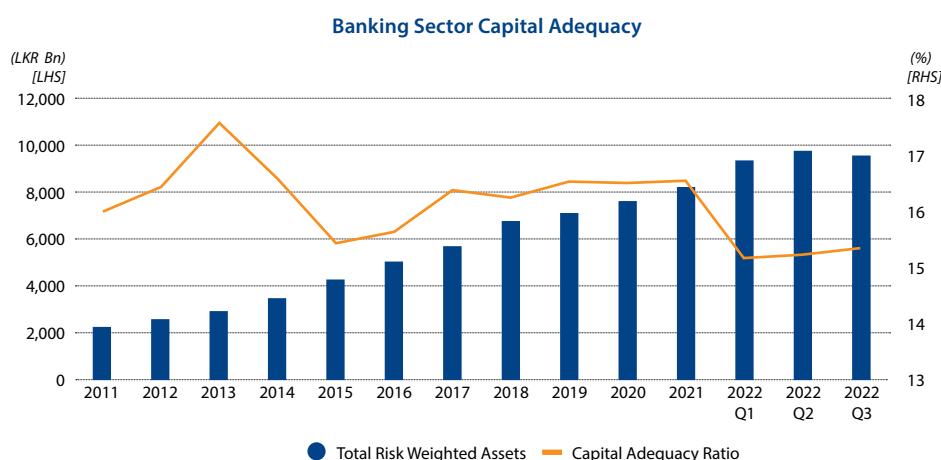
Burdened by the stressors in the economy, loan repayment capacities were constrained, prompting banks to recognise higher impairment losses throughout the course of the year. As of September 2022, impairment provisions registered an YoY increase of 512%, as banks made adequate provisions for losses arising from loan write-offs and other losses on Government securities as uncertainties related to debt restructuring prevailed.

Overall, profits after taxes in the banking sector contracted on a YoY basis as of September 2022 by 39%, dipping to LKR 90 Bn, from LKR 149 Bn seen in the corresponding period in 2021. Consequently, profitability ratios of the sector came under pressure. Return on Equity and Return on Assets declined to 8.8% and 0.7%, respectively in September 2022, from 15.1% (ROE) and 1.3% (ROA) recorded in September 2021.



Capital adequacy remained well above regulatory minimums despite seeing a decline as profits suffered

Having seen profitability contract, the banking sector's total capital adequacy deteriorated in 2022 from a year ago, to 15.3% (Sep-21: 16.2%). Tier 1 CAR of the banking sector declined to 12.5% in September 2022, from 12.9% recorded a year ago. Capital adequacy in the banking sector has decreased notably in the banking sector across the last four consecutive years, with decline deepening in September 2022. (Q32019: 16.7%, Q32020: 16.6%, Q32021: 16.2%). Capital adequacy in the sector was drawn down owing to the YoY growth in risk-weighted assets accelerating in the first half of 2022, along with the deterioration in bottom-line growth as banks accounted for losses on investments in the context of an impending external debt restructure.



To improve capital adequacy at banks, the Statement of Alternative Treatment (SoAT) issued by the ICASL allowed banks to reclassify investments from Fair Value through Other Comprehensive Income (FVOCI) to amortised cost, which allowed banks to partially negate losses on investments, allowing banks more space to navigate the crisis. Licensed commercial banks were also allowed to draw down the capital conservation buffer and stagger overnight mark-to market losses on Government securities arising due to policy rate revisions. Further, regulatory minimums for the Liquidity Coverage Ratio and the Net Stable Funding Ratio were revised down to 90% (from 100%).

New Developments in the Sector

Similar to the broader economy, the banking sector is expected to be met with challenges in the period ahead as the economy undertakes reform and restructure. The proposals of the amended Inland Revenue Act, coming fully into effect by April 2023, is expected to lay an added burden on the economy with revised income and corporate tax rates. Incomes of both businesses and households are likely to see an erosion, leading to the banking sector likely recording higher non-performing credit facilities as loan repayment capacities shrink. The financial sector profitability is expected to be impacted by the corporate income tax hike from 24% to 30%.

While the macro-economic policy framework is expected to align with the IMF's debt sustainability targets, reforms to the State-Owned Enterprises can be viewed as a positive for financial sector stability in the long term. Further, the Central Bank's proposed Banking (Special Provisions) Act is expected to provide a legal framework to ensure that banks are adequately capitalised in light of tight financial conditions and a debt restructure, along with revised regulations on capital and liquidity to preserve and safeguard the interests of the sector's stakeholders.

Financial Performance Review

The Bank's performance was impacted by the adverse macro-economic environment that prevailed during the year. In the aftermath of COVID-19 and the ongoing economic crisis, the GDP of Sri Lanka deteriorated throughout the year with an 11.8% drop at the end of the third quarter of 2022. The inflation skyrocketed until the end of September 2022 and moderately slowed down during the last quarter. A substantial decline in private sector credit growth was seen due to the policy rate hikes enacted by CBSL in view of curbing inflation. The rupee depreciated by 80% during the year. This along with the depletion of the State's foreign reserves followed by a debt standstill and rating downgrades by the

rating agencies had a bank-wide impact on its operations.

Despite the challenges in the face of the multitude of economic adversities, the Bank continued to sustain the momentum in the core banking performance with a robust risk approach and prudent management of portfolios whilst providing continued support to customers and businesses. The Bank maintained robust liquidity and capital adequacy ratios throughout the year demonstrating its resilience amidst economic headwinds.

The Corporate Banking division pursued acquiring export oriented businesses in view of increasing foreign exchange inflow whilst

the SME Banking division provided immediate respite to SME customers by way of extending concessions, enabling re-finance and interest subsidy schemes. The Retail Banking unit focused on managing the existing loan book and credit quality.

The rating of the Bank was reaffirmed at BBB-(lka) with a Negative Rating Watch by Fitch in September 2022 due to the stresses in the operating environment.

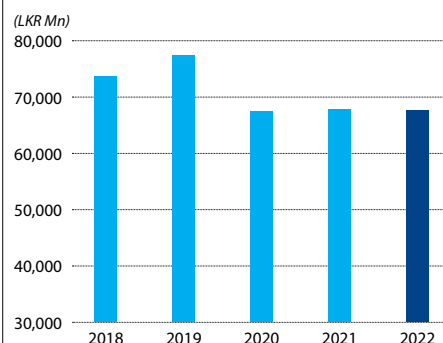
The Bank maintained its capital adequacy ratios well above the minimum regulatory requirements and reported a healthy Total Capital Ratio of 18.26% as of the reporting date. The Core Capital Ratio too stood comfortably above the minimum requirements at 17.15% at the year end.

Financial Indicator	Performance												
Net interest income (NII) (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Net interest income (NII) (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>3,800</td> </tr> <tr> <td>2019</td> <td>4,500</td> </tr> <tr> <td>2020</td> <td>4,000</td> </tr> <tr> <td>2021</td> <td>4,300</td> </tr> <tr> <td>2022</td> <td>5,814</td> </tr> </tbody> </table>	Year	Net interest income (NII) (LKR Mn)	2018	3,800	2019	4,500	2020	4,000	2021	4,300	2022	5,814	The net interest income of the Bank increased by LKR 1,557 Mn to LKR 5,814 Mn in 2022, which translates to a YoY growth of 36.57%. The NIM increased to 4.69% in 2022 from the 3.53% reported in 2021 as a result of improved yields from the repricing of the loan portfolio and treasury assets coupled with prudent management of interest expense.
Year	Net interest income (NII) (LKR Mn)												
2018	3,800												
2019	4,500												
2020	4,000												
2021	4,300												
2022	5,814												

Financial Indicator

Performance

Loans and receivables

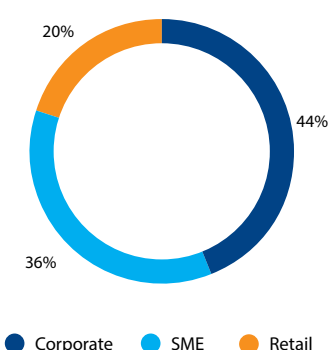


The gross loans and receivables increased by LKR 2,250 Mn which is a 3.19% growth for 2022. However, The Bank's net loans and advances stood at LKR 67,727 Mn at the year-end, marginally lower than the corresponding year due to increased impairment charges.

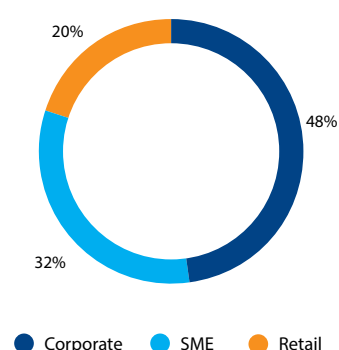
The portfolio growth was primarily driven by the Trade Finance and Overdraft products. The Corporate Banking division provided customised financial solutions to selected segments while SME and Retail Banking were focused on cautiously managing the portfolios.

At the year end, the loans and advances mix stood as follows:

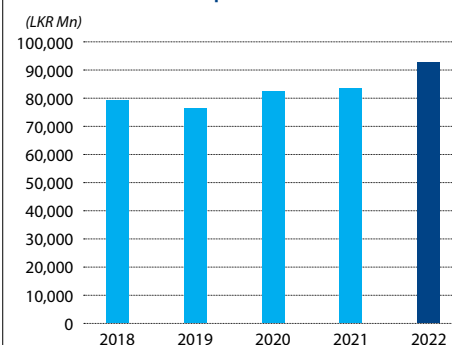
Loan Mix 2021



Loan Mix 2022



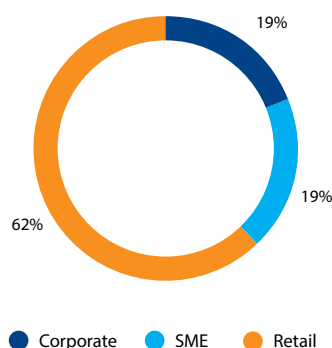
Deposit base



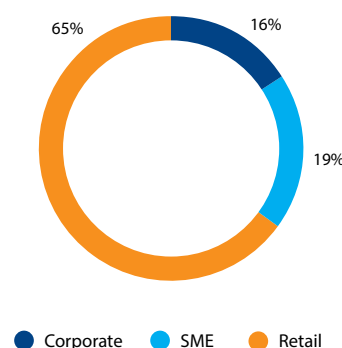
The deposits base of the Bank stood at LKR 92,592 Mn as at the year-end which is an 11% increase compared to the corresponding year. The Retail Banking division of the Bank aggressively canvassed for new client relationships throughout the year.

The Current Accounts and Saving Accounts (CASA) mix stood at 23% as customers looked for better returns for their investments to capitalise on the high rate regime that prevailed during the year. The Bank continued to maintain its strong liquidity position despite the external challenges.

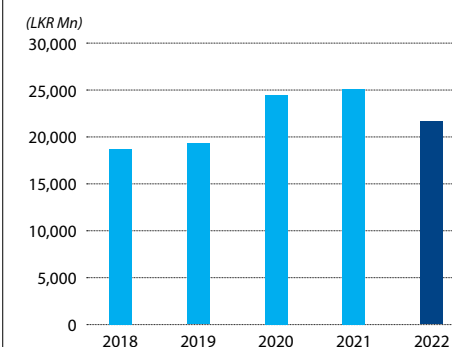
Deposit Mix 2021



Deposit Mix 2022



CASA



Financial Indicator	Performance												
Fee and commission income (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Fee and commission income (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~950</td> </tr> <tr> <td>2019</td> <td>~1,050</td> </tr> <tr> <td>2020</td> <td>~850</td> </tr> <tr> <td>2021</td> <td>~1,050</td> </tr> <tr> <td>2022</td> <td>1,445</td> </tr> </tbody> </table>	Year	Fee and commission income (LKR Mn)	2018	~950	2019	~1,050	2020	~850	2021	~1,050	2022	1,445	The fee and commission income increased to LKR 1,445 Mn by a healthy 37.06% and the growth was mainly attributable to fee income generated from trade and remittances along with the increase in credit and debit cards fees.
Year	Fee and commission income (LKR Mn)												
2018	~950												
2019	~1,050												
2020	~850												
2021	~1,050												
2022	1,445												
Net trading and other income (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Net trading and other income (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~800</td> </tr> <tr> <td>2019</td> <td>~650</td> </tr> <tr> <td>2020</td> <td>~1,300</td> </tr> <tr> <td>2021</td> <td>~750</td> </tr> <tr> <td>2022</td> <td>793</td> </tr> </tbody> </table>	Year	Net trading and other income (LKR Mn)	2018	~800	2019	~650	2020	~1,300	2021	~750	2022	793	Net trading and other income increased by 1.95% to LKR 793 Mn in 2022 predominantly from foreign exchange income. The Treasury prudently managed the liquidity requirements both in terms of local and foreign currencies. As in the previous year, the shortage of exchange and heightened interest rate environment did not offer many opportunities for trading instruments. The Bank does not have any trading equities and has not invested in any equity funds as at the reporting date.
Year	Net trading and other income (LKR Mn)												
2018	~800												
2019	~650												
2020	~1,300												
2021	~750												
2022	793												
Total operating income (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Total operating income (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~5,200</td> </tr> <tr> <td>2019</td> <td>~6,000</td> </tr> <tr> <td>2020</td> <td>~5,800</td> </tr> <tr> <td>2021</td> <td>~5,800</td> </tr> <tr> <td>2022</td> <td>7,750</td> </tr> </tbody> </table>	Year	Total operating income (LKR Mn)	2018	~5,200	2019	~6,000	2020	~5,800	2021	~5,800	2022	7,750	The total operating income was LKR 7,750 Mn, an increase of 31.46% in 2022 mainly attributable to net interest income and fee income.
Year	Total operating income (LKR Mn)												
2018	~5,200												
2019	~6,000												
2020	~5,800												
2021	~5,800												
2022	7,750												

Financial Indicator	Performance												
Impairment and credit quality (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Impairment (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>350</td> </tr> <tr> <td>2019</td> <td>400</td> </tr> <tr> <td>2020</td> <td>750</td> </tr> <tr> <td>2021</td> <td>950</td> </tr> <tr> <td>2022</td> <td>2,556</td> </tr> </tbody> </table>	Year	Impairment (LKR Mn)	2018	350	2019	400	2020	750	2021	950	2022	2,556	The impairment charge for the year was LKR 2,556 Mn, an increase of LKR 1,623 Mn which was a 174% increase YoY. The increase in impairment charge is due to increased delinquencies in the lending portfolio arising from the prevalent macro-economic situation. Stage 3 loans (net of Stage 3 Impairment) to total loans ratio increased to 8.19% from the 4.46% in 2021 due to continued pressures on borrowers in servicing their debt while the loan growth was subdued. The Bank continued to focus on managing portfolio quality amidst the deteriorating macro-economic conditions.
Year	Impairment (LKR Mn)												
2018	350												
2019	400												
2020	750												
2021	950												
2022	2,556												
Operating expenses (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Operating expenses (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>3,700</td> </tr> <tr> <td>2019</td> <td>3,800</td> </tr> <tr> <td>2020</td> <td>3,700</td> </tr> <tr> <td>2021</td> <td>3,600</td> </tr> <tr> <td>2022</td> <td>4,269</td> </tr> </tbody> </table>	Year	Operating expenses (LKR Mn)	2018	3,700	2019	3,800	2020	3,700	2021	3,600	2022	4,269	The total operating expenses increased by 16% YoY to LKR 4,269 Mn despite the prudent cost management initiatives. The cost escalation was due to the rupee depreciation, increased inflation and the increase in utility tariff, etc. Staff costs of the Bank was LKR 2,003 Mn, an increase of 10.57% YoY. Depreciation and amortisation of right-of-use assets coupled with other expenses increased to LKR 2,266 Mn. The Cost to Income Ratio of the Bank improved to 55.09% from 62.43% in 2021 due to the focused efforts in cost optimisation and increase in income.
Year	Operating expenses (LKR Mn)												
2018	3,700												
2019	3,800												
2020	3,700												
2021	3,600												
2022	4,269												
Operating margin (LKR Mn) <table border="1"> <thead> <tr> <th>Year</th> <th>Operating margin (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>1,500</td> </tr> <tr> <td>2019</td> <td>2,200</td> </tr> <tr> <td>2020</td> <td>2,100</td> </tr> <tr> <td>2021</td> <td>2,200</td> </tr> <tr> <td>2022</td> <td>3,480</td> </tr> </tbody> </table>	Year	Operating margin (LKR Mn)	2018	1,500	2019	2,200	2020	2,100	2021	2,200	2022	3,480	The operating margin increased to LKR 3,480 Mn, a growth of 57.14% YoY due to the increase in revenue at a faster pace than the increase in expenses.
Year	Operating margin (LKR Mn)												
2018	1,500												
2019	2,200												
2020	2,100												
2021	2,200												
2022	3,480												
Share of profit of equity accounted investees, net of tax	The loss from the share of equity accounted investees was LKR 136 Mn, mainly attributable to the increased impairment charge under UB Finance Company Limited.												
Financial Services VAT, SSCL and Corporate Tax	Total taxes for the year was LKR 474 Mn, a decrease of LKR 109 Mn or 18.72% in comparison to the previous year. Despite the tax rate increases, the charge for the year decreased as a result of settlements reached for the previous years with the Inland Revenue Department.												

Financial Indicator	Performance																	
Profit for the year and Other Comprehensive Income	Consequently, the Profit for the year was LKR 314 Mn. compared to last year’s LKR 765 Mn. which is a decrease of 58.93% YoY. Other comprehensive losses for the year was LKR 68 Mn, which is a 91.34% drop in losses compared to 2021.																	
Liquidity	As in the past, the Bank maintained a healthy Liquid Assets Ratio throughout the year. The ratio stood at 28.45% at the year end. <table><tr><th>Liquid Asset Ratio (%)</th><th>2022</th><th>2021</th></tr><tr><td>Year End</td><td>28.45%</td><td>25.82%</td></tr><tr><td>Maximum</td><td>28.45%</td><td>34.05%</td></tr><tr><td>Minimum</td><td>25.14%</td><td>25.66%</td></tr><tr><td>Average</td><td>26.48%</td><td>28.69%</td></tr></table>			Liquid Asset Ratio (%)	2022	2021	Year End	28.45%	25.82%	Maximum	28.45%	34.05%	Minimum	25.14%	25.66%	Average	26.48%	28.69%
Liquid Asset Ratio (%)	2022	2021																
Year End	28.45%	25.82%																
Maximum	28.45%	34.05%																
Minimum	25.14%	25.66%																
Average	26.48%	28.69%																
Capital Adequacy Ratio	The Bank also maintained strong Capital Adequacy Ratios throughout the year and reported an 18.26% Total Capital Ratio as at year end. <table><tr><th>Capital Adequacy Ratio (%)</th><th>2022</th><th>2021</th></tr><tr><td>Common Equity Tier 1 Capital Ratio (Minimum Requirement 2022 - 7.0%, 2021 - 6.5%)</td><td>17.15%</td><td>15.51%</td></tr><tr><td>Tier 1 Capital Ratio (Minimum Requirement 2022 - 8.5%, 2021 - 8%)</td><td>17.15%</td><td>15.51%</td></tr><tr><td>Total Capital Ratio (Minimum Requirement 2022 - 12.5%, 2021 - 12%)</td><td>18.26%</td><td>16.47%</td></tr></table>			Capital Adequacy Ratio (%)	2022	2021	Common Equity Tier 1 Capital Ratio (Minimum Requirement 2022 - 7.0%, 2021 - 6.5%)	17.15%	15.51%	Tier 1 Capital Ratio (Minimum Requirement 2022 - 8.5%, 2021 - 8%)	17.15%	15.51%	Total Capital Ratio (Minimum Requirement 2022 - 12.5%, 2021 - 12%)	18.26%	16.47%			
Capital Adequacy Ratio (%)	2022	2021																
Common Equity Tier 1 Capital Ratio (Minimum Requirement 2022 - 7.0%, 2021 - 6.5%)	17.15%	15.51%																
Tier 1 Capital Ratio (Minimum Requirement 2022 - 8.5%, 2021 - 8%)	17.15%	15.51%																
Total Capital Ratio (Minimum Requirement 2022 - 12.5%, 2021 - 12%)	18.26%	16.47%																
Profitability Ratio	<table><tr><th>Profitability Ratio</th><th>2022</th><th>2021</th></tr><tr><td>ROA (before all taxes)</td><td>0.64%</td><td>1.12%</td></tr><tr><td>ROA (post taxes)</td><td>0.25%</td><td>0.63%</td></tr><tr><td>ROE (before all taxes)</td><td>4.29%</td><td>7.49%</td></tr><tr><td>ROE (post taxes)</td><td>1.71%</td><td>4.25%</td></tr></table>			Profitability Ratio	2022	2021	ROA (before all taxes)	0.64%	1.12%	ROA (post taxes)	0.25%	0.63%	ROE (before all taxes)	4.29%	7.49%	ROE (post taxes)	1.71%	4.25%
Profitability Ratio	2022	2021																
ROA (before all taxes)	0.64%	1.12%																
ROA (post taxes)	0.25%	0.63%																
ROE (before all taxes)	4.29%	7.49%																
ROE (post taxes)	1.71%	4.25%																

Group Performance

Disclosure 2-2

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 62 to 63.

Group profit after all taxes showed a 50.25% decrease to record LKR 423 Mn. in the year under review.

The total assets of the group was reported as LKR 137 Bn. The Bank accounts for 95% of the total assets of the Group and hence the Group's performance is mainly propelled by the Bank. Due to the scale and size of the Bank as against the other entities in the group, non-financial performance in accordance with the GRI standards are disclosed only for the Bank.

Report on Business Performance

The year 2022 was a year enthralled with many challenges though the first quarter witnessed gradual recovery from the setbacks of the COVID-19 third wave. However, this was stifled by the economic and political landscape that evolved plunging the country in to a crisis, largely impacting normalcy with public and businesses facing heightened challenges brought-forth by gas and fuel shortages, rapidly rising inflation, foreign currency scarcity, depreciation of the LKR and import restrictions. Stemming from these macro-economic stresses the banking sector faced multiple headwinds with the impacts of the sharp rupee depreciation, rising interest rates, an upward revision of taxes, higher impairments and constraints on imports, which led to impeding credit growth for banks. With most COVID-19 related customer relief measures concluding in December 2021, the banking sector faced continued asset quality pressure. Several monetary and other policy measures were implemented by the Central Bank (CBSL) and the Government during the year to aid much-needed economic revival and stability with the expectation that it will support to dampen the possible build-up of underlying demand pressures in the economy, which would, in turn, help ease pressures in the external sector, thus promoting improved macro-economic stability.

Against this backdrop, Union Bank remained agile and resilient and posted a sustainable performance across the Retail, Corporate and SME Banking segments even during a challenging year leveraging on its strong capital position and prudently managing and controlling its existing portfolios and customer bases whilst ensuring uninterrupted banking services to customers. The bank focused on stringent risk and recovery measures to minimise the impacts of these external shocks to its operations and customers. The Bank's key business performance highlights and strategic enablement by support functions have been summarised in the report herein.

Corporate Banking

The Corporate Banking division's performance during the year reflected the impacts of the nation's macro-economic challenges. Amidst the challenges, the Corporate Banking division prudently managed and grew its loan portfolio which increased by 11.56% whilst

maintaining credit quality. Relationships were further strengthened with continuous dialogue with customers impacted by the economic challenges that prevailed and were aided with respite with customised repayment plans and funding solutions in addition to granting any CBSL mandated relief measures. Continuous portfolio monitoring and implementation of stringent risk and recovery measures enabled the division to maintain portfolio quality and manage impairments.

During the year, strategic manoeuvring of the division was focused on industry specific lending targeting stable and profitable industries to minimise macro-economic impacts to the Bank. The Corporate Banking division also aggressively pursued export-oriented businesses as part of a bank-wide initiative to source foreign exchange inflows. Given the above and despite the adverse macro-economic conditions, a significant growth of 220.79% year-on-year in the division's Net Interest Income (NII) was recorded.

Amidst import restrictions and severe constraints to trading, the Corporate Banking division's fee income increased by 61.01% over the previous year, primarily aided by prudent management of the trade business which focused on supporting the sourcing of import-related essential items such as food, pharmaceuticals and raw materials for manufacturing.

Corporate Banking deposit base as at end of the year was LKR 14,706 Mn. The Bank's cash management solution, Union Bank BizDirect, supported the increase of CASA from the existing clients and was an enabler to onboard new clients during the year.

The experienced and committed team at Corporate Banking enabled the division to record a significant increase in revenue whilst prudently managing its impairments during the year under review in the backdrop of volatile and challenging macro-economic conditions.

Prospects 2023

The Corporate Banking division will continue to be a key driver for the Bank's growth plans for the year ahead and beyond. This would be supported by new sourcing and wallet expansion with focus on profitable industries

and customer segments whilst adapting a robust risk and recovery approach to maintain credit quality. The Bank will continue to drive fee income growth of the corporate segment through its trade business and enhanced digital enablers including the cash management solution Union Bank BizDirect. Customer links will be further strengthened with personalised solutions and assistance. Growth industries will be aggressively tapped. Robust monitoring and tracking will enable the Corporate Banking division to align its strategic manoeuvring to facilitate evolving customer inclinations and requirements whilst managing business operations prudently.

SME Banking

The macro-economic crisis that evolved during the year under review once again halted the progress and revival of the Small and Medium Enterprises sector (SME) that was already battered from the COVID-19 pandemic shifting SMEs to face even greater challenges and constraints for business continuity. Whilst import restrictions largely impacted the sector, the gas and fuel crisis, rapid contraction in tourism and unavailability of foreign exchange contributed to the slow-down in most business operations with SMEs facing heightened challenges in meeting their financial obligations and maintaining employees and functioning their businesses.

The Government and the Central Bank (CBSL) were swift to implement several relief measures to support the impacted borrowers on a need basis for the revival of businesses. Implementing these directions, Union Bank provided immediate respite to SME customers by extending concessions based on the borrower's repayment capacity and on a case-by-case basis with schematic plans including concessions on performing credit facilities, enabling re-finance and interest subsidy schemes, facilitating early settlements, and offering concessions for non-performing loans.



UNION BANK

SME Banking loans and advances as at year end was LKR 21,493 Mn. The Bank secured the Asian Development Bank (ADB) funding line during the first quarter of the year which enabled the Bank to focus on new lending opportunities and support to propel growth amongst entrepreneurs with the primary focus of the credit line being placed on women entrepreneurs and tea smallholders.

The SME Banking unit focused on maintaining a healthy funding mix to support portfolio growth. The period under review recorded an increase in Deposits of 11.91%. The Bank's award-winning cash management solution Union Bank BizDirect was the key driver throughout the year for sourcing CASA and facilitated the securing of a significant number of new customers.

The Bank's focus on Sustainable Financing enables the Bank to responsibly manage the environmental and social risks associated with its operations in order to minimise the negative impacts on the environment and its stakeholders. In line with the Central Bank mandate on Sustainable Financing, the Bank implemented the "Environmental and Social Risk Management Policy" under its Development Financing and Business Revival/Rehabilitation Division during the year. In order to enhance the knowledge and expertise of staff on Sustainable Financing the Bank provided staff with a mandatory e-learning course developed by The Banks' Association of Sri Lanka.

Prospects 2023

In the year ahead, the Bank will continue to support and energise the much-impacted SME sector to revive operations and reinvigorate businesses growth, whilst pursuing growth objectives for enhanced credit, in line with the National agenda.

The Bank will aggressively maximise on credit growth opportunities in line with the developments of the economy through a segmented approach focusing on short term funding aided by a secured lending approach and a differentiated client acquisition strategy with tailor-made products.

The Bank will focus on expanding its client base through focused strategies including pursuing of asset growth opportunities with customers from industries and businesses which stood resilient even during the economic downturn whilst expanding its focus on import-related business opportunities.

The Bank will continue to build on partnerships for funding lines with a view of enhancing the Bank's lending potential and enabling the Bank to channel low-cost funding to SMEs. The Bank will continue to build on the existing partnership with the Asian Development Bank that commenced in 2022 and continue to aid growth of SMEs with focus on women entrepreneurs.

Enhanced emphasis will be placed on client management based on an exposure value-based approach and with the allocation of dedicated relationship managers and cross-selling. Effective use of technology and digitisation will provide the Bank a platform for enhanced opportunities. Introduction of ERP solutions to smaller scale SMEs will facilitate business convenience whilst CRM systems will streamline functions leveraging on digital enablers to enhance business and client relationships. Union Bank's cash management solution Union Bank BizDirect will continue to be offered as an affordable solution to SMEs and will support the Bank's aggressive drive for CASA and sourcing of new client relationships.

Transaction Banking

Union Bank was one of the first movers amongst local banks to enter the Cash Management space with the launch of Union Bank BizDirect. Union Bank BizDirect is a highly automated cash management solution that embeds technology, convenience, and control all in one and provides businesses a gamut of banking services at their fingertips. It is a highly customizable platform that provides users control over payments, reconciliation, inquiries, and collections providing more time to grow the business and substantially reducing the time and expenditure spent on cash management.



UNION BANK
BIZ DIRECT

The Union Bank BizDirect solution has been a key driver for the Bank's SME and Corporate banking sectors in sourcing CASA and is further supported by a team of sales specialists with sound technical know-how and customer relationships as well as an island-wide branch network.

During the period under review, the Bank was able to maximise business opportunities for its transaction Banking solution by leveraging on the increased demand for digital convenience due to the pandemic and limitations to business operations arisen due to the economic setbacks. Focus was amplified to converting and onboarding existing SME and Corporate relationships to the transaction banking solution while taking all possible steps to deepen the current wallet share of existing clients.

Through the Union Bank BizDirect solution the Bank was able to provide enhanced accessibility to businesses both small and large to carry out business operations without interruptions by extending remote cash management capabilities. The on-site cheque printing facility aided largely in providing greater convenience to clients.

Prospects 2023

As businesses continue to shift towards digital, Union Bank BizDirect will be a key driver for the Bank in sourcing CASA and new client relationships in both the Corporate and SME banking sectors. The Bank will pursue business opportunities for payments and collections in identified industries and sectors including Retail, Telecommunication, Information Technology, Health and Insurance. In addition, the Bank will continue to strengthen the existing customer relationships through cross-selling by promoting the Bank's cash management solution. The cash management solution will continue to be a key driver for enhanced fee income to be derived from these high-volume client segments. It will also continue to support the corporate and SME clients as a primary tool for prudent credit management aided by its payments and collections module.

As part of the Bank's continued efforts to enhance its digital prowess and capabilities, Union Bank BizDirect solution will continue to be upgraded to encompass the latest and up-to-date technological advances which will provide customers a superior and highly advance digital platform for cash management.

Retail Banking

Retail Liabilities

The challenging economic backdrop that prevailed through most of the year mandated continuous re-alignment of strategies to ensure prudent management of the loan portfolios and maintaining of a strong liquidity position for the Bank. Continued revisions were witnessed in policy rates in a bid to support economic revival. As a result of timely re-pricing strategies of the asset portfolio and prudent management of interest expenses the Bank's Net Interest Margin (NIM) improved by 116 bps in 2022.

In sync with the policy rate revisions and the rising interest rates, the Bank focused on enhancing its deposit base aided by CASA and time deposits. Despite the limitations and challenges that prevailed, an aggressive drive to source CASA enabled to secure new customer relationships as well as enhance existing relationships with focus on key products and collection accounts which resulted in a year-on-year growth of 12% for retail CASA.

Union Bank Ultra Saver is a savings product with a slab-based interest scheme.
Union Bank Invest Plus provides flexibility to select from customised instalment-based investment plans
Union Bank Elite Circle provides investment benefits based on pricing and personalised service
Union Bank Kidz Saver is a gift scheme based on minor savings accounts
Institutional accounts are relationship-based business propositions for clients with collection accounts.

The Bank continued to maintain a healthy CASA ratio of 23%. This was amplified through the branch network, Elite Circle the Bank's private banking service, a strong Institutional Unit drive and retail sales teams.

The Retail Banking deposits base grew 14.68% year-on-year. Leveraging on the increased interest rates the Bank focused on acquiring new client relationships through foreign and LKR time deposits through the branch network, with a notable focus on Institutional Unit and relationships. In addition, the Bank focused on foreign currency inflows through the Bank's CBSL initiated special deposit account which allows deposits of several currencies providing a higher interest rate up to 2% for six months and one-year deposits.

In addition to providing customers with VISA PayWave enabled debit cards and access to accounts via all ATMs island-wide through Lanka Pay, the Bank also pursued alternate channels to provide customers access and convenience during the challenging times when travel and normal routines were disrupted. (See page 41 Alternate Channels). The Bank continued to encourage sign ups to e-statements and the sign-up process for e-statements was further simplified. Customers with a registered email address are now able to subscribe to e-statements by simply calling the contact centre or downloading the application on the Bank's website and handing it over to the nearest branch.

Retail Assets

The private sector credit growth was muted as policy rates increased in tandem with the continued increase in inflation throughout most of the year. As a result, a drastic decline in demand for loans was seen across all business segments during 2022. The Bank's primary focus was aligned to prudently manage the existing loan portfolio and credit quality and provide immediate respite to impacted borrowers with customised payment plans and the implementation of CBSL mandated relief measures. Despite the challenges, the Retail Banking Loans and Advances ended the year with a portfolio of LKR 14,565 Mn aided by mortgage backed lending and credit cards to selected segments and re-valuation of the foreign currency loan portfolios at a higher rate due to the steep depreciation of the LKR.



UNION BANK
SPECIAL DEPOSIT ACCOUNTS

Credit Cards

Union Bank credit cards are synonymous as lifestyle credit cards that provide unique experiences to cardholders. During the year, the Bank focused on providing support to cardholders new and existing, who faced many challenges and limitations to their normal routines due to the setbacks from the economic crisis and extended several card plans, digital conveniences, alternate channels for payments and savings through offers.

The Balance Transfer Plans enabled to source new cards with options of flexible payment plans. This was applicable for all active cards of any other bank. New cardholders were able to select from two options of plans. The Balance transfer plan up to 24 months enabled customers to waive off the first year joining fee and annual fee while the balance transfer plan up to 36 months waives off joining fee and the annual fee up to the 2nd year.

The Loan on Card option was also made available to new and existing cardholders to avail for emergency funding with flexible payment plans up to 36 months. This provided cardholders an opportunity for quick funding and is based on an agreed amount against the available credit card limit by levying a handling fee.

For ease of payments and financial planning for cardholders the zero percent interest instalments plans were offered for essential and key categories and services such as health, education, insurance and auto-care with payments plans up to 12 months with no handling fee. The instalment plans were further extended during the seasons of April and December on several categories from a broad range of merchants island-wide including travel and holidays, shopping, dining, electronics and household to provide cardholders the flexibility of payments. The Anything Anywhere offer with payment plans up to 36 months was provided during selected periods of the year to provide cardholders the opportunity to buy anything for LKR 25,000 or above and convert to a payment plan with no handling fee. This offer was also available throughout the year with payment plans up to 60 months inclusive of a handling fee.



Union Bank Credit Cards continued its offers and discounts throughout the year on select segments. To support cardholders during a challenging period, the Bank focused on providing relief and savings on essential goods with substantial discounts up to 30% from renowned supermarkets. The Bank also focused on providing digital convenience to customers by extending offers and savings for shopping, dining, travel, and utility bill payments on e-commerce platforms where cardholders were able to avail the offers from the comfort of their homes. Union Bank for the second consecutive year was recognised at the Daraz Payment Partner Performance Awards and received the 'Most Campaign Partnerships' award for 2021-22. This award re-affirms the Bank's continuous efforts to enhance credit card usage on e-commerce platforms for business growth.

Prudent monitoring of the cards portfolio and timely actions to manage cardholder exposures and collections enabled the Bank to manage and control the risks faced from the impacts of the economic crisis. Despite the challenges, the Union Bank credit card base grew during the year aided by initiatives to promote platinum and signature cards and higher spends during the year. The Bank continued to strategically promote cards to selected professional categories, salaried segments and secured cards through the branch network, Elite Circle private banking and sales teams.

Value Added Services

Institutional CASA

The Bank continued to drive its institutional CASA proposition as an important contributor to enhance the Bank's CASA portfolio through high liquidity clients requiring cash management services. These client relationships span across industries such as

FMCG, logistics, shipping, pharmaceutical, Information Technology and education and are further strengthened by offering a range of highly competitive benefits including special tariff, interest rates and the personalised service of dedicated relationship managers. The Institutional CASA function made noteworthy contribution to the Bank's Foreign Currency (FCY) and fee income during the year.

Bancassurance

Union Bank provides customers the convenience of obtaining insurances policies under the life and general categories through its Bancassurance services. Union Bank maintains a long-term exclusive Bancassurance agreement with Union Assurance since 2018 to provide customers with a comprehensive range of plans for Life Insurance including health, retirement, and lifestyle protection. Agreements with other multiple partners facilitate a range of General Insurance solutions including plans for fire, motor, travel, fire and marine.

Bancassurance services are available across the Bank's branch network and provide customers the convenience of managing their insurance requirements under the same roof at competitive prices. Considering the impacts of the COVID-19 pandemic and the subsequent setbacks from the economic crisis the Bancassurance partners extended relief measures to provide respite to customers with impacted premiums.



Union Bank team was recognised for their outstanding performance at the Union Assurance CEO's Lounge Awards 2022, the

annual Bancassurance awards held in August. The event is the most prestigious event in the bancassurance calendar and recognises and rewards top performers. Union Bank received several top awards in key categories for the year 2021 for individual and team performances.

Remittances

The Bank facilitates inward remittances through Western Union and Instant Cash global money service gateways and the services are offered to customers through the Bank's island-wide branch network. The Bank's inwards remittances performance for the year mirrored the decline in National inward remittance volumes due to the impacts of the global pandemic, geopolitical instability, and labour market challenges. The Bank swiftly aligned with the National agenda to bolster inward remittances and initiated several incentive schemes and awareness campaigns during the year.

Alternate Channels

Online and Mobile Banking

During the year significant focus was placed on enhancing the digital banking platforms of the Bank as providing customers access to their banking needs became even more critical with the impacts of the macro-economic challenges. The Bank ensured the platforms had minimum down time and provided uninterrupted services enabling customers remote access, flexibility and convenience despite the setbacks of the power and fuel crisis. The transaction volumes on the Bank's digital platforms increased during the year.



The digital banking platforms of Union Bank are versatile and user friendly. They offer the convenience of managing both the Union Bank online banking account and the Union Bank mobile app UBgo with the use of a single username and password. Registration process has been simplified and customers are able to register simply by accessing the online banking platform on the Bank's corporate website. The digital platforms provide a gamut of services for the day-to-day banking needs of the customers and operational help and support is provided by the Bank's 24 hour contact centre.

The Bank's digital banking platforms continue to facilitate swift and real time transactions through the National payments provider Lanka Clear PLC for instant fund transfers and payments whilst instant account top ups to the Union Bank accounts from any Bank are also facilitated through the JustPay platform. The Bank's mobile app has been enhanced with QR code payments facilitated by LankaPay, to provide customers secure, convenient and cashless payments by simply scanning a QR code at check out at merchants island wide. Enhancing value and convenience to businesses during the year the Bank offered integrated real time transactions facilitated through the LankaPay Online Payment Platform (LPOPP) to customers for Sri Lanka Customs, Sri Lanka Ports Authority, and the Inland Revenue Department payments.

Missed Call Banking

Union Bank Missed Call Banking service is an inclusive, wide-ranging mobile-based banking facility that can be accessed with any type of mobile phone and provides convenience and safety to customers. It is a Short Message Service (SMS)-based notification service that provides account holders with an instant and secure means of obtaining their account balances on their mobile phone. Subscribing to the service has been simplified and the service can be activated at the time of opening an account or by simply applying for it. Users can obtain the available balance and a number of other updates on their active banking accounts via SMS by simply giving a 'missed call' to 0115 800 700 or by sending a SMS.

Agent Banking

As part of its digital transformation agenda to enhance customer reach the Bank entered into agreements with SLT Mobitel and Cargills PLC for Agent Banking Services to bring banking convenience to customers through selected SLT Mobitel and Cargills FoodCity outlets island wide. The agent banking platform is a highly secure platform and facilitates real-time deposits, loan and credit card payments enabling customers to bank conveniently from close to home, beyond traditional banking hours. This service is offered free of charge to customers and is a simple process with no prior registration required. Union Bank's Agent Banking Service is currently offered in over 250 selected Cargills FoodCity outlets (credit card payments only) and at 60 SLT Mobitel outlets island-wide and will be expanded further in the coming year.



ATM Network

The Bank's ATM network consisted of 109 ATMs by year-end. Despite the challenges of the fuel and power crisis the Bank made all possible efforts to minimise ATM down time and service disruptions. There are 68 ATMs located at branches and 41 off-site ATMs located island-wide for the convenience of Bank's customers as well as non-customers. The off-us transactions increased by 38% year-on-year indicating the value addition and benefits of the network. The Bank reviews performance of ATMs on a routine basis to ensure all units are at optimum levels.

Customer Experience Management Contact Centre



During the year under review, despite the macro-economic setbacks that impacted normalcy limiting public movement at large, the Bank's Contact Centre continued to play a pivotal role in sustaining customer links and providing uninterrupted services to customers for continued reach and access to information and banking services.

Operating round the clock at most times despite the challenges of the fuel and power crisis, the contact centre became the focal point for dissemination of information to customers. In addition to providing customers with information on branch operations and relief measures mandated by the Central Bank and the Bank for immediate respite, customers were also supported with information and services on a range of other products and services including digital platforms and credit cards enabling them to have a continued dialogue with the Bank and be up-to-date on their banking transactions.

The Bank swiftly enhanced the service capabilities to accommodate the rapidly increased volumes of customer inquiries and service requests that were resultant from limitations of customers being unable to visit branches. The Bank immediately took steps to enhance the IT systems and

processes to enable a contact centre that was fully functional remotely, thereby providing uninterrupted services to customers whilst ensuring employee well-being by providing work from home facilities and convenience.

Service Quality Management

With customers and stakeholders facing heightened challenges during the year ensuring and enhancing service quality became an even more crucial endeavour for the Bank. The Bank swiftly realigned its service quality outlook and standards to meet and accommodate the changes in customer needs and to provide end to end solutions for customer complaints, inquiries, and other requirements. As such the existing service standards including Service Level Agreements (SLAs) and Turn Around Times (TATs) were revised to meet the growing demands from both internal and external customers. The service quality management function also played an important role in handling requests on relief measures and worked closely with all service delivery points to ensure smooth communications to customers.

During the month of October, the customer service week was celebrated across the Bank under the global theme "Celebrate Service". Several customer related initiatives were launched by the service quality management function to recognise and value customers across business units and the branch network. Outstanding teams and staff were recognised for service quality achievements.

Prospects 2023

In the year ahead the Retail Banking unit will endeavour to enhance digitally driven banking convenience to customers whilst providing an improved range of product and services. Focus will be placed on targeting selected customer segments with product-based acquisition strategies. Aggressive drive for CASA with focus on younger demographics, private banking and institutional clients will enable measured liability portfolio growth that will aid the Bank's overall liquidity.

Taking into account the impacts of the economic crisis and the pace of recovery, the Bank will continue to adopt a prudent risk approach and focus selectively on lending opportunities including the focus on mortgage-backed loans and credit cards whilst maintaining portfolio quality, profitability, and an enhanced recovery focus. The credit cards business will continue to be a key enabler that will contribute towards sourcing of new customer bases as well as enhanced fee income to the Bank.

The Bank's branch network will continue to strengthen its customer relationships whilst striving to enhance its footprint within the localities. The Bank will expand its reach through alternate channels and the digital banking proposition of the Bank will be further enhanced with new customer-centric services to facilitate the growing customer inclinations. Introduction of systems for CRM will support the Bank's cross-sell and upsell initiatives.

Technology and Convenience



Branch and ATM Network

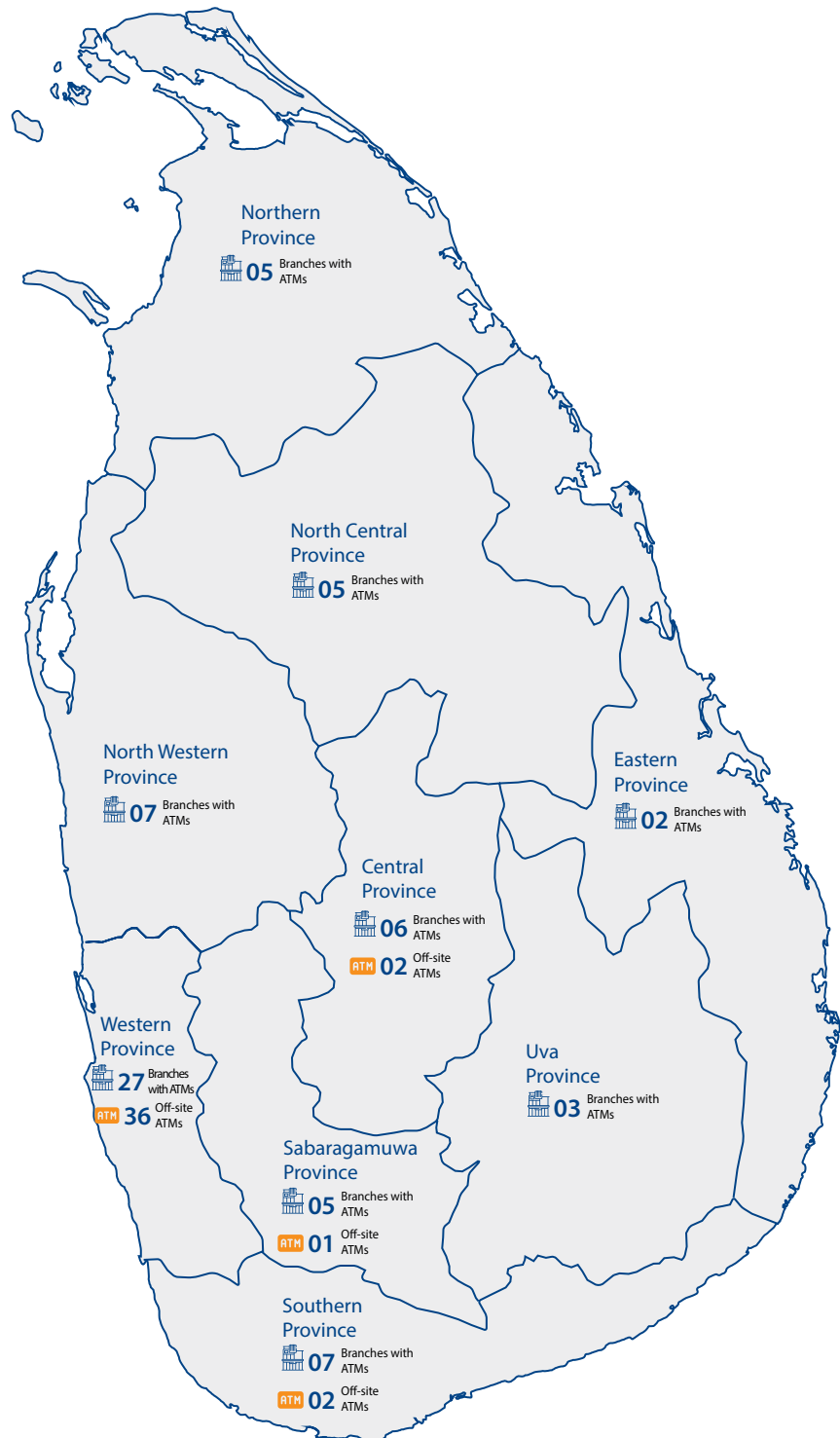
Disclosure 2-6



Branches **67**



ATMs **109**





Branches

ATM Off-Site ATMs

Northern Province

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

North Western Province

06. Chilaw
07. Ibbagamuwa
08. Kuliapitiya
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

Western Province

01. Mahabuthgamuwa, Angoda
02. Pora, Athurugiriya
03. Thalangama North, Battaramulla
04. Divulapitiya, Boralessgamuwa
05. Ambalama Junction, Boralessgamuwa
06. Egaloya, Bulathsinhala
07. Elvitigala Mawatha, Colombo 08
08. Marine Drive, 10th Lane, Colombo 3
09. Marine Drive Wellawatte, Colombo 06
10. Prince of Wales Avenue, Colombo 14
11. R A De Mel Mawatha, Colombo 05
12. Karagampitiya, Dehiwala
13. Kandaliyadda Paluwa, Ganemulla
14. Hospital Road, Kalubowila
15. Kandy Road, Kelaniya
16. Bogahawila Road, Kottawa
17. Pamunuwa, Maharagama
18. Makola South, Makola
19. Pittugala, Malabe
20. Angulana, Moratuwa
21. Gorakana, Moratuwa
22. Ethukala, Negombo
23. Gangodawila, Nugegoda
24. Highlevel Road, Pannipitiya

25. Rukmalgama Road, Kottawa, Pannipitiya
26. Makumbura, Pannipitiya
27. Walana, Panadura
28. Modarawila Road, Panadura
29. Batakettara, Piliyandala
30. Colombo Road, Pokunuwita
31. Maradana Road, Punchi Borella
32. Madiwala Road, Thalawathugoda
33. Hendala, Wattala
34. Mabola, Wattala
35. Mahabage Road, Ragama
36. Templer's Road, Mount Lavinia

Southern Province

37. Kurundugahahetekma, Elpitiya
38. Matara Road, Unawatuna

Central Province

39. Peradeniya Road, Kandy
40. Karaliedha, Theldeniya

Sabaragamuwa Province

41. Sannasgama, Lellopitiya

Treasury

Despite the impacts of the global landscape and macro-economic challenges in the domestic markets, the Treasury recorded a noteworthy performance with a revenue of LKR 793 Mn for the year under review.

The Treasury, consisting of the Inter-bank Desk, Corporate Sales Desk, and the Fixed Income Desk along with the Bank Notes Operations unit worked in tandem to effectively capitalise on the market opportunities that prevailed despite the challenges and focused on providing critical liquidity to support the stability of the Bank's overall operations in both LKR/FCY whilst prudently managing the Government Debt Security Portfolio.

The Central Bank (CBSL) and the Government implemented several policy and relief measures during the year for immediate respite and economic stability. CBSL initially increased policy rates by 50 basis points (bps) at the beginning of the year and thereafter another 100bps during March 2022, it was subsequently increased significantly by a further 700 bps in April and another 100 bps by July. The cumulative increases resulted in both the Standing Deposit and Lending Facility rates ending the year 950bps higher. This was done in a bid to pre-empt adverse inflationary expectations, stabilise the exchange rate and to correct anomalies observed in the market interest rates structure. As a result of the above measures, greater flexibility was allowed for the exchange rate and the depreciation of the Sri Lankan Rupee against the USD was recorded at 82% by the reporting date. Worker remittances and tourism started to recover during the year. Subsequent to the IMF staff level agreement the markets signalled a positive momentum and witnessed improved activity. Foreign participation in the stock market activities also witnessed a notable increase with the net foreign inflows reaching a ten-year high by September.

With USD liquidity issues faced by local banks marginally easing off by the end of the third quarter, the Bank's Treasury along with the Bank Notes Operations unit effectively managed its foreign currency cashflows and supported its trade business whilst

effecting enhanced limit extensions for forex transactions with local and foreign banks. The Bank Notes Operation of the Bank recorded the highest ever currency repatriation during the year. In compliance with CBSL directives the Treasury was instrumental in providing the much-needed support to importers by way of foreign exchange with focus on USD and prioritising of trade payments for essential items such as food, pharmaceuticals, fertilizer, fuel etc. During the year, the Corporate Desk was also able to seize new opportunities and on-board new customers engaged in the importation of food and other essential items and to ease off the USD liquidity stresses the Bank also focused on canvassing new export customers both in the Corporate and SME sectors of the economy. Despite the challenges the Bank recorded an exchange gain of LKR 733 Mn as of 31 December 2022.

The Treasury was able to re-align the impacted Government Securities portfolio at a much faster pace, through focused investment strategies and timely repricing which also aided the Bank to strengthen the Bank's Net Interest Income (NII) position. The Bank's Government Securities portfolio stood at LKR 35,888 Mn as of 31 December 2022. As a result of the economic landscape that prevailed and in line with the Bank's risk appetite the Bank did not hold any International Sovereign Bonds (ISBs) and the Sri Lanka Development Bonds (SLDB's) held by the Bank also included short term maturities with LKR flexibility for liquidity.

Prospects 2023

The Treasury remains optimistic regarding the medium-term growth prospects of the country resulting mainly from the expected IMF bailout package and the support from the creditors and donor countries. The much-anticipated stabilisation in the macro-economic environment is expected through the recovery in private sector credit, improved retail demand and inflow of foreign direct investments along with the restructuring of loss making SOEs throughout 2023. In the year ahead, the Bank's Treasury will continue to place strategic importance on strengthening contributions from its core businesses, namely foreign exchange and corporate sales, bank notes repatriation, portfolio investments and Government debt trading.

Operations Management

During the year the Operations Department played a pivotal role in ensuring uninterrupted services to both internal and external stakeholders to operate amidst heightened challenges and setbacks of the economic crisis whilst supporting the Bank's envisioned business and growth objectives.

Amidst the impact of the fuel and power crisis, the Operations Department strategically manoeuvred the challenges and swiftly aligned its support services to accommodate the changes and demands resulting from the crisis and carried out several initiatives to provide continued banking services and conveniences to customers as well as the internal stakeholders to ensure smooth operations across all functions were facilitated both on-site and remotely.

Central Operations and Credit Operations Departments continued to support Retail, SME and Corporate Banking units, facilitating multiple processes including the timely execution of the Central Bank mandated moratoria schemes, debt restructuring and rescheduling and implementation of e-statements for loans, in addition to the introduction of new work-flow plans for cost optimisation initiatives. Process and system enhancements were carried out to improve productivity and operational efficiencies with improved turnaround times. These include the removal of voucher validation of OTT / RTGS, implementation of direct debit for SLIPS and enhancement of the Factoring and Pawning systems to facilitate active directory log-in. Significant focus was placed on cost optimisation of environmental sustainability through the reduction of paper usage across all operations units by facilitating alternate workaround solutions.

The Trade Operations department was able to prudently manage the significant volatilities that were prevalent in the external and regulatory fronts during the year whilst playing a supporting role to the business units on varied trade requirements, including facilitating of significant number of clients inquiries as a result of the constant revisions in import regulations. Accommodating these policy mandates and changes, Trade

Operations facilitated all customer requests for pre-clearance of imports with the consent of the Treasury team and the enhancement of MIS enabled improved turnaround times for transaction processing. During the year the Correspondent Banking Network was significantly strengthened with the establishment of new nostro relationships in New York, London and Sydney.

The Premises Department of the Bank supported the internal teams at head office and the branch network to manage operations during the power crisis whilst continuing to ensure the safety of customers, stakeholders and employees at the Bank's premises island-wide from COVID-19. Several initiatives were carried out to optimise costs and enhance infrastructure and security which included the installation of photocell sensors at ATMs for enhanced power efficiencies, fault monitoring systems for CCTV and Air conditioning at ATMs, CCTV surveillance at the head office emergency exits as well as the construction of additional facilities to encourage and support the employees who cycled to work.

Prospects 2023

In the year ahead the Bank's Operations functions will be further enhanced with focus on digitalisation as a key enabler to support improved business and cost efficiencies. Driving productivity within and across the Bank's operational functions, the Bank will continue to add value to its work-flow processes with continued upgrades including the roll out of a Robotic Process Automation solutions for data entry, report generation and covenant monitoring purposes, along with new workflows planned for the cashback process and loan maintenance. The planned implementation of a new Trade Finance System during the coming year will support the Bank's envisioned growth of the trade business. The Operations department will continue to upgrade, maintain and support the Bank's infrastructure and facilities management for smooth operations and uninterrupted functionality whilst ensuring environment sustainability and the health and safety of employees and customers.

Information Technology

The Bank's commitment to enhance and stay up to date on its information technology capabilities continued in the year under

review as per the Bank's IT strategic road map. Whilst rolling out the annual plan to establish an enterprise IT architecture blueprint to enhance the customer experience and optimise costs, the Bank also swiftly adopted its systems and processes to accommodate the operational challenges resultant from the setbacks of the economic crisis.

The information technology division completed several digital transformation and IT infrastructure projects to ensure the Bank is equipped with the latest technologies required to aid the envisioned business operations and expansions. The projects focused primarily on delivering improved security and reliability of the IT infrastructure and application landscape whilst providing the required operational support to manoeuvre through the challenges including the foreign exchange crisis.

Inline with the planned digital transformation efforts, the delivery layers of the Core Banking System were upgraded to enhance seamless integration capabilities. The Bank continued to optimise the new data centre infrastructure through the consolidation of hardware for both primary and disaster recovery enabling enhanced reliability and industry standard security whilst maintaining minimum down time and service interruptions to customers. During the year the bank once again successfully completed the Payment Card Industry Data Security Standard (PCI DSS) recertification having met the stringent security requirements needed to achieve the current version 3.2.1 ensuring enhanced security of the Bank's cards portfolio. This certification reaffirms Union Bank's card data security standards across all systems and processes.

Providing access and reach to customers and stakeholders during the crisis became top priority and the Bank swiftly upgraded its digital platforms with enhanced service features to provide greater convenience and remote banking capabilities. The Bank's mobile app UBgo was also revamped to deliver enhanced customer centric features and an improved user experience. Instant fund transfers, QR payments, and top ups from any bank through Just Pay continued to make the app more accessible and simplified to customers. In addition, the Bank also enabled

Sri Lanka Customs, Sri Lanka Ports Authority, and Inland Revenue Department payments by integrating the LPOPP payment platform providing customers enhanced convenience for business operations.

Keeping the Bank's operations uninterrupted and undeterred a project for establishing an automation centre for excellence was initiated to manage the transformation of human dependent interactions to digitally enabled customer-driven interactions. This included the rollout of an enterprise workflow management system with the intention to incorporate robotic process automations. Platform modernisation was also carried out with the infusion of new technologies including hybrid cloud infrastructure setup and containerisation. In addition, the Bank's work from home capability was expanded providing employees remote working capabilities to support uninterrupted services to customers as well as ensure staff well-being during a challenging period. Upgrades were carried out to provide improved financial reporting through automated IFRS9 reporting module to support the Bank's information and decision-making process. The Bank's Business Intelligence capabilities were also enhanced further to harness data driven business insights by implementing data visualisation and dash boards for Retail, SME, and corporate business units

Prospects 2023

In the year 2023 and beyond the Bank will continue to provide enhanced user experiences to its customers and employees through further enhancements to its Information Technology (IT) capabilities. IT capabilities will be aligned with the goal of providing a Total Experience (TX) which includes User Experience (UX), Customer Experience (CX), Multi Experience (MX) and Employee Experience (EX). The Bank will continue to further enhance, reach, and access for customers. The Bank's delivery channels including digital banking platforms and the ATM network will be further upgraded for greater banking convenience.

The planned digital transformation will facilitate an enhanced API layer for collaborations and the use of digital mediums for improved customer communications. Information systems will be further secured

with Improved monitoring, enhanced defence mechanisms and will be aligned with the ISO 27001 industry standard.

With a focus intent to continuously enhance performance and productivity, the Bank's forward plans for information technology will also continue to drive efficiency across all operational environments through enhanced Data warehouse and analytical systems that will provide data driven business insights for improved decision making. Expansion of the Bank's workflow systems will further improve the efficiency of internal processes. Upgrades to internal application processing framework, automation through robotic process automation and infrastructure optimisation will aid the Bank's cost management initiatives and efficiency levels.

Strategic Marketing Communications

The period under review was one that mandated a further shift in customer and stakeholder communications towards digital platforms. Providing accessibility to up to date information on products and services to customers became even more critical with customers facing heightened challenges and limitations from the economic setbacks. In tandem with the operational shift made to provide greater banking convenience through digital platforms, information on product and service enhancements were also linked and communicated swiftly via digital channels for ease of accessibility for customers whilst concurrently making all efforts to create increased brand presence. This included channels such as the Bank website, social media platforms, SMS notifications, direct mailers, and digital PR.

The Bank's website www.unionb.com continued to be regularly updated on product and service information and branch operations keeping customers informed during the power outages and travel limitations whilst providing information on alternate channels of banking such as the online and mobile banking platforms, Agent Banking Services, ATM network and the Bank's 24 hour contact centre. Accommodating the changes that took

place to employee working environments due to the challenges, the website was enhanced for remote updating of critical information facilitating up to date information at any given time including the content management of customer notices, deposit and lending rates, foreign exchange rates, credit card offers and branch opening hours.

The social media platforms of the Bank were a crucial communication platform that maintained continuous dialogue with customers and public for both product information, news regarding Bank initiatives as well as for generating sales leads. With the shift towards digital the Bank also took immediate steps to enhance investments on digital communications for reach and engagement. These continuous initiatives during the year resulted in significant increases in impressions, reach and engagement across the Bank's social media platforms.

With Union Bank credit cards focusing on providing ease of payments and savings to customers during a challenging period, information on credit card plans such as Balance Transfer, Zero percent interest Instalments, Loan on card and card offers were communicated through the Bank's social media pages with full details linked to the website. Further, content on social media platforms was customised for lead generation supporting the sales teams during the travel limitations. Several awareness campaigns were also carried out on the social media platforms to specified audiences and geographies for credit cards, remittances, foreign exchange, and pawning.

The website and the social media platforms of the Bank also facilitated as a platform for continuous dialogue with customers for inquiries, complaint handling and product information. Due to the limitations in visiting branches a high volume of emails and messages were received and successfully managed in coordination with the Bank's service quality team. The Bank's recruitment process was also supported through the website and social media platforms with LinkedIn supporting to target suitable candidates based on profiles, experience and skill set requirements.

The Bank continued to strengthen and revitalise its brand presence as a full-service bank offering financial solutions to Corporate, SME and Personal banking sectors supported by a cohesive public relations strategy focusing on increasing its footprint on both print and digital media. The Bank's media PR was well managed during the year to achieve an increased Advertising Equivalent Rate (AER) with distribution across vernacular publications and digital platforms to reach external publics. Internal communications were also stepped up to keep a positive momentum amongst employees during a challenging time and included weekly alerts on business news, product and service developments and stories on milestones, accolades, and achievements.

During the year under review Union Bank entered the Most Respected Entities in Sri Lanka 2022 ranking for the first time. This is an annual ranking conceptualised by prominent business magazine LMD and Nielsen IQ. Union Bank brand also continued to be ranked within Top 100 Listed Companies and the Most Valuable 100 Brands in Sri Lanka, also published by the LMD in 2022

Prospects 2023

The year ahead is one that will see the Bank's marketing communications focusing on revitalising its brand image, re-igniting consumer perceptions and building further on its 25 years of presence as a trusted banking partner to the Nation.



A cohesive plan will be implemented to create awareness and strengthen customer connections for the Bank's product and services and in sync with the shift in customer inclinations, marketing communications will be focused on digital channels aided by other mediums of above the line and below the line channels to reach the preferred target audiences.

Investments on marketing communications during the year ahead will also be focused on enhancing the Union Bank digital footprint on social media and digital platforms to further expand reach and engagement for continued customer dialogues. The social media and digital platforms of the Bank will continue to support the sales teams to reach the preferred customer segments through targeted campaigns for securing leads for business growth, using digital channels.

Marketing communications will also focus on further enhancing investor and stakeholder confidence through strategic public relations whilst internal communications will continue to motivate and update employees on Bank-wide initiatives. The Bank will continue to support community and environmental projects inline with the Bank policies as part of its commitment to social responsibility and sustainability.



**Resilient
in creating
uninterrupted
connectivity.**



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 of 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 evolving customer needs, to offer customisable and relevant products and services to meet their diverse financial needs.

Providing its customers convenient access to banking services is the key focus 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, online, and alternate channels such as ATMs, Internet Banking, Mobile Banking and Agent Banking services. The segment wise approach allows the Bank to offer a customised service to its discerning 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 for 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 Disclosure 417-1

The Bank provides a comprehensive range of products and services that are relevant and effective in meeting the needs of its customers 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 firstly by the COVID-19 pandemic and subsequent impacts on the macro-economic landscape which impacted normalcy at large, the Bank further enhanced its digital banking platforms and contact centre capabilities to provide customers convenience and uninterrupted connectivity.

The Bank perused new lending opportunities selectively with focus on enhanced lending to existing customer bases and resilient businesses despite the challenges. The Bank swiftly rolled out several relief measures including customised payment plans for impacted borrowers in addition to providing all relief measures mandated by CBSL to provide immediate respite for business sustenance and revival. Union Bank credit cards continued to provide savings and discounts on essential items and utility payments with focus on e-commerce platforms and plans such as balance transfers, loan on card and zero interest payment plans to provide customers relief and convenience during the challenging times. With market interest rates increasing during the year, the Bank extended customers investment opportunities through fixed deposits and other investment and savings products. The Bank also provides customers value added services through its Bancassurance service for insurance solutions and the convenience of collecting inward foreign remittances through the Bank's branch network through Western Union and Instant Cash.

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 the Bank's corporate website in English, Sinhala, and Tamil along with advice 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 to a dedicated inbox of the Bank via email.

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 and 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 obtained through the Bank's 24-hour contact centre hotline where trained customer service personnel will assist customers with requested information and queries.

Communications Disclosure 2-23/2-24

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. During the year enhanced focus was made on digital communications considering changes in customer inclinations due to the challenges in the macro-economic landscape.

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.

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, to minimise negative implications to customers with a view of decreasing customer dissatisfaction.

Human Resources

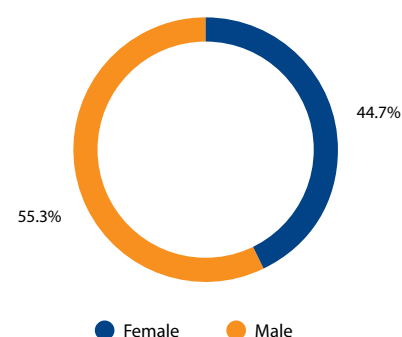
Our People Strategy

Disclosure 2-7/2-8/2-30/403-1/406-1

Our vision is to be a workplace where we put our people first. This was clearly established in 2022 while operating under challenging conditions caused by political and economic calamity which prevailed in the country for the most part of the year. 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.

Union Bank practices an open-door policy across all levels, which encourages staff to present their grievances/suggestions, while numerous formal and informal engagement mechanisms are in place to build camaraderie. This environment has resulted in increasing employees' trust. Due to the above transparent and open culture at the Bank, it is 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 2022, the Bank had zero incidents of discrimination.

Employee Profile Based on Gender as at 31 December 2022



The UB team comprised of 1,164 staff at the end of 2022 with 74.7% constituting the permanent cadre. Overall a marginal decline can be noticed in headcount in comparison to year 2021. Of the 1,164 employees, 869 were permanent employees with 147 being trainees and 148 being the fixed term contract employees. The Bank does not currently employ any part time employees.

Employee Profile Based on Employment Type and Gender – As at 31st December 2022

Disclosure 2-7

Employment Type	Gender				Total	%
	Female	%	Male	%		
Contract	52	10.0%	96	14.9%	148	12.7%
Permanent	378	72.7%	491	76.2%	869	74.7%
Trainee	90	17.3%	57	8.9%	147	12.6%
Total	520	44.7%	644	55.3%	1164	100.0%

Employee Profile Based on Employment Type and Province –As at 31st December 2022

Disclosure 2-7

Province	Employment Type							
	Contract	%	Permanent	%	Trainee	%	Grand Total	%
Central Province	2	1.4%	37	4.3%	7	4.8%	46	4.0%
Eastern Province	-	0.0%	8	0.9%	2	1.4%	10	0.9%
North Central Province	-	0.0%	18	2.1%	2	1.4%	20	1.7%
North Western Province	1	0.7%	41	4.7%	6	4.1%	48	4.1%
Northern Province	-	0.0%	29	3.3%	3	2.0%	32	2.7%
Sabaragamuwa Province	-	0.0%	24	2.8%	8	5.4%	32	2.7%
Southern Province	3	2.0%	48	5.5%	4	2.7%	55	4.7%
Uva Province	1	0.7%	12	1.4%	5	3.4%	18	1.5%
Western Province	141	95.3%	652	75.0%	110	74.8%	903	77.6%
Total	148	12.7%	869	74.7%	147	12.63%	1164	100.00%

Employee profile based on age, grade and gender – as at December 2022

Disclosure 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	Female	Male	Female	Male	
>55	2 (20%)	3 (17%)	-	1 (8.3%)	1 (1.7%)	-	-	-	-	4 (4.3%)	-	-	-	-	-	-	11 (0.9%)
18-24	-	-	-	-	-	-	-	-	39 (75%)	63 (67%)	137 (42.9%)	95 (34.2%)	-	-	-	-	334 (28.7%)
25-29	-	-	-	-	1 (1.7%)	1 (0.8%)	3 (3.9%)	13 (10.7%)	11 (21.2%)	18 (19.1%)	110 (34.5%)	106 (38.1%)	-	-	-	-	263 (22.6%)
30-34	-	-	-	-	8 (13.3%)	14 (11.9%)	32 (41.6%)	54 (44.3%)	1 (1.9%)	7 (7.4%)	50 (15.7%)	58 (20.9%)	-	-	-	-	224 (19.2%)
35-39	1 (10%)	-	-	2 (16.7%)	20 (33.3%)	32 (27.1%)	28 (36.4%)	43 (35.2%)	1 (1.9%)	2 (2.1%)	15 (4.7%)	15 (5.4%)	-	-	-	-	159 (13.7%)
40-44	1 (10%)	5 (28%)	-	-	18 (30%)	33 (28%)	4 (5.2%)	8 (6.6%)	-	-	5 (1.6%)	3 (1.1%)	-	-	-	-	77 (6.6%)
45-49	2 (20%)	7 (39%)	-	5 (41.7%)	7 (11.7%)	25 (21.2%)	7 (9.1%)	3 (2.5%)	-	-	2 (0.6%)	1 (0.4%)	-	-	-	2 (100%)	61 (5.2%)
50-54	4 (40%)	3 (17%)	2 (100%)	4 (33.3%)	5 (8.3%)	13 (11%)	3 (3.9%)	1 (0.8%)	-	-	-	-	-	-	-	-	35 (3.0%)
Grand Total	10 (0.9%)	18 (1.5%)	2 (0.2%)	12 (1.0%)	60 (5.2%)	118 (10.1%)	77 (6.6%)	122 (10.5%)	52 (4.5%)	94 (8.1%)	319 (27.4%)	278 (23.9%)	-	-	-	2 (0.2%)	1164 (100%)

Learning and Development Disclosure 403-7

The Bank continued to invest in the development of its staff in 2022 and a comprehensive Learning and Development Plan was designed based on the Training Needs Analysis carried out at the beginning of the year. The training plan focused on four main areas namely, Induction, Product and Technical Knowledge, Soft Skill Development and Leadership Development related trainings. In-house training sessions were recommended during 2022 after a period of 2 years as training programmes were limited only to online sessions during the COVID-19 pandemic period considering the safety of staff. Furthermore, staff were nominated for external webinars / trainings that were relevant and online training programmes were designed and launched using MS Teams platform. This ensured that staff were engaged in continuous learning activities.

The annual refresher course on Information Security and Operational Risk awareness programmes were made mandatory for the entire staff of the Bank.

A total of 11,548 training hours were completed for 2022 covering 1,132 employees.

Average Training Hours per Employee

Disclosure 404-1

Employee Category	Total Training Hours	Average Hours
Trainee	2377	16.2
BA/ SBA	1903	6.9
Officer	1697	9.6
Assistant Manager	2055	10.3
Manager	1264	10.0
Senior Manager	414	8.0
Chief Manager	96	6.9
Top Management	192	7.4
Grand Total	9998	9.9

(Above is excluding FTC, Intern and Support staff)

Gender-Wise Training Hours Details

Disclosure 404-1

Gender	Total Training Hours	Average Hours
Female	5264	11.2
Male	4734	8.7
Grand Total	9998	9.9

Programmes for Upgrading Employee Skills and Transition

Disclosure 404-2

Programme Name	No. of Programmes	No. of Training hours	Total no. of participants	Duration of the programme
"LEAD" - Leadership Exploration and Discovery Programme for Branch Managers	1	400	25	16 hours
"Managing Non-Performing Advances (NPA) and Recovery through Litigation"	1	204	17	12 hours
Advanced Excel Training	3	368	43	09 hours
Branch Operations Training for Branch Assistant Managers	2	816	51	16 hours
Business Writing Comprehensive Programme	1	63	7	09 hours
Certificate and Diploma in Counselling and psychotherapy	1	96	1	96 hours
Certificate Course on Treasury and Foreign Exchange Operations	2	96	2	48 hours
Certificate Programme in Labour Law and Industrial Relations - 2022	1	96	1	96 hours
Customer Service and Telephone Etiquette	1	72	18	04 hours
TBA Induction Programme	4	1648	103	16 hours
Sales Induction programme	3	754	88	09 hours
Programme on Fire Safety	1	150	30	05 hours
Programme on Trade Products/ Technical and Regulatory	1	51	17	03 hours
Time Management	1	72	18	04 hours
Train The Trainer Programme	1	224	14	16 hours
External Programmes	34	1019.5	72	14 hours
Total	58	6129.5	507	

Performance Management Disclosure 404-3

Being a performance driven organisation, Union Bank is consistently focused on developing its employees to reach their optimal level of performance.

A comprehensive target setting, and evaluation process is carried out annually through the Banks electronic performance management system, which allows the managers to record the annual KPIs of employees and assess them against actual achievements. Establishing clear goals, and offering consistent feedback throughout the year, permits managers to detect any under-performers.

No. of employees eligible for Annual year-end review 2022

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

Gender	Count	%
Female	344	43%
Male	455	57%
Grand Total	799	100%

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

In order to ensure a fair and transparent assessment, employees are provided the opportunity to do a self-assessment on their achievements during the performance cycles as well as to voice their opinion on the outcome of the assessment via the performance management 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. Annual bonus payments in 2022 were significantly differentiated based on the employee performance rating further strengthening the Banks pay for performance principles and driving a performance-based culture. In addition to the above variable bonus scheme, the following benefits are offered to all full – time employees.

Benefits provided to full-time employees and not provided to temporary or part time employees

Disclosure 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 check-up 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

Disclosure 405-2

Grade	Male	Female
Key Management Personnel	1	0.75
Assistant Vice President	1	0.65
Chief Manager	1	0.84
Senior Manager	1	0.94
Manager	1	0.91
Assistant Manager	1	0.99
Officer	1	0.99
Senior Banking Assistant	1	1
Banking Assistant	1	1.01
Fixed Contract	1	0.65
Trainee	1	1.01
Support Staff	1	0

Staff Promotion Process

Apart from the annual promotion cycle, the vacancy based internal promotion process enabled 42 staff to be promoted to the next grade improving the number of promotion opportunities for staff. Relevant vacancies were internally advertised, and staff were encouraged to apply if interested. Suitable candidates were identified based on past performance and potential feedback.

107 employees were promoted during the year and several vacant positions were filled internally by means of vacancy-based promotions.

Recruitment

Disclosure 408-1/409-1

Given the situation that prevailed during year 2022, recruitment was strictly driven on need basis. The Bank recruited 353 new employees, as new positions and replacements for vacant positions. However, more growth opportunities were given to existing staff to backfill vacancies rather than recruiting externally. The Bank does not have any risk of running operations and dealing with suppliers involved in incidents of child or forced labour.

Staff Recruitments – as at 31st December 2022

Disclosure 401-1

Provinces	Age Category						Grand Total
	<30		30-50		>50		
	Female	Male	Female	Male	Female	Male	
Central Province	1 (0.71%)	1 (0.66%)	1 (4.76%)	2 (5%)	-	-	5
Eastern Province	-	-	-	-	-	-	-
North Central Province	-	-	-	-	-	-	-
North Western Province	3 (2.14%)	3 (2%)	-	1 (2.5%)	-	-	7
Northern Province	2 (1.42%)	3 (2%)	-	-	-	-	5
Sabaragamuwa Province	2 (1.42%)	1 (0.66%)	-	-	-	-	3
Southern Province	-	4 (2.66%)	-	-	-	-	4
Uva Province	2 (1.42%)	2 (1.33%)	-	-	-	-	4
Western Province	130 (92.85%)	136 (90.66%)	20 (95.23%)	37 (92.5%)	1 (100%)	1 (100%)	325
Grand Total	140	150	21	40	1	1	353

During 2022, turnover amongst permanent staff has been relatively high compared to 2021.

Staff Resignations – as at 31st December 2022

Disclosure 401-1

Province	Age Category						Total
	< 30		30 - 50		>50		
	Male	Female	Male	Female	Male	Female	
Central Province	5 (3.0%)	1 (0.8%)	3 (4.2%)	2 (5.3%)	-	-	11 (2.7%)
Eastern Province	1 (0.6%)	-	1 (1.4%)	1 (2.6%)	-	-	3 (0.7%)
North Central Province	3 (1.8%)	-	3 (4.2%)	-	-	-	6 (1.5%)
North Western Province	5 (3.0%)	4 (3.3%)	2 (2.8%)	-	-	-	11 (2.7%)
Northern Province	4 (2.4%)	4 (3.3%)	2 (2.8%)	2 (5.3%)	-	-	12 (3.0%)
Sabaragamuwa Province	-	1 (0.8%)	-	1 (2.6%)	-	-	2 (0.5%)
Southern Province	6 (3.6%)	3 (2.5%)	3 (4.2%)	2 (5.3%)	-	-	14 (3.5%)
Uva Province	1 (0.6%)	2 (1.6%)	1 (1.4%)	-	-	-	4 (1.0%)
Western Province	142 (85.0%)	107 (87.7%)	56 (79.0%)	30 (78.9%)	2 (100%)	2 (100%)	339 (84.4%)
Grand Total	167 (41.5%)	122 (30.3%)	71 (17.7%)	38 (9.5%)	2 (0.5%)	2 (0.5%)	402 (100.0%)

Key Highlights in 2022

Disclosure 403-3/403-4/403-6/403-8

COVID-19 Vaccination Drive

The Bank organised a COVID-19 Vaccination Campaign in March 2022, collaborating with the Ministry of Health and the National Hospital of Sri Lanka. This was held focusing on the safety and convenience of staff during the pandemic period and to create awareness on the importance of receiving the COVID-19 vaccine. A number of staff volunteered and received the booster vaccine during the drive.

UB Wellness Month

The Bank is committed to looking after its employees' well-being with the belief that a healthy body and mind will have a positive impact on their professional and personal lives. Hence, October 2022 was named as "UB Wellness Month" and a series of health and wellness programmes were held for staff during the month. As the first event, a programme on Mental Wellness and Stress Management, conducted by a Senior Counselor and Psychotherapist, was held at the Learning and Development Centre. It was the first time that an event of such calibre was broadcasted live to all staff.

Subsequently, a free medical check-up, a webinar named "Healthy Hearts" and a programme on women's wellness was conducted for the staff. An overwhelming response was received from staff for all the programmes.

Welfare and Sports Initiatives

After two years of subdued period due to the COVID-19 Pandemic, the Sports Club of Union Bank was able to conduct several events with the objective of creating greater engagement with employees. "UB Walk to Win", a virtual step challenge was held during the month of September 2022, together with Ayubo-life wellness app. The initiative received an overwhelming response from the staff across the Bank, with 96 teams listing for the challenge. The "IAD Jolly walkers" consisting of members from the Internal Audit Department, was placed 1st after winning the quiz competition on health and fitness. The Bank was recognised by the Ayubo-life, as the most engaged corporate for year 2022.



Dance by the Ocean, a sun down beach party was held with a high level of participation by staff, at the Goldi Sands Hotel, Negombo in November 2022. The last event for the year was UB Christmas Carols and all events were well attended by employees and the interaction created by these events did help overall team work.



Dance by the Ocean, beach party



Christmas Carols



Health and Well-Being

Disclosure 403-2/403-3/403-5/403-8/403-9/403-10

Ensuring employee health and safety is of prime importance for the Bank. Therefore, various welfare programmes were initiated by HR in 2022, focusing staff wellness, work-related stress and work-life balance. Apart from those activities, the Bank also offers a number of recreational activities to help employees pursue their interests and find ways to unwind. Thus Union Bank maintains a gymnasium that is located at it's Head Office.

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

Prospects 2023

2022 had been another year of uncertainty and anxiety. However, despite the challenges we faced, our flexibility and commitment during the year, enabled the Bank to play a dynamic role as an essential service provider, offering continued banking services and assistance to our customers.

Flexibility has become an essential virtue as the HR function re-evaluates goals and performance metrics in a disruptive year and in 2023 and beyond the Bank will continue to focus on developing its people and empower them with capabilities and impetus to capture the emerging new opportunities in the market, in a bid to support the strategic growth objective of the Bank in the ensuing year.

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 to maintain mutually beneficial relationships.

In engaging with the wider community, the Bank focuses on a CSR strategy that places emphasis on education and the well-being of children and youth of the country.

Membership in Associations Disclosure 2-28

The Bank has general membership in several sectoral, 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
- » The Association of Banking Sector Risk Professionals

Supply Chain Management

Disclosure 2-6/2-23/2-24

Union Bank, embeds 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, environment, health and safety and anti-corruption, with the assurance of proper practices. The Bank aims to diminish undesirable ecological and social effects of the 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 the Bank's procurement policy and practices which the Bank expects the vendors and service providers to follow as well. 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 labour, 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 overseen by the Procurement Committee. The Bank is driven by its approach to enhance 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 important system platforms on which the Bank operates. As the Bank's branch network is 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 and few global companies as well. This supports the Bank to expand business platforms and creates a foundation for a maintainable future.

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

As a part of the Bank's responsibility towards a greener environment the Bank carries out its activities in an environment friendly manner; during year 2022 the Bank used 5,310 packets of A4 paper, and recycled 25,740 kgs of waste-paper, 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) Expeditiously executing 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 our suppliers are based in Sri Lanka and only a few important technological service providers are based out

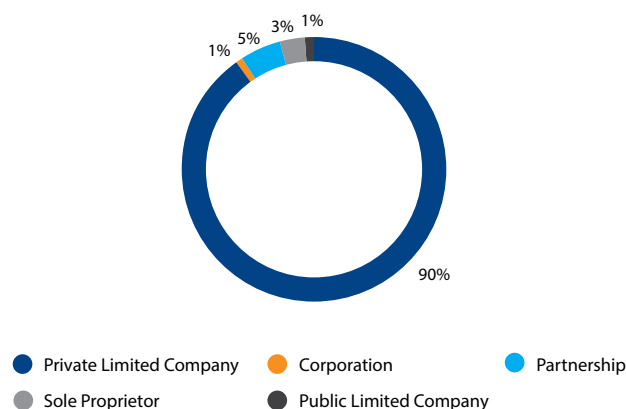
of Sri Lanka. The Bank's data capturing, digital archiving, physical archival management, inventory management, janitorial service, mail room service and catering services are outsourced to specialists in the respective industries. The Bank did not have any significant changes in our supply chain operations during the period.

The supplier registration process is governed by the Board approved procurement policy. Registration of suppliers is called once in 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 single 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 Bank's Procurement Committee. By prioritising the tender / quotes process to registered suppliers, the Bank envisages to establish long standing and equally favourable business partnerships.

The Bank's suppliers are registered under the categories indicated on the table below;

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
Waste-paper 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

Supplier Categories as at date



A total of 116 local suppliers have been registered by the Bank by the end of the review period. Out of these 105 are private limited companies while 10 are small and medium enterprises and the balance are in the category of public liability companies.

Procurement related spends by Local and Foreign Suppliers

Disclosure 204-1

	2019	2020	2021	2022
Value of total procurement – (LKR Mn)				
- Local	118.6	56.5	96.7	157.3
	100%	12%	97%	100%
- Foreign	-	425.6	3.3	-
	-	88%	3%	-

Our Existing and Proposed Commitment to Sustainable Business Practices

Disclosure 2-27/ 206-1/417-2/417-3/418-1

Measurement	Achievement
Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.	No incidents recorded during the year 2022 under review.
Incidents of non-compliance concerning marketing communications.	
Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	
Incidents of non-compliance concerning product and service information and labelling.	



The financial year under review marked yet another challenging year with the operating landscape continuing to present an array of challenges. The heightened political and economic crisis that evolved early 2022, resulted in the industry facing depleting business prospects aided primarily by the sharp rupee depreciation, scarcity of foreign exchange, import restrictions, rising interest rates and an upward revision of taxes amongst other factors. Several monetary and policy measures were mandated by the Central Bank to aid the much-needed economic revival and stability. The tightening of monetary policy by the Central Bank in the latter part of the year saw interest rates rise YoY, curtailing lending growth. Furthermore, enhanced budget deficit and contracted foreign currency inflow pushed the Government to increase yields on Government Securities. Similarly, upward adjustments in deposit rates and reprising of borrowings affected corporate cost of funds, especially during the latter part of the year, elevating the pressure on interest margins. The tendency of investors to deposit short-term deposits and the availability of high yield alternative investments resulted in widening of the existing maturity gaps, creating liquidity issues in the market.

Amidst these setbacks, UB Finance stood strong in the first half of 2022, as a result of the rights issue which concluded at the end of 2021. The rights issue raised LKR 2 Bn capital infusion from Union Bank aiding to strengthen the company's Balance Sheet and meeting the revised capital thresholds set out by the Central Bank whilst supporting the company's growth plans. As a result, the unimpaired Core Capital of the company stands at

LKR 2.57 Bn with a Total Capital Adequacy Ratio of 28.82%, making UB Finance a licensed finance company with one of the highest capitalisation ratios in the industry.

As the year progressed and the volatility of economic landscape continued, UB Finance recorded negative growth in the second quarter of the year. Re-pricing of the deposit base in tandem with the prevalent market rates resulted in higher cost of funding. Focus on the funding composition of the deposit base supported to bridge the funding gap enabling the Company to increase its deposits base by 48.90% to LKR 6.43 Bn by December 2022 despite a challenging macro environment.

Amidst extended import restrictions and continued macro-economic challenges, UBF realigned its strategies to support the expansion of lending volumes. As a result of the pressures of the economic crisis, demand for loans against gold for short term consumption needs saw an uptick. The Company was swift to take advantage of this market opportunity by restructuring the gold loan unit resulting in a significant growth in the portfolio whilst prudently maintaining asset quality and risks. The Gold Loans Portfolio increased by 69.68% to LKR 1,171 Mn by December 2022.

Enhanced focus was placed on collections and recoveries and the process was further supported by deploying the auto loan marketing staff to assist the recoveries function. The Company prudently managed and controlled portfolio delinquencies which were visible in the 2nd quarter of 2022 resultant from macro environment challenges. Continuing to support digitisation for enhanced customer experiences, the revamp of the core system was initiated during the period under review.

During the period under review the regulatory process to list UBF on the Colombo Stock Exchange was initiated.

The hard work, dedication, and commitment of the UBF team enabled the Company to steer through yet another challenging year. Several employee development programmes were carried out throughout the year to enhance employee well-being as well as harness and develop their talent and skills.

Outlook 2023

Looking ahead, the Company will be embarking on a journey that will drive the it towards new heights and create new milestones that will be testament to its growth trajectory. UBF will align itself to the National agenda, while driving a business that is scalable and profitable. Its growth strategies will encompass profitable segments targeted with differentiated offerings. It will offer respite to its customers to overcome the challenges of a difficult year and support to reinvigorate their lives and businesses while staying committed to cost optimisation and our risk and governance principles. The Company will continue to build on its customer centric ethos in delivering customised financial solutions to the evolving needs of customers aptly supported by continuous dialogue and digitisation.



During the year under review, Sri Lanka faced the most challenging economic situation post-independence. Depletion of foreign currency reserves led to the free float of the currency which depreciated approximately 80% since March and in April the Central Bank announced a moratorium on repaying foreign currency debt. Rising global food and energy prices, supply chain pressures and LKR depreciation resulted in record high inflation levels in Sri Lanka along with shortages in essentials such as electricity, fuel and cooking gas resulting in a severe contraction of GDP during 2022.

The Unit Trust industry was severely impacted by the sharp increase in Government Treasury Bill yields during the year. Treasury Bill rates surpassing the return from all other fixed income assets, resulted in a large outflow of money from the industry. During the period under review, the Unit Trust industry assets under management fell from LKR 198 Bn to LKR 150 Bn.

NAMAL's equity funds

Following a strong year for equity markets in 2021, the All Share Price Index (ASPI) and SandP SL 20 index peaked in January 2022. The ASPI closed the year at 8,489.66, a decline of 30.56% during the year. The SandP SL 20 closed the year at 2,635.63, a decline of 37.74% during the year. Macro conditions saw investors re-allocating to safe-haven assets to preserve capital whilst the high interest rates further dampened investor sentiment. Within equities, counters with strong dollar

earnings and low debt performed well.

NAMAL's funds continued to focus on stocks with strong resilience and stable growth potential in keeping with the company's investment philosophy. The National Equity Fund declined by 18.52% during 2022 whilst the NAMAL Growth Fund declined by 10.84% during the year. Foreigners were net buyers during the year, with an inflow of LKR 30.6 Bn to the equity markets during 2022.

The National Equity Fund, the first mutual fund in the country, delivered 11.15% compounded annualised return to investors in its 31 years of existence. The NAMAL Growth Fund which has been in existence for 25 years has reported a 11.74% annualised return.

NAMAL High Yield Fund generates strong returns

The High Yield Fund generated high returns during the year following the increase in Treasury Bill and deposit rates. The benchmark 1 year TB yield appreciated from 8.24% at the start of the year to 29.27% by the year end while NDBIB-CRISL 91-day T bill index reported a return of 17.31% during the year. NAMAL High Yield Fund generated a 17.74% return for its investors during the period under review.

Earnings

The sharp outflow of funds from the industry adversely impacted the profitability of the company. Asset management fees for the full year 2022 stood at LKR 42 Mn (down by 47.9% YoY). Income from equity unit trusts fell 5% YoY to LKR 35.2 Mn while income from fixed income unit trusts decreased 87% YoY to LKR 3.7 Mn. Total income for the year decreased to LKR 62 Mn from LKR 90.2 Mn in the previous year while total overheads were recorded at LKR 60 Mn. The company recorded PBT of LKR 2.03 Mn for the 12 months ending December 2022.

Prospects for 2023

It is expected that the first half of 2023 will continue to be a challenging period until the fixed income and currency markets re-establish an equilibrium with the finalisation of an IMF Programme. Despite the significant economic challenges, the company remains committed to ensuring attractive returns to our investors. The company's focus on fundamentals-based investment strategies will assist in providing stable returns on its equity funds. In addition, the fixed income funds will be dynamically managed to provide strong returns to investors in the short to medium term within the prevalent high interest rate environment.

The Bank believes that timely and detailed disclosure of corporate information enables investors to obtain sufficient and reliable knowledge about companies in order to make informed economic decisions. Hence, the Bank endeavours to ensure the timeliness, transparency, fairness, and continuity in disclosing information on the current performance, strategic direction, governance, risk management and future business prospects of the Bank, to the shareholders, investors, and other stakeholders.

The Bank's policy on information disclosures is to disclose information in a proactive manner. In addition to disclosures that are mandated by laws and regulations, including information

about financial results, and decisions and events likely to influence investment decisions, the Bank also pro-actively discloses other information that it finds to be important or beneficial to its stakeholders.

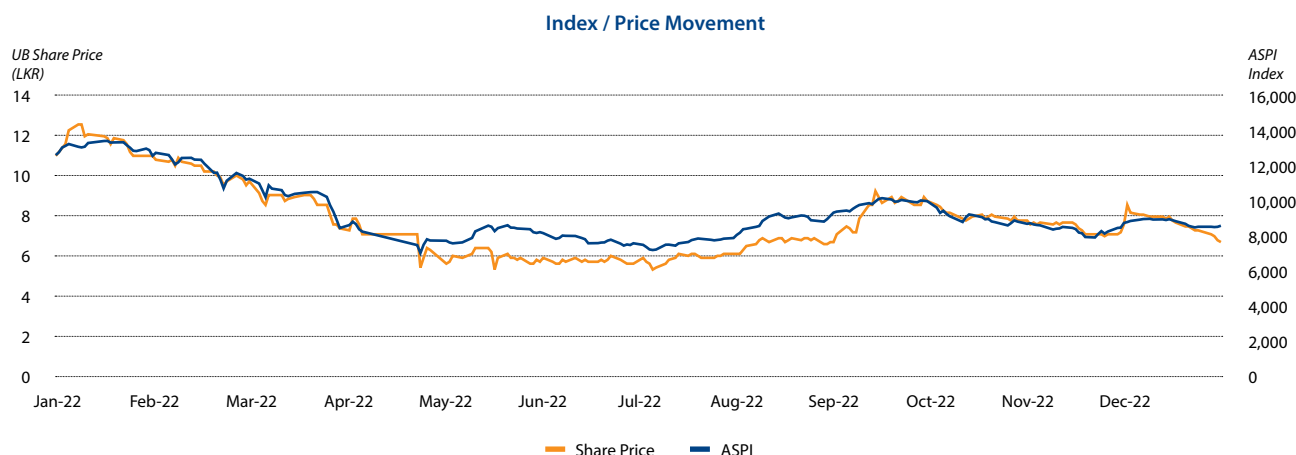
The Bank also actively engages in constructive dialogue with shareholders, investors, securities analysts and other concerned parties, and uses the opinions received and other feedback as a reference for its management to improve its corporate value. Through such information disclosure and communication, 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 2022



3. Share Information

There were 28,828 Shareholders as at 31 December 2022 (2021:29,151) distributed as follows;

3.1 Shareholder Distribution

Share Range	31 December 2022				31 December 2021			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1-1000	25,062	86.94	3,618,645	0.33	25,392	87.11	3,646,250	0.34
1001-10000	2,646	9.18	9,707,506	0.90	2,638	9.05	9,586,205	0.88
10001-100000	922	3.20	27,919,566	2.58	892	3.06	26,399,667	2.44
100001-1000000	162	0.56	47,467,838	4.38	194	0.67	56,205,035	5.19
1000001-10000000	30	0.10	79,146,590	7.30	29	0.09	79,361,387	7.32
10000001- and Above	6	0.02	915,698,193	84.51	6	0.02	908,359,794	83.83
Total	28,828	100.00	1,083,558,338	100.00	29,151	100.00	1,083,558,338	100.00

3.2 Analysis of Shareholders

Resident / Non-Resident

	31 December 2022			31 December 2021		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident shareholders	28,755	221,565,994	20.40	29,080	218,772,129	20.20
Non-resident shareholders	73	861,992,344	79.60	71	864,786,209	79.80

Individuals / Institutions

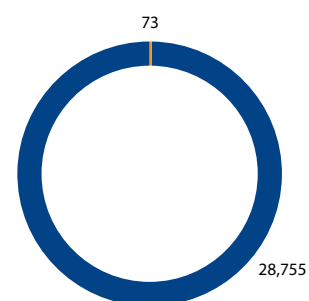
	31 December 2022			31 December 2021		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	28,390	152,565,031	14.10	28,688	156,055,754	14.40
Institutions	438	930,993,307	85.90	463	927,502,584	85.60

4. Share Trading

4.1 Market

	2022	2021	2020	2019	2018
No. of transactions	6,057,233	8,131,508	3,070,021	1,197,205	885,657
No. of shares traded	29,047,818,242	59,771,688,538	21,348,728,655	9,855,016,003	6,000,737,306
Value of shares traded (LKR Mn)	686,602	1,173,157	396,881	171,407	200,069

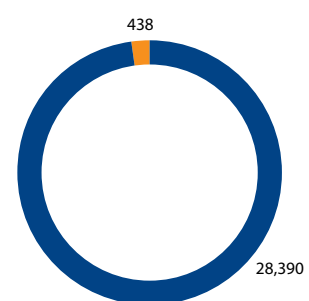
No. of Shareholders



4.2 Bank

	2022	2021	2020	2019	2018
No. of transactions	12,100	25,061	17,337	13,483	10,033
No. of shares traded	85,033,261	203,014,713	115,528,897	89,799,303	33,088,913
Shares traded as a % of total shares in issue	7.85	18.74	10.66	8.29	3.03
Average daily turnover (LKR Mn)	3.15	11.23	6.00	4.60	1.78
Value of shares traded (LKR Mn)	735	2,695	1,254	1,118	428

No. of Shareholders



5. Top 20 shareholders, Market Capitalisation and Minimum Public holding as at 31 December 2022

5.1 Top 20 Shareholders

No.	Shareholder name	31 December 2022		31 December 2021	
		No. of Shares	Ratio (%)	No. of Shares	Ratio (%)
1	Culture Financial Holdings Ltd	767,558,888	70.84	767,558,888	70.84
2	Vista Knowledge Pte Ltd	64,677,973	5.97	64,677,973	5.97
3	Associated Electrical Corporation Ltd	29,238,350	2.70	29,237,387	2.70
4	Mr. D.A.J. Warnakulasuriya	19,862,730	1.83	19,862,730	1.83
5	Mr. C.P.A. Wijeyesekera	18,375,314	1.70	18,375,314	1.70
6	Mr. A.I. Lovell	15,984,938	1.48	17,183,523	1.59
7	Senthilverl Holdings (Pvt) Ltd	9,713,140	0.90	4,836,821	0.36
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	Mr. A. De Zoysa	6,598,943	0.61	6,598,943	0.61
11	Mr. A.I.T. Hettiarachchi	3,848,735	0.36	3,848,735	0.36
12	Andaradeniya Estate (Pvt) Ltd	3,599,273	0.33	-	-
13	Malik Devapriya Samarawickrama	3,370,434	0.31	3,370,434	0.31
14	Ajita De Zoysa and Company Limited	3,110,183	0.29	3,110,183	0.29
15	Mr. W.A.S.P. De Saram	2,983,947	0.28	1,723,299	0.16
16	Commercial Agencies (Ceylon) Ltd.	2,973,748	0.27	2,973,748	0.27
17	Dr. T. Senthilverl	2,641,006	0.24	3,930,718	0.36
18	Mr. D.E.J. Melder	1,848,694	0.17	1,848,694	0.17
19	J.B Cocoshell (Pvt) Ltd	1,741,223	0.16	-	-
20	Ravindra Erle Rambukwelle	1,635,000	0.15	-	-
		974,878,690	89.99	970,554,702	89.59
	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	930,993,307	85.90	927,502,584	85.60
	Balance held by Public	152,565,031	14.10	156,055,754	14.40
	Total No. of shares issued	1,083,558,338	100.00	1,083,558,338	100.00
	Shares held by Public	315,990,150	29.16	315,989,650	29.16
	Shares held by Directors and Related Parties	767,568,188	70.84	767,568,688	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

	31 December 2022
Market Capitalisation (LKR)	7,151,485,030
Public Holding percentage	29.16%
Float adjusted market capitalisation (LKR)	2,085,535,016
No. of shareholders representing public holding	28,823
Required minimum public holding percentage under option 4 of rule 7.13.1 (a) of the Listing Rules of the CSE	10%

The Minimum Public Holding of Union Bank of Colombo PLC as at 31 December 2022 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

6. Dividends

Year	Total Dividend Paid LKR Mn	Dividend per Share LKR	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
2020 final	141	0.13	24

7. Earnings

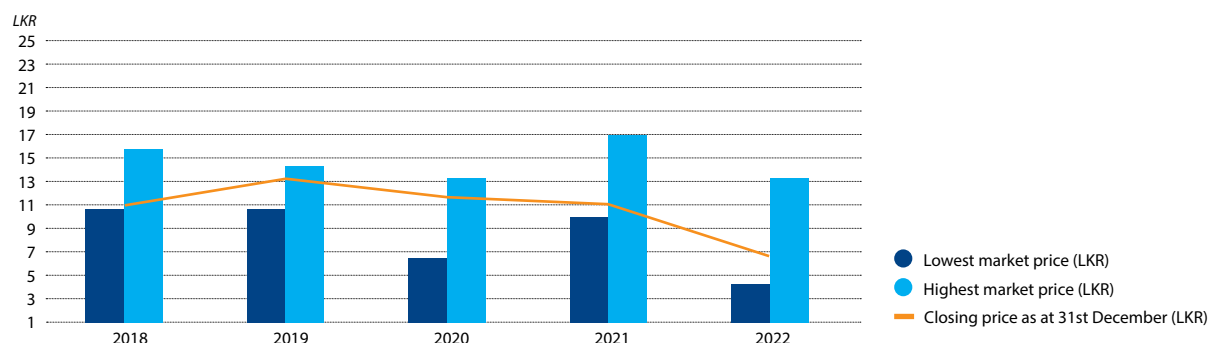
7.1 Value Creation for Shareholders

	2022	2021	Change %
Net asset value per share (LKR)	17.36	16.54	4.96
Group earnings per share - Basic (LKR)	0.40	0.77	(48.13)
Market price per share as at 31 December (LKR) closing	6.60	11.10	(40.54)

7.2 Market Value

	2022	2021	2020	2019	2018
Lowest market price (LKR)	4.30	10.00	6.50	10.70	10.70
Highest market price (LKR)	13.30	17.00	13.30	14.30	15.80
Closing price as at 31 December (LKR)	6.60	11.10	11.70	13.30	11.00

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 2022.

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 71 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 2022 which require disclosure.

11. Credit Ratings

Fitch – BBB- (lka) - (Negative Rating watch)

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

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

Rule No.	Disclosure Requirement	Section Reference	Page/s
7.6 (i)	Names of persons who held the position of Directors during the financial year	Annual Report of the Board of Directors on the Affairs of the Bank	123
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	160
		Annual Report of the Board of Directors on the Affairs of the Bank	121
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'	66
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'	67
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'	68
		Annual Report of the Board of Directors on the Affairs of the Bank	125
7.6(vi)	Information pertaining to material foreseeable risk factors	Item 9 of the 'Investor Relations'	68
7.6(vii)	Details of material issues pertaining to employees and industrial relations	Item 10 of the 'Investor Relations'	68

Rule No.	Disclosure Requirement	Section Reference	Page/s
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 and Equipment' and 'Right of use Assets'	222-226
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'	236
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'	64
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	3
		Statement of Financial Position	156
		Items 6 and 7 of the Investor Relations	67
	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'	68
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 and Equipment' and 'Right of use of Assets'	222-226
7.6(xiii)	Details of funds raised through a public issue, Rights Issue and a private placement during the year	Not applicable as no funds were raised by the Bank through a public issue, Rights Issue or a private placement during the year.	N/A
7.6(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes:	Note 44 to the Financial Statements.	238-239
	The number of options granted to each category of Employees during the financial year.	Note 44 to the Financial Statements.	238-239
	Total number of options vested but not exercised by each category of Employees during the financial year.	No options were vested and exercised during the Financial Year.	238-239
	Total number of options exercised by each category of Employees and total number of shares arising there-from during the financial year.	No options were exercised by employees during the Financial Year.	238-239
	Options cancelled during the financial year and the reasons for such cancellation.	No cancellations were reported during the Financial Year.	238-239
	The exercise price.	Note 44 to the Financial Statements.	238-239
	A declaration by the Directors of the Bank confirming that the Bank or any of its subsidiaries has not, directly or indirectly provided funds for the ESOP.	Annual Report of the Board of Directors on Affairs of the Bank.	126

Rule No.	Disclosure Requirement	Section Reference	Page/s
7.6(xv)	Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Annual Report of the Board of Directors on Affairs of the Bank Corporate Governance Report Profiles of the Board of Directors Report of the Board Audit Committee Report of the Human Resources and Remuneration Committee Notes to the Financial Statements.	121-127 87-94 137-139 113-115 119 160
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 2022.	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

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 established risk appetite.

The Bank has a robust Risk Governance Framework, authorised by the Board of Directors, followed by the Management and other personnel, applied in strategy setting and across the Bank. It is designed to identify potential events that may affect the entity, to manage risk within its Risk Appetite to provide reasonable assurance regarding the achievement of the objectives of the entity.

The Risk Management system which is consciously integrated across all business activities is devised to fulfil shareholder expectations. The Board manages the concerns over Credit Risk, Operational Risk,

Market Risk and the Liquidity of the bank through the Integrated Risk Management Committee (IRMC), which in turn guides the strategic risk direction process by striking a balance between the probable returns and the risk appetite.

The Risk Management Department (RMD) is the control function set up to manage the risk management process as derived from the overall governance directive on a day -to-day basis. The risk management process, for which the RMD is responsible, is integrated into the Bank's internal control system.

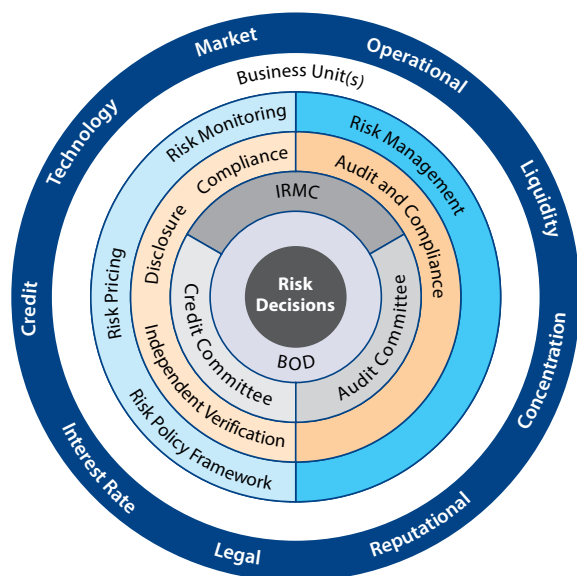
Considering prolonged COVID-19 pandemic coupled with the macro economic challenges, Risk Management becomes especially important to retain customer trust and ensure the stability of the financial system. Assessing the short, medium and long-term impact on different areas and defining a strategic response focusing on changes to risk management methodologies, processes and systems is key to support operational resilience of the Bank. Given the prevailing

situation, the strategic direction of the Risk Management would be towards managing the pressure on possible deteriorations in credit quality by evaluating and supporting the credit restructuring while managing cash flow which can be achieved through widening close monitoring scope and supporting the Bank wide recovery efforts. In the meantime, Risk Management would support in re-forecasting the liquidity management of the Bank 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. Furthermore, since the beginning of the pandemic, the Bank's Business Continuity was ensured towards providing uninterrupted services, as banking was declared an essential service by the Government of Sri Lanka.

The IRMC reviews policies, procedures, processes 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 116-117 (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 for internal control, compliance with legal and regulatory requirements of CBSL and CSE, with external financial reporting and internal audit functions.	Please refer Pages 113-115 (Board Audit Committee Report)
Executive Credit Committee (ECC)	Review, and approve credit proposals under ECC's 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, and 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, systems and external events in accordance with the IRMC guidelines.	Risk Management, Operations, Compliance, Internal Audit, Information Technology and Retail Banking
Asset Liability Committee (ALCO)	Optimize financial resources and manage the connected risks in the areas of Asset and Liability Management	Risk Management, Wholesale Banking, Retail Banking, Finance and Treasury.
IT Steering Committee	To monitor and review the IT infrastructure to support the optimisation of overall business strategy and mitigate technological risks.	Risk Management, Wholesale Banking, Retail Banking, Operations, Finance, Compliance and Information Technology.



Three Lines of Defence

Three Lines of Defence Principle

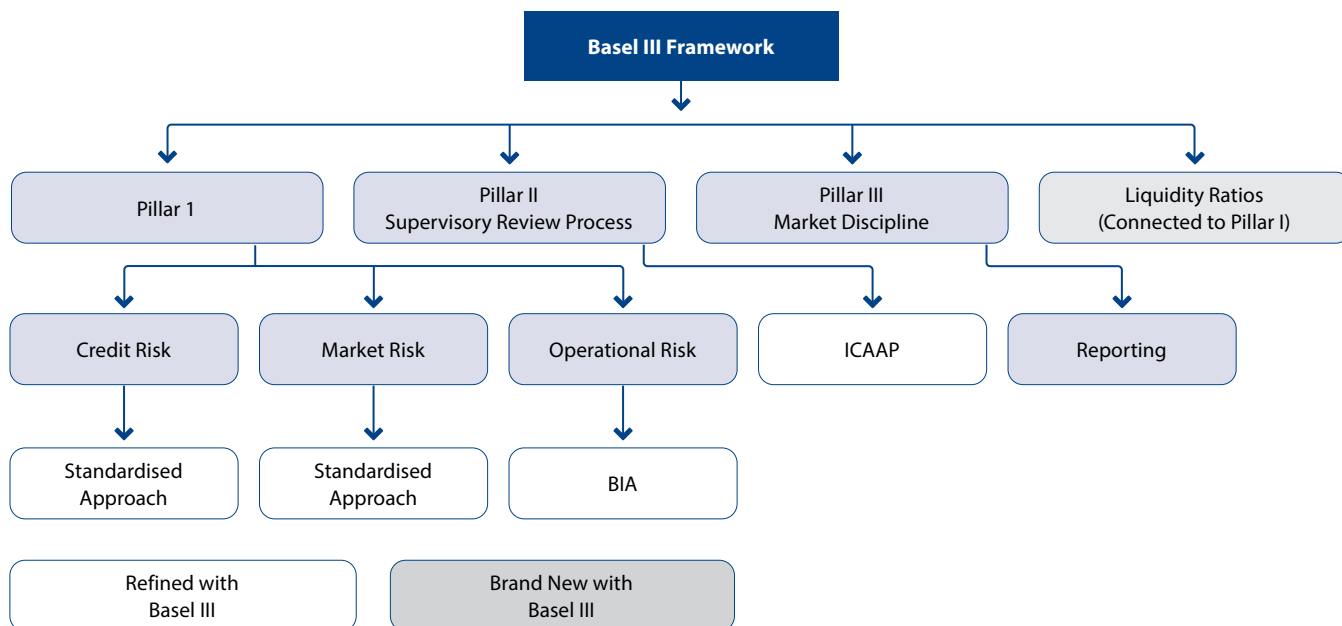
The Bank follows both the industry and international best practices in its risk management function. As identified by the BASEL committee and practiced worldwide, the “three lines of defence” principle is in force within the Bank. The front line or the business line management act as the first line of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

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 risks 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 and Implementation



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 standardize approach for operational risk.

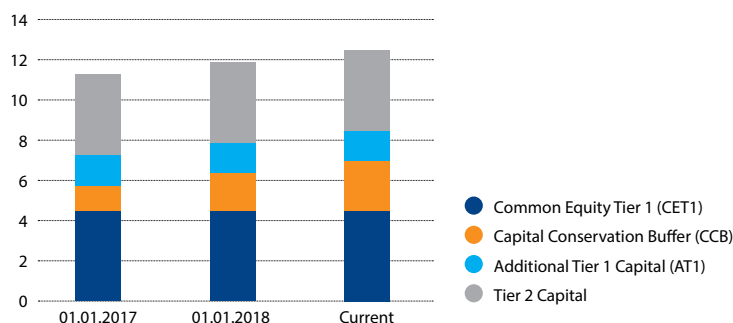
Bank's Approach	Credit Risk	Market Risk	Operational Risk
Pillar I – The minimum capital requirements	For regulatory capital computation purposes, the Bank / Group use Standardised Approach under credit risk.	The Bank / Group have adopted the Standardised Approach for calculation of the Market Risk capital charge	Capital Charge for Operational Risk is computed using the Basic Indicator Approach (BIA) for the Bank and Group.
Pillar II – The supervisory review	Banks must conduct a comprehensive assessment of its risks periodically and retain adequate capital funds to endure any unexpected losses which are not assessed under Pillar I. As per the Banking Act direction no. 1 of 2016, the Bank must assess additional capital requirements for the risks such as interest rate, liquidity risk, concentration risk, reputational risk etc. A comprehensive Internal Capital Adequacy Assessment Process (ICAAP) for the assessment and documentation of additional capital requirements under Pillar II.		
Pillar III – Market Discipline	Pillar III prepares the Bank to promote the availability of material information and true and fair status of the Bank's affairs. The Bank's disclosures are mainly met through the annual reports and with periodic financial statements published.		

Basel III and Future

As directed by the regulator the Bank conforms 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.

Under the new guidelines banks are to maintain the capital requirements on a staggered basis.

Minimum capital adequacy ratios as a percentage of RWA

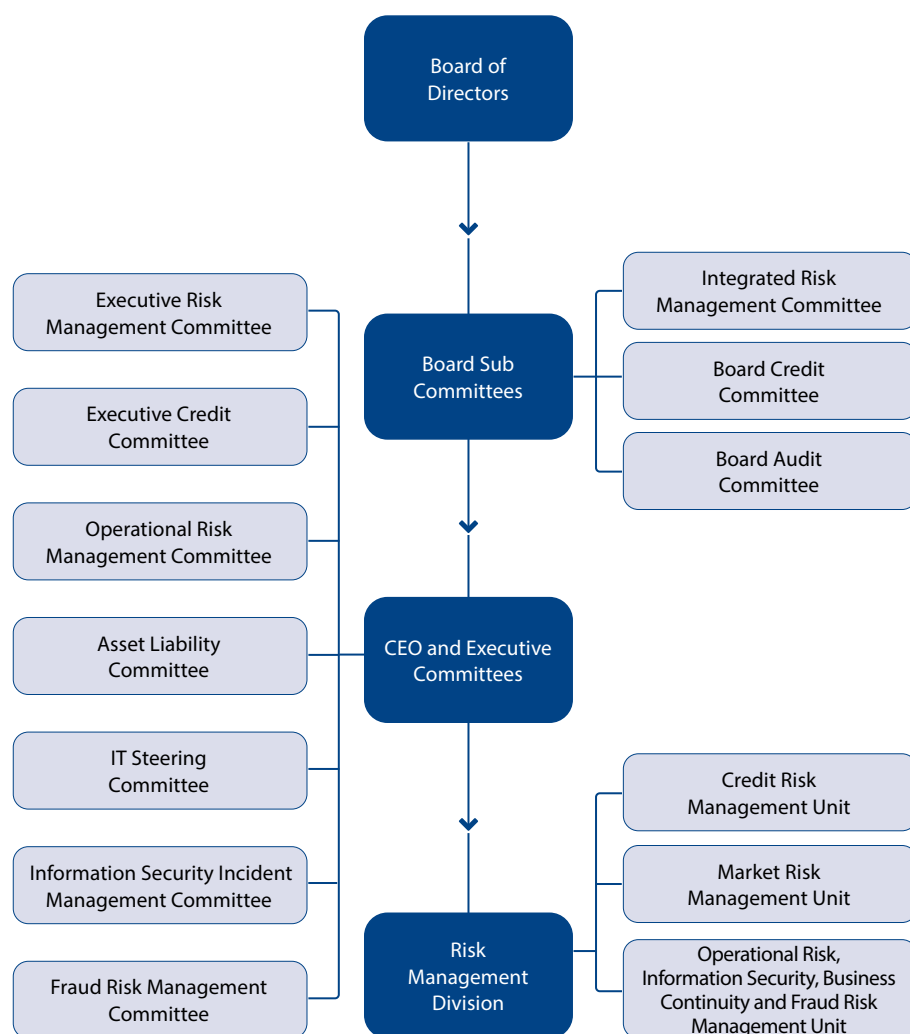


Commencing from January 2017, the Bank is required, and is comfortably in a position to meet the new capital requirement as required by the regulator.

Capital Adequacy Position

As at 31 December	2022 (LKR '000)	2021 (LKR '000)
1. Capital Adequacy Ratios		
1.1 Core Capital Ratio		
Eligible Core Capital (Eligible Tier 1)	14,270,811	13,292,787
Total risk-weighted Amount	83,227,285	85,681,052
Core Capital (Tier 1) Ratio,%	17.15	15.51
1.2 Total Capital Ratio		
Capital Base	15,196,547	14,115,858
Total risk-weighted Amount	83,227,285	85,681,052
Total Capital Ratio,%	18.26	16.47
2. Computation of Risk Weighted Assets - RWA		
Credit Risk		
RWA of On balance sheet assets	68,614,199	64,063,977
RWA of Off balance sheet assets	5,444,662	6,170,740
Total RWA for Credit Risk	74,058,861	70,234,717
Market Risk		
Capital Charge for Interest Rate Risk	75,928	514,293
Capital Charge for Equity	-	431,500
Capital Charge for Foreign Exchange and Gold	100,680	44,728
Total Capital Charge for Market Risk	176,608	990,520
Total RWA for Market Risk	1,412,867	8,254,337
Operational Risk		
Gross Income		
Year 1	5,516,337	5,887,527
Year 2	5,872,686	5,516,337
Year 3	7,999,869	5,856,931
Average Gross Income	6,462,964	5,753,598
Total Capital Charge for Operational Risk (Average Gross Income x15%)	969,445	863,040
Total RWA for Operational Risk	7,755,557	7,191,998
Total Risk Weighted Assets	83,227,285	85,681,052

Risk Governance Structure



Credit Risk Management

Disclosure 2-23/2-24

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 loan portfolio by accommodating exposures within the Bank's risk appetite and improving / maintaining the non-performing loans 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 operates on a 'Centralised credit processing mechanism' as opposed to branch based credit processing and has successfully set up the Retail and SME Asset Centres. Retail assets refer to loans against property, housing loans, personal loans, and credit cards.

The political uncertainty that prevailed, largely impacted normalcy, with public and businesses facing heightened challenges brought-forth by gas and fuel shortages, rapidly rising inflation, FX reserves depletion, depreciation of the LKR and import restrictions. With most COVID-19 related customer relief measures concluding in December 2021, the Banking sector faced continued asset quality pressure.

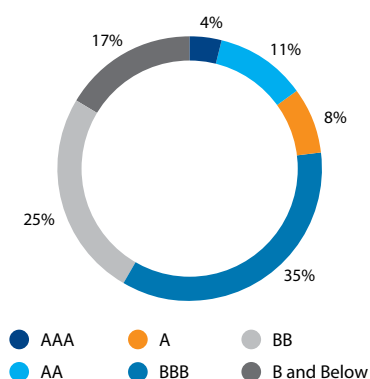
As the country is making efforts to revive the economic activities which went in to a slower phase, the spillover effects fall on the banking sector by way of softened growth, lingering impairments and deceleration in earnings from the original projections may continue to be the new normal challenges to entire banking sector.

Considering the current macroeconomic challenges in the country, the CBSL issued directives to the industry with regards to deferment and / or restructuring of existing credit facilities in the performing category as well as concessions for credit facilities in the non-performing category. The Bank deferred the recovery of capital, interest, or both of the existing credit facilities of borrowers who are affected on case-by-case basis, considering the financial difficulties faced by the eligible borrowers, in line with the above stated directives.

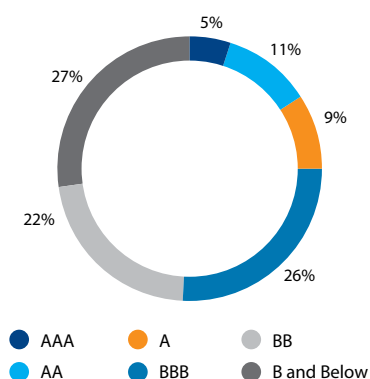
Further considering the weak macro environment and rising NPLs in the industry, the Bank has initiated a segmentation analysis which classifies potential customers in to different categories. This is applied to assist in creating a risk averse customer base and improving the position of the loan portfolio. 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 proposal and rates the borrower against specified parameters, and is submitted for approval online. The ratings lie on a scale between AAA (lowest credit risk) and D (very high vulnerability to default).

Corporate and SME Rating - Dec 2021



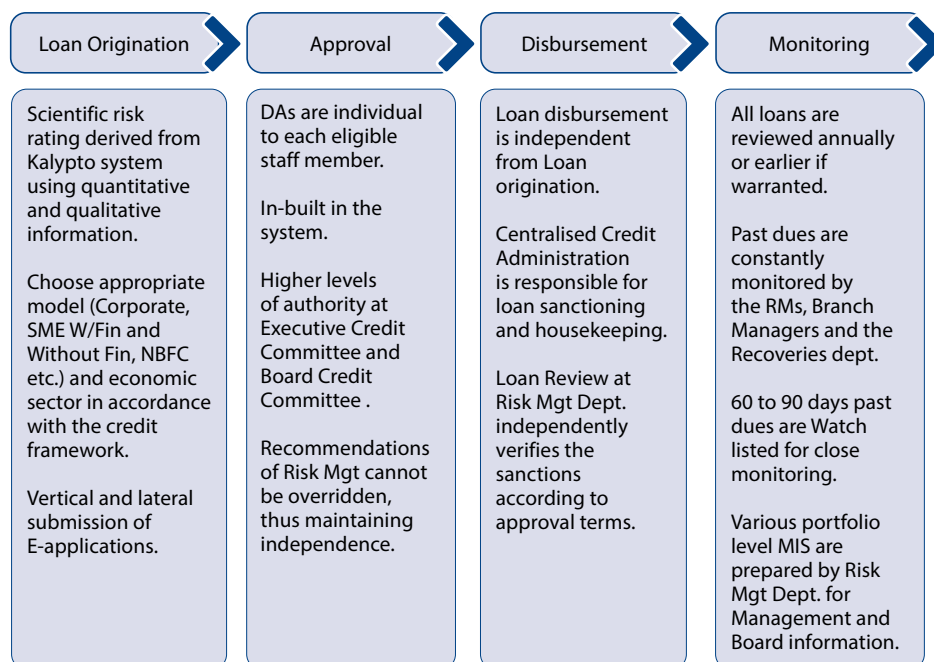
Corporate and SME Rating - Dec 2022



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 Procedure 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 and the macro-economic challenges, portfolio monitoring was further enhanced with the widening of the scope to identify watch listed 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 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 groups. The economic sector concentration risk is monitored against Board approved limits as well as stress tests using the HHI (Herfindhal-Hirshman Index) method.

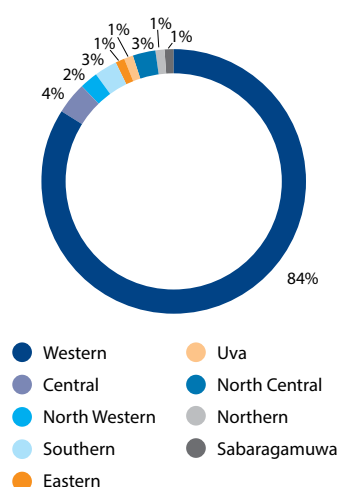
To manage the credit concentration of the book, the Bank has devised the credit model to define various limits on the maximum exposure for different industry segments. Depending on the performance of the specific industries and micro-economic conditions that affects the performance of such industries,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

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

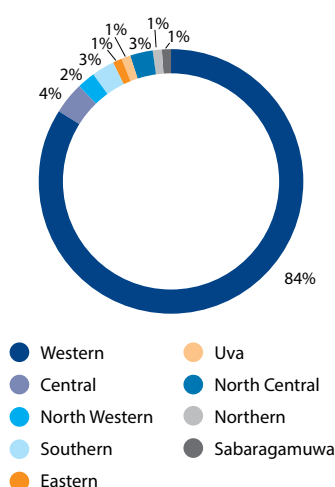
The challenging macro-economic outlook that resulted in the banking sector facing multiple headwinds with the impact of the sharp rupee depreciation, rising interest rates, an upward revision of taxes, higher impairments, supply constraints and demand side policies undertaken to dissuade imports, which led to impeding credit growth. 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 earnings 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.

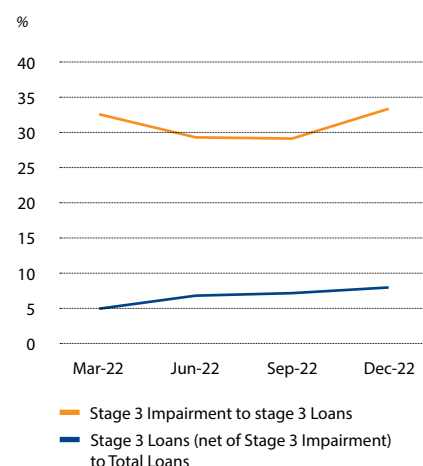
Geographical distribution as at 31.12.2021



Geographical distribution as at 31.12.2022

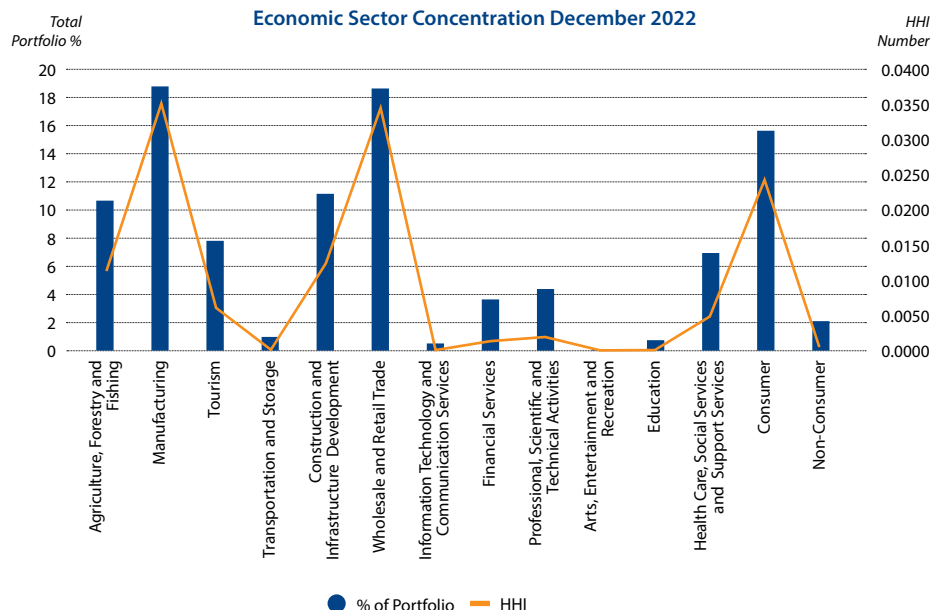


NPCF movement



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.

Economic Sector Concentration December 2022



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.

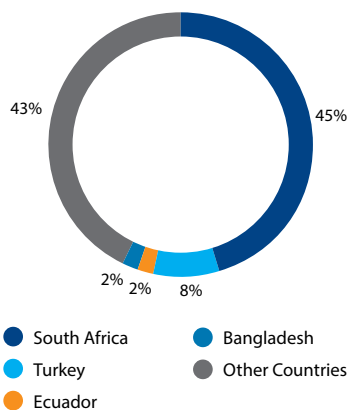
Managing Delinquent Loans

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. Further Business lines have been advised on the identified risk elevated industries and are generally discouraged to lend new money in these areas, while managing the existing exposures with close monitoring.

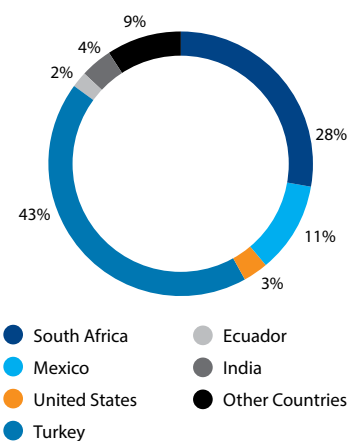
Managing Cross Border Exposures

Bank is also exposed to cross border risks, where the Bank does not possess the capacity to receive or recover the dues overseas. Convertibility, transferability, government specific rules and regulation affects the cross border exposure risk.

Country Wise Exposure - Dec 2021



Country Wise Exposure - Dec 2022



Operational Risk

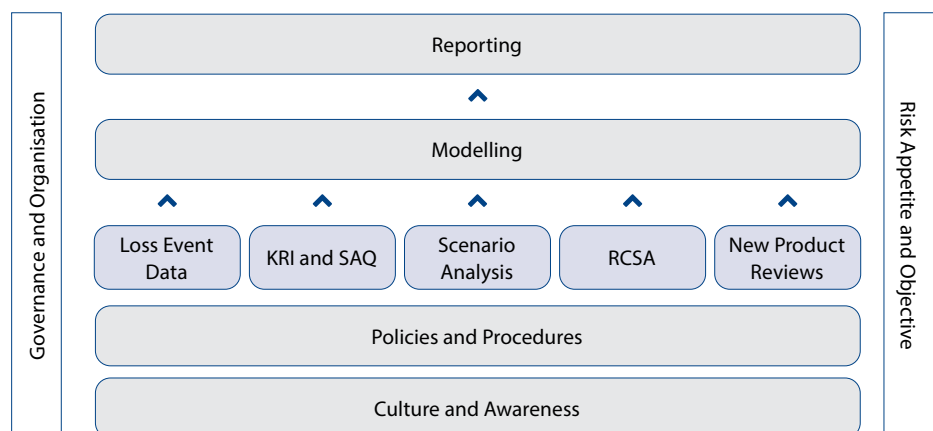
Operational Risk Management Framework:

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 also includes legal risks but excludes strategic and reputational risks. Operational Risk emerges from inadequate control over operational activities or due to the failure of systems and procedures of the Bank. Hence managing Operational Risk is a fundamental part of the Bank's Business-As-Usual activities and the execution of sound practices is mandatory with regards to the risk profile.

The governance of the Bank's operational risks follows the three lines of defence approach, to protect the Bank, its customers and shareholders against the risk of losses and resulting reputational damages. This ensures transparency and accountability in risk management through a clear segregation of duties. The three lines of defence approach and its underlying principles, i.e. firstly, the full accountability of the first line of defence to manage and report its own risks, secondly, 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 thirdly, the independent third line of defence to Audit and Compliance for 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 limit breaches are escalated to IRMC. In case a residual risk is assessed to be not within our risk appetite, further risk reducing actions must be undertaken including further remediating risks, such as insuring risks or ceasing a 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 of Operational Risk Management Framework (ORMF). The ORMF is a set of interrelated tools, guidelines 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.

The ORMF also spells out:

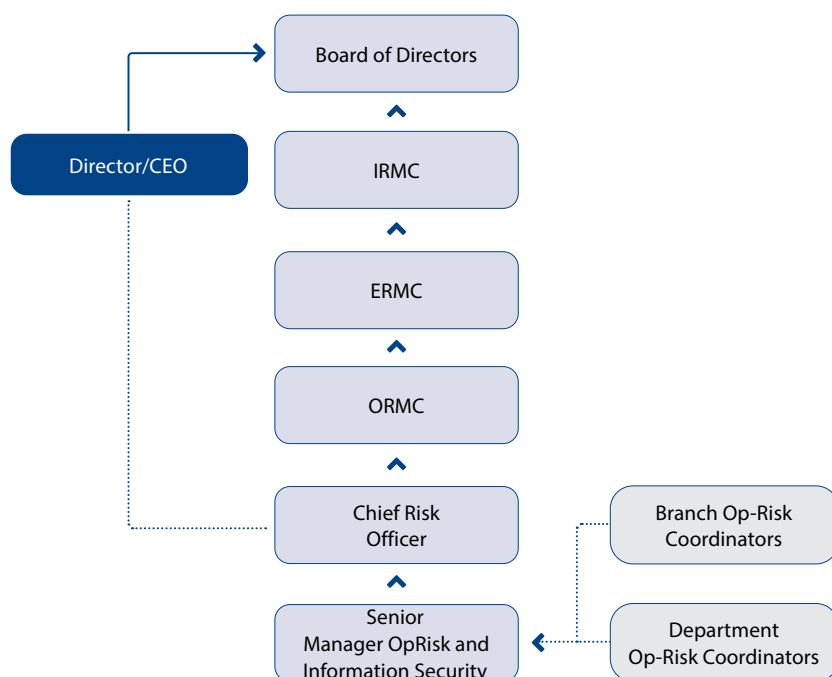
1. the three lines of defences,
2. the roles and responsibilities for the Operational Risk management process stakeholders,
3. the Bank's approach to setting Operational Risk appetite and adhering to it,
4. independent governance, and
5. the Bank's Operational Risk capital model.



Operational Risk Governance Structure

Management of Operational Risk is the primary responsibility of business and support functions and who acts as risk owners. They identify and report risks 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 overseen by the Board Integrated Risk Management Committee (IRMC).

The Operational Risk Management Committee (ORMC) is the main interaction point between all operational functions of the bank, which is chaired by the Chief Risk Officer and responsible for the oversight, governance coordination and strengthening of the management of Operational Risk at functional level while the Executive Risk Management Committee (ERMC) is chaired by Director/ Chief Executive Officer (D/CEO) whilst 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, management, and mitigation of all Operational Risk issues which may impact the risk profile of the 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 and assures that the Bank's risk parameters are maintained within the approved risk appetite. This will enable the Bank 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 of Operational Risk, the Bank's ORMF contains a number of management techniques that apply to all Operational Risk types.

Furthermore, 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 the 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 methods given below.

Methods of Operational Risk Management

a. Loss Event Data

Loss event data are historic and retrospective 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 gain, a potential loss or a near miss using one of the industry's best web-based solution for operational risk management (ORM) within 3 working days. Once an event is entered, it is reviewed independently, and submitted to the 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 a snapshot of Operational Risk information at Branch, Management and Business Unit level and as a Birds-Eye view for the Bank which are useful in determining the trends and potential areas to avoid or mitigate by improving/ implementing control/s. The Bank understands the importance of managing major operational failures caused by human or IT systems and the financial losses due to such failures, which are incurred by the Bank, are well managed. The losses incurred during the year should be at acceptable levels; in comparison to the three year average gross income of the Bank while there are no border events.

b. Key Risk Indicators (KRI) and Self-Assessment Questions (SAQs)

Detailed KRI and SAQ programmes are scheduled monthly, quarterly and semi-annually to record the changing environment. Answers to KRIs will be quantitative, 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 would be 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 on the Bank when they happen would be identified and analysed by the Operational Risk Management Department (ORMD).

d. Risk and Control Self-Assessment (RCSA)

In a RCSA programme, branches and departments take the ownership of its own risks and controls and assess the risks that may exist in their areas. RCSA programmes are done on an annual basis to assess the risk areas of the Bank and apply controls where necessary. Information, gathered will also be used for capital computation purposes 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 from 2018 to 2021 and such results have been independently validated by Internal Audit department to minimize subjectivity and subsequently approved by the respective Risk Management Committee/s as per the Risk Sanctioning Policy stipulated in the ORMF. Furthermore, the RCSA rollout has been rolled up for 2022 during the 4th quarter as well.

e. Ad-hoc Incident Reporting

Disclosure 2-26

The Bank encourages staff to report any operational lapses or potential or actual frauds directly to designated senior management officials as described in the Bank's Whistle-blower policy, if the staff member is fearful to route the concerns through the line

management. The Bank views this method as a useful mode of communication to reduce potential losses to a greater extent and proved to be 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 Bank's operational processes using the new product policy. Subsequently, 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 risks due to internal and external factors, enabling weaknesses in the controls to be identified.

i. Training and Awareness Creation

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

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

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 and Technology Risk Management

With the rise of the COVID-19 pandemic, fraudulent activity and sophisticated phishing email schemes engineered by cyber-criminals have significantly increased. Union Bank continuously improved its processes to achieve greater information security performance and has also improved its cyber security defence systems to safeguard corporate information from emerging cyber threats while referring to various international standards where applicable.

For instance, ISO/IEC 27000:2017 series of Information Security Management System standard has been used for enhancing the 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 of Security Policies and Procedures have been approved by Board of Directors.

The Privilege Access reviews have been performed by Bank for critical and non-critical information systems since it is crucial to monitor and review privileged user activities in applications, databases and operating systems. Furthermore, the activities performed in applications, databases and operating systems by users are monitored in real time and verified/ investigated, based on the criticality by stakeholder at all three levels of defence. Further, the Bank has improved the detection and incident management process to enhance the incident management and response functions to safeguard the corporate systems and information.

The Bank has established measures to conduct Vulnerability Assessment and Penetration Testing (VAPT) assessments by third party cyber security services providers to identify new threat vectors and also to establish counter measures to protect the Bank's systems and its corporate information.

The Bank strives to increase information security awareness among employees by various means, such as organising e-learning courses, conferences and training programmes. The mandatory Information Security Awareness training and quiz is conducted for all staff members via the Learning Management System (LMS) on annual basis and new employees are mandated to participate in the Information Security Awareness training at their induction programme at the time of the staff on-boarding process. Furthermore, InfoSec e-Flyers are shared amongst all staff to further enhance the Information Security measures and to mitigate any information security or cyber security incidents on Bank's assets during the current pandemic situation.

Furthermore, Bank-wide Risk Assessments are conducted to identify risks and remediation methods/ mechanisms via Risk treatment plan to reduce the impact of the identified risks to the Bank's operations.

At Union Bank, the responsibility for Information Security is managed by the Information Security Officer who is attached to Risk Management Department who acts as the second line of defence. Further, IT Security responsibilities relies with the IT Security team, who are attached to the IT Department. Internal and external audits are also regularly followed up by the 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 departments 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.

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. Department and branch level BCP Coordinators act as the focal point in reviewing and ensuring the current

status of their respective entity's BCP, while periodically being trained on BCM aspects towards augmenting awareness.

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. The Bank has an enhanced, fully functional Business Recovery facility accommodating infrastructure requirements in keeping with the Bank's growing business needs and assuring preparedness towards unprecedented contingency events. Moreover, in adherence to CBSL guidelines on BCP and with the introduction of the direction on Technology Risk Management and Resilience, the Bank successfully conducted a BCP drill from DR servers for over 7 consecutive working days, under a fully revamped primary and DR data centre towards keeping with rapidly evolving technological changes.

During the COVID-19 pandemic, Business Continuity was ensured through the facilitating of a split working arrangement, where in addition to the primary business location, critical business operations were handled from other alternate sites, including the Business Recovery facility as well as working from home (WFH). However, split working arrangement continued to a lesser extent during the past few months with the favourable outlook on COVID-19 Pandemic. This was in line with guidance from the Business Continuity Steering Committee (BCSC), and staff safety was assured at all times by the Human Resources Department via close monitoring of staff, through efficient contact tracing whenever a staff was exposed to a COVID positive person. While contributing towards ensuring business resilience, the BCM function also helps the Bank to operate within its risk appetite.

Fraud Risk

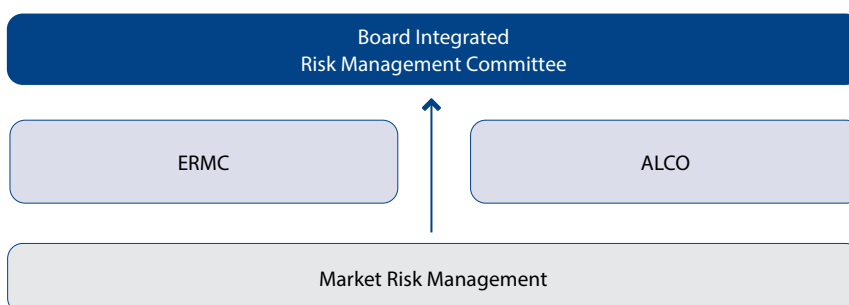
The Bank accepts a zero tolerance towards bribery, corruption and fraud. All staff from business to support/ service functions are dedicated to act ethically, professionally and with integrity in core business activities and relationships with all stakeholders. On-site and off-site monitoring is performed by the Operational Risk and Internal Audit departments.

The shift from Working From Office to Working From Home, due to the pandemic increased the landscape for Fraud Risk in the Bank. Due to this, the Bank had implemented detective and preventive controls.

The Bank has a robust Fraud Risk Policy which is governed by a senior management level, Fraud Risk Management Committee (FRMC). The FRMC meets monthly to oversee the fraud (both internal and external) environments of the Bank. The Fraud Risk policy includes current processes covering the area of fraud risk of the Bank. The current "Whistle Blowing Policy" also acts as the fraud detection mechanism.

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, Liquidity Risk and Equity Price Risk. Within the overall Risk Management Framework, both treasury front office and back office functions are monitored by the Treasury Middle office (TMO). TMO operates independent from the business functions. In the Bank, market risk management is governed by the integrated risk management Policy, Market Risk Management Policy and Asset and 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.

Foreign Exchange Rate Risk Parameters

- » Open position limits on the aggregate of all currencies both Intra-day and overnight
- » Open position limits for individual currencies both intra-day and overnight
- » Counterparty limits, Settlement limits
- » Management action trigger limits
- » Dealer related limits
- » Forward foreign exchange mismatch limits
- » Country limits
- » Maturity mismatch Limits
- » Currency Tolerance Limits

The Bank has been prudent in managing the FX risk throughout. Bank has been able to manage its Net Open Positions (NOP) within the limit allowed by CBSL and no major losses were incurred during the recent volatile exchange rate period.

Stress test on Net Open Position

NOP as at 31.12.2022 in USD	2,079,906					
Spot Rate	365.7					
LKR Eqv	760,642,585					
Scenarios	Upward Movement			Downward Movement		
Shock Levels	5%	10%	15%	-5%	-10%	-15%
Stressed Fx Spot Rate	384.00	402.28	420.57	347.42	329.14	310.85
Gain/Loss after stressed in LKR'000	38,032	76,064	114,096	(38,032)	(76,064)	(114,096)

Foreign Exchange Position as at 31.12.2022

CURRENCY	On Balance Sheet		Off Balance sheet		Net Position in original currency	FX Rate	Net Position in LCY
	+	-	+	-			
AED	118,371.15	-	-	-	118,371.15	99.57	11,786,677
AUD	-	(7,122.01)	29,000.00	-	21,877.99	247.86	5,422,679
BHD	350.5	-	-	-	350.50	970.05	340,004
CAD	773.52	-	-	-	773.52	269.90	208,771
CHF	13,480.00	-	-	-	13,480.00	396.33	5,342,477
CNY	6,592.82	-	-	-	6,592.82	52.68	347,332
EUR	-	(111,840.19)	-	-	(111,840.19)	389.90	(43,606,679)
GBP	-	(2,711.45)	-	-	(2,711.45)	440.35	(1,193,991)
HKD	17,220.00	-	-	-	17,220.00	46.90	807,639
JOD	98	-	-	-	98.00	515.81	50,549
JPY	12,035,196.40	-	-	-	12,035,196.40	2.76	33,261,673
KWD	169.25	-	-	-	169.25	1,193.77	202,045
MYR	8,463.00	-	-	-	8,463.00	82.96	702,054
NOK	30,500.00	-	-	-	30,500.00	37.04	1,129,775
NZD	4,335.16	-	-	-	4,335.16	231.33	1,002,852
OMR	3,752.00	-	-	-	3,752.00	950.51	3,566,326
SAR	10,824.00	-	-	-	10,824.00	97.26	1,052,792
SEK	10,790.00	-	-	-	10,790.00	34.99	377,504
SGD	23,990.41	-	-	-	23,990.41	272.29	6,532,301
THB	33,030.00	-	-	-	33,030.00	10.58	349,292
USD	-	(1,976,168.40)	4,500,000.00	(519,618.50)	2,004,213.10	365.71	732,960,838

Managing Liquidity

Liquidity Risk is mainly managed through Stock and Floor approaches under the supervision of ALCO. Under stock approach liquidity is measured in terms of key ratios which portrays the liquidity stored in the balance sheet whereas under the floor approach the Bank analyses 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 limits are 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.

Liquidity Risk Parameters

- » Maturity of Assets and Liabilities report (MAL)
- » Statutory Liquid Asset ratio
- » Net loans to total assets ratio
- » Loans to customer deposits ratio
- » Liquid assets to short term liabilities ratio
- » Large Liabilities (minus) temporary investments to earning assets(minus) temporary investments ratio
- » Purchased Funds to total Assets ratio
- » Commitments to total Loans ratio

- » Liquidity coverage ratio
- » Net stable Funding ratio

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

Maturities of Assets and Liabilities (MAL)										LKR 000
UBCs position (Before Stress)										December-22
Particulars	Less than 7 Days	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	26,591,470	12,572,055	23,271,677	17,746,820	21,931,643	16,335,065	5,733,703	11,379,787	3,169,946	138,732,164
Cash	3,218,293	-	-	-	-	-	-	-	-	3,218,293
Due from Banks	2,654,615	142,396	183,929	147,143	220,714	478,178	478,178	478,178	-	4,783,330
Investments- Current	5,320,538	3,626,103	6,844,807	9,771,312	9,735,735	6,653,382	2,398,438	3,271,352	-	47,621,667
Loans and Advances - Current	14,150,619	6,258,963	12,003,889	5,756,696	8,360,001	9,132,944	2,767,635	1,902,091	-	60,332,837
Bills of Exchange	10,606,608	-	1,155,907	-	-	-	-	-	-	11,762,515
Overdrafts	211,731	695,686	1,814,833	2,722,250	5,444,499	-	-	-	-	10,888,998
Loans and Advances	3,332,280	5,563,277	9,033,148	3,034,446	2,915,502	9,132,944	2,767,635	1,902,091	-	37,681,324
Loans and Advances - Non-performing	-	-	-	-	1,848,452	-	-	5,545,355	-	7,393,807
Fixed Assets	-	-	-	-	-	-	-	-	3,169,946	3,169,946
Other Assets	1,247,405	2,544,593	4,239,053	2,071,669	1,766,740	70,561	89,452	182,810	-	12,212,284
Total Liabilities	9,784,470	9,562,432	10,545,505	8,653,763	6,937,574	25,310,059	24,437,667	43,500,694	-	138,732,164
Total Capital Fund	-	-	-	-	-	-	-	18,812,831	-	18,812,831
Total Deposits	631,286	3,310,172	5,519,182	5,644,973	5,242,500	25,073,878	24,372,625	24,095,312	-	93,889,929
Demand deposits	157,224	516,592	673,815	539,052	808,579	1,751,788	1,751,788	1,751,788	-	7,950,624
Savings deposits	172,224	565,878	738,102	738,102	1,476,205	3,363,446	3,363,446	3,363,446	-	13,780,849
Time Deposits	301,839	2,227,701	4,107,265	4,367,818	2,957,717	19,958,645	19,257,391	18,980,079	-	72,158,455
Borrowings	8,433,559	4,234,305	52,196	121,374	75,166	229,513	65,037	592,550	-	13,803,699
Other Liabilities	719,625	2,017,955	4,974,127	2,887,417	1,619,909	6,667	5	-	-	12,225,706
Absolute Gap	16,806,999	3,009,622	12,726,171	9,093,056	14,994,068	-8,974,993	-18,703,963	-13,308,075	3,169,945	18,812,831
Cumulative Gap	16,806,999	19,816,622	32,542,793	41,635,850	56,629,918	47,654,924	28,950,961	15,642,885	18,812,831	

Managing Interest Rate Risk (IRR)

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 to interest rates also affect the economic value of the bank's assets, liabilities and off-balance sheet items. An effective risk management process that maintains interest rate risk within prudent levels is essential not only to safety and soundness but also to the Bank's profitability. The Bank currently measures the interest rate risk from both Earnings perspective and Economic Value of Equity perspective

The Bank's trading portfolio mainly comprises of T-bills, T bonds and Unit trust, which 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 and Liabilities (SAL)

Sensitivity of Assets and Liabilities (SAL)										LKR 000
Item										December-22
	Non Sensitive	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 9 Months	9 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Inflows										
Cash on Hand	3,218,293	-	-	-	-	-	-	-	-	3,218,293
Nostros	2,593,741	-	-	-	-	-	-	-	-	2,593,741
Deposits with CBSL	2,170,248	-	-	-	-	-	-	-	-	2,170,248
Deposits with Other Banks	19,341	-	-	-	-	-	-	-	-	19,341
Investments	3,128,812	7,295,156	7,341,382	9,928,068	4,995,458	4,995,458	7,479,447	2,398,438	439,232	48,001,450
Bills of Exchange	-	7,103,815	4,389,388	269,311	-	-	-	-	-	11,762,515
Overdrafts	-	11,436,331	-	-	-	-	-	-	-	11,436,331
Loans and Advances	-	9,251,097	4,853,387	2,301,640	1,003,924	1,003,924	10,643,106	7,256,345	8,098,564	44,411,986
NPL	7,393,807	-	-	-	-	-	-	-	-	7,393,807
Other Assets	2,963,076	-	-	-	-	-	-	-	-	2,963,076
Fixed Assets	3,169,946	-	-	-	-	-	-	-	-	3,169,946
Total (a)	24,657,264	35,086,399	16,584,157	12,499,020	5,999,382	5,999,382	18,122,553	9,654,783	8,537,796	137,140,735
Outflows										
Demand deposits	7,950,624	-	-	-	-	-	-	-	-	7,950,624
Savings deposits	-	13,780,849	-	-	-	-	-	-	-	13,780,849
Time Deposits	-	11,740,590	19,136,331	20,028,988	7,781,426	7,687,876	2,839,085	1,287,600	-	70,501,896
Certificates of Deposits	-	540,099	56,166	681,389	124,507	218,057	9,041	27,299	-	1,656,559
Nostros	59,391	-	-	-	-	-	-	-	-	59,391
Borrowings	-	12,615,617	104,442	121,374	38,255	36,911	229,513	65,037	592,550	13,803,699
Other liabilities	2,976,498	-	-	-	-	-	-	-	-	2,976,498
Shareholders Funds	18,812,831	-	-	-	-	-	-	-	-	18,812,831
Total (b)	29,799,345	38,677,156	19,296,939	20,831,751	7,944,188	7,942,844	3,077,639	1,379,936	592,550	129,542,348
Gap(a-b)		-3,590,756	-2,712,782	-8,332,731	-1,944,807	-1,943,463	15,044,913	8,274,847	7,945,246	7,598,387

Legal Risk

As per the definition of Basel, legal risk is covered under operational risk management. Legal risk relates to 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 in to 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-fulfilment of required precise contractual documentation and non-adherence to the same. Bank takes adequate measures and process enhancements to ensure the compliance of such legal requirement under its overall risk governance structure.

Strategic Risk

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



Drivers of Strategic Risk

Compliance Risk

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

Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested. This risk exposes the institution to fines, penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminish reputation, limit 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.

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 in.

Stress Testing

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, and 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 and macro-economic challenges with the instability emanating within the country and external factors such as disruptions to supply chains, customers will be severely affected in the immediate to medium term. Considering the above, the bank assumed the stress testing scenarios of Non Performing Credit Facilities 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.



Drivers of Reputation Risk

“We believe that good governance is a vital element that improves the quality of leadership and decision-making within our organisation.”

Chairman’s Statement

Dear Shareholders,

The year under review posed serious challenges to all the business sectors as a result of the acute economic crisis that prevailed in the Country. The political uncertainty coupled with the economic crisis created social unrest which significantly affected the people and the operating environment of the Bank. I am pleased to note that the Bank’s governance framework, premised on the principles of competent leadership, effective internal controls, a strong risk culture and accountability has been tested and has been shown to be robust and capable of withstanding a multitude of factors in a particularly difficult year.

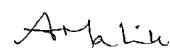
The Board and its Committees have had to adapt to rapidly changing circumstances and new challenges during the year. The Board’s role throughout the prevailing economic crisis has been to ensure there was a clear focus on our long-term strategic objectives and to support the Leadership Team as they made quick decisions to respond to the changing environment on behalf of all stakeholders.

At all levels, the Bank subscribes to the highest standards of corporate governance, integrity and ethics. It is a commitment that is intrinsic in every step the Bank takes in fulfilling its mandate. This is enabled by our robust internal governance structure which defines roles and responsibilities and 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 practices.

The Board believes that a positive culture is fundamental for smooth navigation through uncertainties in the operating environment. We operate and have undertaken a continued work in progress towards promoting a strong and positive culture supported by our core values. 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 remains 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

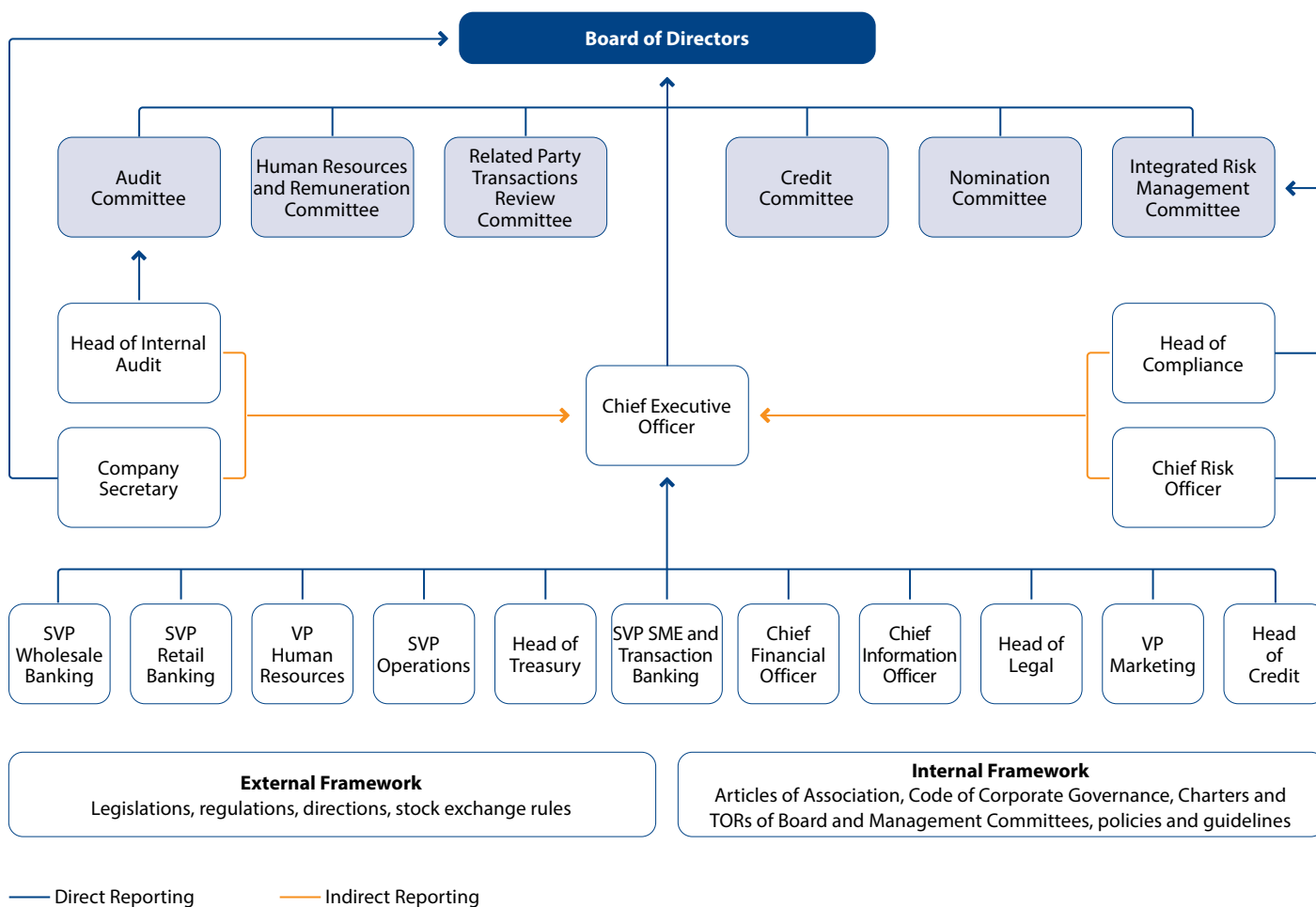
28 February 2023

Governance Structure Disclosure 2-9/2-11

The Bank is committed to high standards of Corporate Governance and believes good governance is fundamental to growth and reinforces the trust and confidence of the stakeholders.

The governance structure of the Bank rests on the principles 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 Disclosure 2-12/2-14

As custodians of governance, the Board sets the tone from the top, leading by example and embracing high standards of professionalism and ethics. The Board is responsible for overseeing the Bank's operations and providing effective governance of 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.

The Board retains effective control through the governance framework and delegates certain functions to its committees according to clearly defined mandates and decision-making rights set by the framework. This allows the Board to allocate sufficient attention to the matters reserved for its decision-making, while also ensuring that delegated matters receive in-depth focus. Committee chairmen are accountable for the effective functioning of board committees.

Key responsibilities of the Board

- » Sets the strategic direction and long-term goals of the Bank and ensures that adequate resources are available to meet these objectives.
- » Monitors the responsibilities delegated to the Board committees to ensure proper and effective oversight and control of the Bank's activities.
- » Establishes a framework for risks to be assessed and managed.
- » Reviews management performance.
- » Determines the Bank's values and 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 the Bank's strategy.

Composition Disclosure 2-10

The Board members' collective experience and expertise provide a balanced mix of attributes in fulfilling its duties and responsibilities needed to support good decision-making in order to achieve the Bank's strategic objectives.

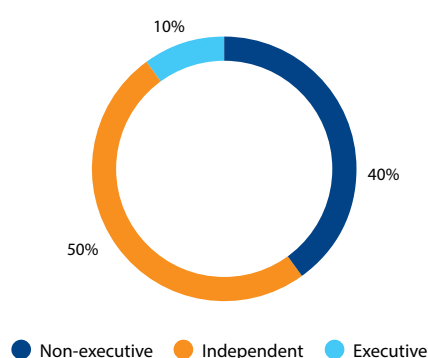
The Board is satisfied that its current composition reflects an appropriate mix of knowledge, skills, experience, and diversity, and that appropriate measures are in place to ensure its independence.

The profiles of the Board of Directors including their experience and expertise are set out on pages 137 to 139 of this Report.

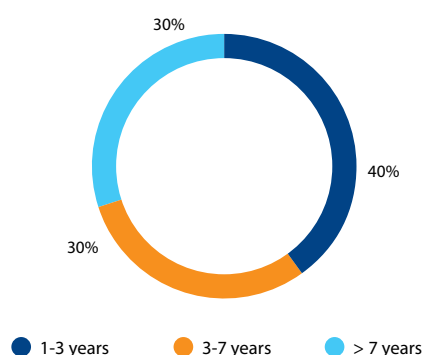
As at the 2022 financial year-end, the Board comprised ten members (including the alternate director), nine of whom were non-executive, five independent non-executive and one executive directors.

Board diversity Disclosure 2-10

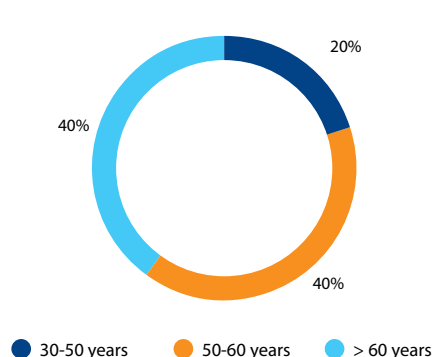
Independence



Tenure



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 onto a secure portal which can be accessed on tablet devices provided to the Directors.

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

The table on page 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 2022.

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 Chief Financial Officer provides the Board with detailed financial performance reports monthly.

Succession planning and appointments to the Board Disclosure 2-10

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. Directors do not participate in discussions involving their own re-election.

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 Disclosure 2-17

Upon appointment, all new directors receive a comprehensive induction programme. This is designed to facilitate their understanding of 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.

The Board believes strongly in the development of its directors. Thus, ongoing education remains a focal point for the Board and 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.

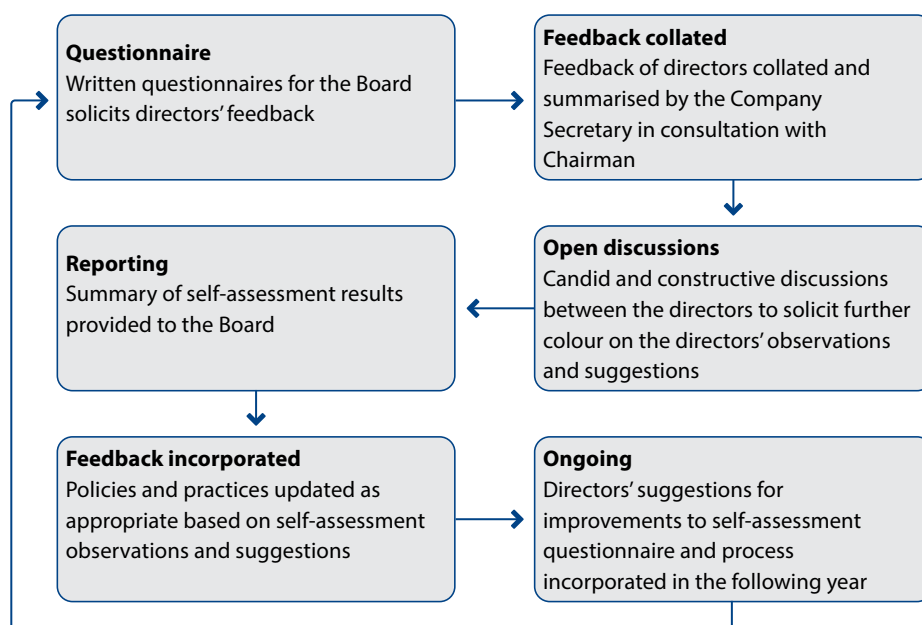
The directors have access to information that is required for effective and efficient discharge of their responsibilities. The directors also have the discretion to seek the advice of the Company Secretary and other independent professional advisors. External professionals or in-house subject matter experts may also be invited to present key topics to the Board as well as updates on corporate governance, risk management, tax, accounting and other regulations, which may have an impact on the Bank's affairs.

Annual evaluations Disclosure 2-18

The Board regularly reviews its own effectiveness and therefore, undertakes a formal evaluation of its performance annually. This process is led by the Chairman with the assistance of the Company Secretary towards the end of the relevant financial year.

The evaluation is carried out through a series of standardised questionnaires that are structured according to the Code of Corporate Governance and applicable rules and regulations. The questionnaire focuses on a number of key areas such as, Board composition and expertise; culture and stakeholders; Board dynamics; management and focus of meetings; Board committees; strategic oversight; risk management and internal control; and succession planning and human resource management.

The evaluation for 2022 concluded that the Board, its committees and each of its directors continue to be effective.



Board Sub-Committees Disclosure 2-10

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

There is full disclosure, transparency and reporting from these committees to the Board at each Board meeting. In addition, cross-committee membership provides visibility and awareness of matters relevant across the committees. Each Committee Chair provides an update on committee activities to the Board and committee minutes are shared with all directors.

Division of Responsibilities Disclosure 2-11/2-12/2-13

The Board Having an effective corporate governance framework helps the Board to deliver the Bank's strategy. It also supports long-term sustainable growth while operating within a framework of effective controls. The Board recognises that having robust governance structures in place is vital to decision-making.		
Chairman (Atul Malik) » setting the ethical tone for the Board and Bank » leading the Board and ensuring its effective functioning » setting the Board's annual work plan and agendas, in consultation with the Company Secretary, the Chief Executive Officer and other directors » building and maintaining stakeholder trust and confidence » conveying feedback in a balanced and accurate manner between the Board and the Chief Executive Officer » monitoring the effectiveness of the Board and assessing the performance of directors	Senior Independent Director (Trevine Fernandopulle) » further strengthening the independence of the Board » acting as an intermediary between the chair and other members of the Board, if necessary » maintaining an additional channel to deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate » chairing discussions by the Board on matters where the chairman would have a conflict of interest.	Chief Executive Officer (Indrajit Wickramasinghe) » appointing and ensuring proper succession planning of the executive team and assessing their performance » developing the Bank's strategy for consideration and approval by the Board » developing and recommending to the Board budgets that support the Bank's long-term strategy » monitoring and reporting to the Board on the performance of the Bank and its compliance with applicable laws and corporate governance principles » setting the tone for ethical leadership and creating an ethical environment » ensuring a culture that is based on the Bank's values » ensuring that the Bank operates within the approved risk appetite.
Board Committees The Board has delegated specific responsibilities to six key Board Committees.		
Audit Committee (Chair: Sarath Wikramanayake) Assists the Board in maintaining an effective system of internal control, compliance with applicable legal and regulatory requirements, external financial reporting and internal audit function. Refer page 113 for the Committee report	Integrated Risk Management Committee (Chair: Michael J O'Hanlon) Ensures that Group wide risks are managed within the risk strategy and appetite as approved by the Board. Refer page 116 for the Committee report	Human Resources and Remuneration Committee (Chair: Dilshani Wijayawardana) Assists the Board in the determination of remuneration of the Directors, CEO and KMPs, HR Policies, Organisational structure, HR systems, including performance evaluation. Refer page 119 for the Committee report
Nomination Committee (Chair: Dilshani Wijayawardana) Assists the Board in the selection and appointment of Directors and KMPs, and succession planning at both Board and Management level. Refer page 118 for the Committee report	Related Party Transactions Review Committee (Chair: Trevine Fernandopulle) Assists and guides the Board in the determination of Related Party Transactions Policy and processes. Refer page 120 for the Committee report	Board Credit Committee (Chair: Atul Malik) Assists the Board in determining the credit policy of the Bank and approves credit proposals above a pre-determined threshold in line with the Bank's risk appetite and regulatory requirements.

Attendance at Board and Committee Meetings

	Board	Board Audit Committee (BAC)	Integrated Risk Management Committee (IRMC)	Nomination Committee (NC)	Human Resources and Remuneration Committee (HRRC)	Board Credit Committee (BCC)	Related Party Transaction Review Committee (RPTRC)
Number of Meetings	12	8	4	4	8	11	4
Atul Malik	12/12	-	-	4/4	8/8	11/11	-
Trevine Fernandopulle	12/12	-	-	4/4	8/8	11/11	4/4
Puneet Bhatia (or his alternate Sanjeev Mehra)	11/12	-	-	-	-	-	-
Michael J O'Hanlon	11/12	7/8	4/4	2/4	6/8	-	-
Dilshani Wijayawardana	12/12	7/8	-	4/4	8/8	-	-
Indrajit Wickramasinghe	12/12	-	3/4	-	-	11/11	4/4
Sarath Wikramanayake	12/12	8/8	4/4	4/4	7/8	-	-
Roshan Perera (Dr)	12/12	7/8	4/4	-	-	-	4/4
Sabry Ibrahim	12/12	-	-	-	-	11/11	3/4

Management Committees

Disclosure 2-10/2-13

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

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. 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.

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

Disclosure 2-15

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 judgement.

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

The Board of Directors is responsible for ensuring that the culture of the Bank nurtures an environment where people and key strategic initiatives are aligned. The Board and senior management set the tone from the top and lead by example.

The Bank's Staff Ethics and Code of Conduct and Anti-Corruption Policy define the standards and behaviours expected of all directors and employees, and is a fundamental part of the Bank's culture and training to support its values. The Bank's service providers, suppliers and trade partners are also subject to the Anti-Corruption Policy, thus ensuring that they avoid all forms of dishonesty, fraud and corruption.

Compliance

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

Whistle-Blowing Mechanisms

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

The Bank's Whistle-blower Policy also serves as a wide spread informal channel for management of violations of laws, rules and regulations, unethical conduct and corporate frauds. This Policy enables employees who observe or notice any improper or illegal activity or unethical practices in the Bank or receives credible information of the same, to report the same to the Board Audit Committee. Information routed through the 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 believes that it is essential that the key stakeholder groups are aligned with the strategic direction of the Bank and therefore the wealth of relevant knowledge and experience of the key stakeholder groups are influential factors that are considered

whenever the Bank makes key operational, investment and business decisions. Thus, 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

Disclosure 2-16

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 2022 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 2022 - 2024 was approved by the Board subsequent to detailed deliberation by the Board and the Corporate Management. "Road Map to 2025 and capital planning" document includes measurable goals for the period of 2023-2025. 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 developed 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 71-86 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. This covers the communication to all stakeholders, depositors, creditors, shareholders and clients.
	(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, SVPs, VPs, Head of Compliance, Head of Legal, Head of Credit and Company Secretary as Key Management Personnel (KMPs) as per the CBSL guideline.
	(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: Disclosure 2-10 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. 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. Furthermore, management of conflict of interest is covered in the Board approved Policy of Related Party transactions. 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 Board Nomination Committee (BNC) and the Board has approved the succession plan for KMPs, which has been reviewed for 2022. This process will be further strengthened.
	(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 understand the regulatory environment. Board ensures that an effective relationships with the regulators are 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 the appointment of External Auditors; BAC has recommended the re-appointment of Messrs. Ernst and Young, Chartered Accountants as the Bank's External Auditors for audit services for year 2022. Pursuant to recommendations, Messrs. Ernst and Young was re-appointed as the Auditors for the financial year 2022 by the shareholders at the Annual General Meeting held on 30 March 2022.

Section	Rule	Level of Compliance
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 Directions through the Board approved Terms of Reference - Functions and Responsibilities of Chairman, CEO and Senior Director.
3 (1)(iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible.	Complied. The Board ensures that it meets regularly. Board has met twelve times during the year at monthly intervals and the Directors have actively participated in the Board's decision making process. A single Circular resolution was 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 at least 7 days prior to the Board meeting providing them an opportunity to attend the meeting. 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 held during the year 2022.
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 meetings and to carry out the other functions specified in the statutes 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 Directors have equal opportunity to access the Company Secretary to advice and services. 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 that enables all Directors to have access to such minutes. Any Director can inspect the minutes of Board meetings with reasonable notice to 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. Comprehensive Minutes of the Board meetings are recorded with sufficient details and maintained by the Company Secretary. The Minutes of the meetings includes: (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 which is included in the Corporate Governance Code and is implemented. Furthermore, the Board approved Related Party Transactions Policy includes provision to manage conflicts of interests, or the appearance of conflicts of interest. This procedure further evidence that the Director is to abstain from voting on any Board resolution in relation to which he/ she or any of his/ her close relation or a concern in which a Director has substantial interest and he/ she not has been counted in the quorum. During the year Board of Directors has complied to the procedure.

Section	Rule	Level of Compliance
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied. Article 98 of the Bank's Articles of Association defines the areas of authority and responsibilities for the Board and matters that cannot be delegated and that are reserved exclusively to the Board. Policies, 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 requirement 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 2022.
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 2022.
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 2022.
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 of 9 Directors which is in line with the regulation.
3 (2)(ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such periods in office shall be inclusive of the total period or service served by such Director up to 01 January 2008.	Complied. Service period has not exceeded nine years for any of the Directors.
3 (2)(iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied. There is only one Executive Director on the Board; the number does not exceed 1/3 of the Board.

Section	Rule	Level of Compliance
3 (2)(iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 1,2010 onwards. A Non-Executive Director shall not be considered independent if he/ she - has direct and indirect shareholdings of more than 1% of the Bank - 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; - has been employed by the Bank during the two-year period immediately preceding the appointment as Director - has a close relation who is a Director or 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; - represents a specific stakeholder of the Bank; - is an employee or a Director or a material shareholder in a company or business organisation: - 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 - In which any of other Directors of the Bank are employed or are Directors or are material shareholders; or - In which any of other Directors of the Bank has a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the Bank.	Complied. Please refer pages 66, 68 and 123.
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. No Alternative Director has been appointed to represent the Independent Directors during the year 2022.
3 (2)(vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement 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 experiences and no new appointment was done during the year 2022.
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 2022 all the quorum of meetings had been in line with the Direction.

Section	Rule	Level of Compliance
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 136-139.
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 the CBSL and to the Colombo Stock Exchange (CSE). There were no resignations of Directors during the year.
3 (2)(xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.	Complied. The Bank has a process to identify whether a Director of a Bank is appointed, elected or nominated as a Director of another Bank based on the affidavit obtained and submitted to CBSL annually. Letter of Appointment of selected employees include a clause with regard to this restriction. None of the present Directors or an employee acts as a Director of any Banks. Nomination Committee shall ascertain at the time of selection of Directors for such appointment of their fit and propriety in accordance with the Banking Act and other regulations by the CBSL.
3 (3)	Criteria to assess the fitness and propriety of Directors	
3 (3)(i)	The age of a person who serves as Director shall not exceed 70 years.	Complied. None of the Directors' age 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 the Bank, 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 2022.
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.

Section	Rule	Level of Compliance
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 policies 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 separate and 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 123, 136 and 137.
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 136 and 137. Directors' interests in contracts with the Bank have been separately disclosed in the Annual Report of 2022. Please refer page 125 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 which 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 and the Chairman ensures that the Board is adequately briefed and informed of all matters arising at the Board

Section	Rule	Level of Compliance
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.
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) 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 113-119.
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 is an independent, Non-Executive Director who possesses required qualifications and related experiences.
	(b) All members of the committee shall be Non-Executive Directors.	Complied. All members of the Committee are Non-Executive Directors.
	(c) The committee shall make recommendations on matters in connection with: i. The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. The implementation of the Central Bank guidelines issued to auditors from time to time; iii. The application of the relevant accounting standards; and iv. The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied. In line with its Terms of Reference, the Board Audit Committee (BAC) has reviewed and/ or made relevant recommendations including the following: i. The re-appointment of Messrs. Ernst and 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.

Section	Rule	Level of Compliance
	(d) Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	Complied. The BAC discussed with the External Auditors, the nature and the scope of audit and the effectiveness of the audit processes in respect of the financial year 2022 at a meeting held with the Auditors in the last quarter of 2022. Representation submitted by the External Auditors stating their independence and the objectivity and effectiveness of the audit processes in accordance with Sri Lanka Auditing Standards, and best practices.
	(e) The committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines, in doing so; the Committee shall ensure that the provision by an External Auditor of non-audit service does not impair the External Auditor's Independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision non-audit services, the Committee shall consider: i. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; ii. whether there are safeguards in place to ensure that there is no threat to the objectivity and/ or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and iii. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/ or independence of the External Auditor	Complied. The Committee has implemented a process on the engagement of an External Auditor to provide non-audit services after considering relevant statutes, regulations, requirements and guidelines. Further, relevant information is obtained from External Auditors to ensure that their independence or objectivity is not impaired, as a result of providing any non-audit services.
	(f) The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including i. An assessment of the Bank's compliance with the relevant Direction in relation to Corporate Governance and the management's internal controls over financial reporting; ii. The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii. The co-ordination between firms where more than one audit firm is involved.	Complied. The Auditors made 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 2022 were reviewed and recommended by the BAC prior to approval of the Board.

Section	Rule	Level of Compliance
	(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 judgemental 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 statements 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.
	(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 three 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 is carried out by the Head of Audit and reviewed by the BAC; iv. No changes to the senior staff members were effected during 2022; 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 impartially and with required proficiency and exercises due professional care in performing the audit function.

Section	Rule	Level of Compliance
	(k) The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. The committee reviewed Investigation Reports issued and has considered the major findings of internal investigations. The BAC reviewed the management responses and made appropriate recommendations, where necessary.
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditor may normally attend meetings, other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied. The Head of Audit who is secretary to the Audit Committee attends meetings regularly and the Chief Financial Officer, Director/CEO and other Corporate Heads have attended meetings by invitation as appropriate. Committee has met the external auditors three times 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 8 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 113-115 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.

Section	Rule	Level of Compliance
3 (6)(iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee: Disclosure 2-19-2-20	
	(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 2022.
	(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 2022. Their performance will be assessed in the 1st Quarter 2023 against the set targets. Revision of remuneration in 2023 will be linked to the 2022 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 Key Management Personnel' 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 KMPs' 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 2022. However, this process will be further strengthened.
	(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.

Section	Rule	Level of Compliance
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. CFO, SVP – Wholesale Banking, SVP - Retail Banking, Chief Information Officer, SVP – Operations, Head of Audit, Compliance Officer, CEO of UBF and CEO of NAMAL are called by invitation to discuss respective risk areas.
	(b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Complied. On monthly basis, IRMC has implemented a procedure to assess the risks such as credit, market, and operational risks of the Bank through relevant risk indicators and management information and such risks are reported to IRMC through Quarterly Risk Report and Risk Matrix table. Bank has also formed a Group Risk Governance structure covering its connected entities.
	(c) The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied. The committee reviews the adequacy and effectiveness of all management level committees.
	(d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied. Committee identifies specific risks through periodical reports submitted to them and gives advice on a need basis to mitigate such risks.
	(e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied. Committee meets at least quarterly and at regular frequencies if need arises.
	(f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Complied. The Board approved Disciplinary Policy includes provisions and criteria for such situations.
	(g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied. Risk assessment reports are circulated to Board members within one week from the date of IRMC.
	(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 in 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.

Section	Rule	Level of Compliance
3 (7)	Related Party Transactions	
3 (7)(i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purpose of this direction. (a) Any of the Bank’s subsidiary companies; (b) Any of the Bank’s associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank’s Key Management Personnel; (e) A close relation of any of the Bank’s Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders has a substantial interest.	Complied. The Board takes necessary steps in line with the Banking Act, this direction and as stipulated in the Bank’s Internal Code of Corporate and Related Party Transactions Policy to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties. Related Party Transaction Policy of the Bank has been reviewed by the Board and is implemented.
3 (7)(ii)	The type of transactions with related parties that shall be covered by this Direction shall include the following: (a) The grant of any type of accommodation, as defined in the Monetary Board’s Directions on maximum amount of accommodation, (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments, (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank, (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied.
3 (7)(iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.	Complied. The staff concerned are informed through operational circulars/ policy 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 online 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. 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.

Section	Rule	Level of Compliance
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 of Director and the Bank shall disclose such fact to the public. (d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was granted under a scheme applicable to all employees of such Bank.	Complied. The Bank did not encounter such a situation during the year.
3 (7)(vi)	A Bank shall not grant any accommodation or “more favourable treatment” relating to the waiver of fees and/ or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied. No accommodation has given to employees on a favourable basis other than the general schemes applicable to all employees of the Bank, such as staff loan facilities. Please refer 3.7 (i)
3 (7)(vii)	No accommodation granted by a Bank under Direction 3 (7) (v) and 3 (7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied. The Bank did not encounter such a situation during the year.
3 (8)	Disclosures	
3(8)(i)	The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English	(a) Complied. (b) Complied.

Section	Rule	Level of Compliance
3 (8)(ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report: (a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (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 (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. (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. (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 (g) The External Auditor's certification of the compliance with these Directions in the annual Corporate Governance reports published in the annual report. The Board shall ensure that the following minimum disclosures are made in the Annual 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. (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.	Please refer page 122 Please refer pages 128-129 Please refer page 130 Please refer pages 125, 136-139 and 247-249 Please refer pages 125 and 247-249 Please refer page 125 The Bank has obtained External Auditor's factual finding report on this Corporate Governance Report. Please refer page 126 The Bank complied with all applicable laws and regulations in conducting its business. There is no such non-compliance issues pointed out by the Director of Bank Supervision to be disclosed to the public.

Union Bank's Commitment to Anti-Bribery/Anti-Corruption

Disclosure 2-23/2-24

Union Bank (referred to as the 'Bank') is committed to conduct its business activities with integrity, honesty, and fairness. An important part of honouring that commitment is making sure that everyone at the Bank upholds the Bank's standards of ethical business conduct.

Thus, the Bank takes a zero-tolerance approach to any form of bribery and corruption. Conduct of this type is prohibited whether committed by employees or anyone else acting on behalf of the Bank.

Anti-Corruption Policy

The Bank has formalised its commitment to anti-corruption compliance by establishing an Anti-Corruption Policy, which is approved by the Board of Directors. This policy articulates the approach to corruption and sets out the Bank's expectations with respect to anti-bribery, prohibiting employees, directors, agents, consultants, and other similar intermediaries who act on the Bank's behalf from making, receiving, or giving bribes, gifts, gratifications, or rewards as an inducement to persuade a person to act in a particular manner to achieve a particular result. These prohibitions apply to dealings with individuals and corporate entities, public officials, and any other person with whom the Bank anticipates doing business with.

A breach of the Anti-Corruption Policy by an employee will be treated as grounds for disciplinary action.

The Bank's commitment to compliance with anti-corruption laws extends to the activities of its agents and business partners as well. Accordingly, the Bank has a policy of conducting anti-corruption-related due diligences on its agents and business partners in order to identify any potential risks associated with them. Union Bank's Statement on Anti-Corruption can be viewed via <https://www.unionb.com/customer-charter/>

Implementation of Anti-Corruption Policies

The Bank has implemented an anti-corruption compliance program that includes training, due diligence of third parties and mandatory reporting, and ensure that all Bank employees undergo the training program. The Bank maintains books and records that accurately reflect its transactions, the use of its assets, and other similar information, and a reasonable system of internal controls.

The Bank has also implemented rules for acceptance and offer of gifts and hospitality, in order to ensure compliance with the Anti-Corruption Policy. Accordingly, employees are prohibited from accepting gifts, services, loans, or favoured preferential treatment from anyone, including customers and suppliers, in exchange for or with regard to a current or future business relationship or transaction with the Bank except when such a gift is part of a customary exchange of seasonal gifts/ complimentary gifts not exceeding a value prescribed in the Anti-Corruption Policy. Acceptance of any such gift is required to be reported to the Compliance Officer. The Policy permits the giving of a token gift (which is not cash or cash equivalent) to third parties subject to a pre-approval mechanism.

The Bank's Anti-Corruption Policy also prohibits the making of, offering or facilitating any payments to win, influence, gain or retain business or an improper business advantage and the making of political donations (including sponsorships), for any such purpose.

Responsibility

The accomplishment of the Bank's commitment to anti-corruption relies on the diligence of all its personnel. Formal responsibility for overseeing the implementation of the Anti-Corruption Policy is assigned to the Head of Compliance, who provides training and guidance on the policy to the employees.

Reporting channels

Disclosure 2-25/2-26

Everyone within the organisation has a duty to report suspected acts of bribery or corrupt practices. The Bank believes that it is essential to create an environment in which everyone feels that they can raise any matters of genuine concern without fear of disciplinary action being taken against them or fear of reprisal. Thus, the Bank ensures that all cases of suspected bribery are dealt with consistently and whether or not an investigation shows bribery exists, there will be no retaliation against or adverse consequences for the person reporting the possible case of bribery.

The Bank has several channels that employees can go through in order to raise any concerns in confidence, including violations of the Anti-Corruption Policy and these include,

- » multiple contact lines provided in the Whistle Blowing Policy; and
- » Compliance Officer

All reports are taken seriously and treated with the utmost confidentiality and anonymity. The Bank has processes in place to ensure reports are promptly investigated and addressed and outcome is conveyed to the person/s who raised the concern, thereby ensuring a two-way communication process.

The Bank will not take any reprisal or retaliation measures, including any adverse employment measures, against any director, officer, employee and/or third party who in good faith brings forward actual or potential violations or concerns.

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 Mr. 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	8	8	-
Ms. Dilshani Wijewardena	Independent Non - Executive Director	8	7	1
Mr. Michael J O'Hanlon	Non - Independent Non - Executive Director	8	8	-
Dr. (Mrs.) Roshan Perera	Independent Non - Executive Director	8	7	1

The other attendees of the Audit Committee meeting included: D/CEO, CFO, 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 October 2022.

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 against 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 8 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 Statements 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 judgemental 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 Management 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 2022 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.

Regulatory Reporting

The committee focused on the improvements required for the regulatory reporting process and placed enhanced focus on the quality and reliability of regulatory reporting to strengthen the end-to-end process in meeting regulatory expectations.

Internal Control:

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

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

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

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

Internal Audit:

The Internal Audit Department has made a significant effort to ensure the Bank's internal controls are not compromised during the continued pandemic, despite several health and safety protocols communicated by the Bank. Hybrid working models were introduced to ensure the continuation of the Internal Audit plan adopting to the new normal. The digital transformation will continue to gain pace as the audit staff adapt, reskill, and transform to their new role. Internal Audit had approached the new normal prioritising the critical controls required accessing the impact of changes of internal controls as well as reshaping the Internal Audit function.

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

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

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

External Audit:

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

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

The Committee continues to exercise oversight of the work undertaken by the Group External Auditor during the year. The Committee has also reviewed the scope of, and the results of, the external audits and 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 of the audit team's resources, the level of independence and scepticism exercised in carrying out their work, and its overall efficiency and effectiveness.

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

The Audit Committee makes recommendations to the Board for the appointment, re-appointment and dismissal of the External Auditor including the remuneration and terms of engagement. The Audit Committee has recommended to the Board of Directors that Messrs. Ernst and Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2023 subject to the approval of shareholders at the next Annual General Meeting.

Focus of Future Activities:

At the beginning of each year, the Committee discusses its key priorities for the year ahead. In 2023, the Committee will strongly focus on effective management of fraud risk, technology risk and environmental, social and governance (ESG) risks as an additional focus. The impact of the economic crisis and pandemic on long term prospects of the businesses remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured

in expected credit loss (ECL) estimates. To help mitigate this risk, the committee will continue to monitor the model outputs and management adjustments for reliability and appropriateness.

Keeping Updated on Relevant Information:

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

Ethics and Good Governance:

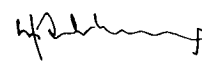
The Committee continuously emphasised upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing if they suspect wrong doings or other improprieties.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

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

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

Evaluation of the Committee:

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



Sarath Wikramanayake
Chairman - Board Audit Committee

28 February 2023

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 2022. Three of the members are Non – Executive Directors.

» Mr. Michael J O'Hanlon - Chairman
(Non-Independent Non-Executive Director)

» Mr. Sarath Wikramanayake
(Independent Non-Executive Director)

» Dr. (Mrs.) Roshan Perera
(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 2022. These meetings were conducted virtually due to the restrictions caused by the Covid pandemic.

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 Banking Act Direction No. 11 of 2007 on Corporate Governance 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

Year 2022 has been a challenging year resultant from the multiple economic hardships that emerged from the currency depreciation, short supply of essential goods, inflationary pressure and hike in tariffs and taxes which precipitated into social unrest and political crisis.

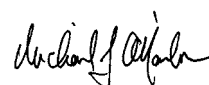
- » The Central Bank of Sri Lanka (CBSL) directed the Banks to provide relief measures to assist businesses and individuals who were adversely affected by the current macroeconomic conditions. The Bank has facilitated these CBSL schemes for the customers who were eligible under the CBSL prescribed schemes.
- » The payment relief programmes under the most current moratorium scheme ended in December 2022. Tourism related moratoriums expired in June 2022.
- » The IRMC also noted that the Bank proactively provided its own discretionary moratoriums to the customers who were experiencing cash flow constraints but were not eligible under the said schemes. The moratoriums provided a passage to postpone the credit risk associated with

the adversely affected businesses and individuals whilst providing the necessary space for the economic revival as well. The IRMC noted the measures taken to quantify the Credit Risk by strengthening the watch list monitoring process with focused attention to individual customers. The Bank employed credit risk management tools by way of continuous evaluations on business performance, outlook and repayment capacity.

- » The Committee also noted the guidelines issued on the establishment of post Covid -19 revival Units in Licensed banks where all stressed accounts are required to be managed under a special unit.
- » The tourism and construction sectors, which are to have a late recovery post pandemic, have dampened the initial positive sentiment that a recovery was fast approaching. Most of the financial intermediaries had observed a growth of impairment resulting in providing a buffer for incremental credit risk. Taking all the factors in to account, the Committee is satisfied with the controls and proactive measures deployed in executing the Board approved risk appetite of the Bank.
- » The Central Bank of Sri Lanka (CBSL), in its policies for year 2021 and beyond has had new significant directives regarding the Banking sector governance space. The legal and regulatory framework of licensed banks was further strengthened through the Banking Direction Nos. 13 and 14: Classification, Recognition and Measurement of Credit Facilities in Licensed Banks.
- » The Committee acknowledged the importance of the robust credit risk management policies and practices, including an effective system of internal controls that conform with the requirements of the Sri Lanka Accounting Standards and relevant regulatory and supervisory guidance.
- » The Committee also noted the directions issued by CBSL on implementing the Recovery Plans for Licensed Banks. The Committee ratified the Recovery Plan of the Bank.
- » The Committee noted the Bank's Pandemic Response Plan which safeguarded the Bank, its employees and its customers with minimal interruptions. It created staff awareness of the pandemic,

alternate work arrangements and a COVID-19 action matrix. During the year 2022, the Bank further enhanced the BCP process to incorporate changes required by the Pandemic Response Plan.

- » 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, denials of service or information, ransomware, unauthorised data access, attacks on personal emails of employees, exploiting application vulnerability and other security breaches including social engineering attacks. 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 while vulnerability assessment and Penetration tests are preformed throughout the year as well and the outcome of those assessments are within the desired levels. The Bank also purchased Cyber insurance to further minimise these risks.
- » The Bank went through the implementation of a bank-wide Data classification and Data Leakage Prevention (DLP) solution for the management and further strengthening of IT capabilities and information security requirements.
- » Further, the daily Security Information and Event Management (SIEM) reports pertaining to Data Base and Operating Systems have been monitored daily and the queries have been escalated to relevant parties. Also, the Privileged Access Monitoring Review has been performed for critical and non-critical applications, Databases and Operating systems biannually. The report containing the observations on applications, Databases and Operating systems were accepted by the Committee as necessary requirements under the new normal operating environment.
- » In response to the COVID-19 pandemic and adverse macroeconomic conditions, the Committee requested adjustments to a number of stress tests. Especially in the market risk space, the Committee noted the continuous increase in the interest rates on Government securities, causing MTM losses that have caused a reduction in capital. Though the MTM losses may not be permanent in nature, the Committee encouraged the ad hoc stress testing exercises to assess the vulnerabilities in the short term. These exercises are different from the regular methodologies in terms of objectives, design and communication.
- » In light of the turbulent environment and to ensure continued stability of the Bank, the Committee focused heavily on liquidity management and the capital impact of rising rates.
- » The IRMC notes that the Bank is adequately capitalised as required by the regulatory guidelines. The Bank has reviewed the impact of rising rates on capital. At the beginning of year 2022, giving due consideration to the risk-reward trade-offs in optimising the capital, the Bank has projected the required capital and assets composition according to Basel III, in line with the new guidelines which came into effect from 2017.
- » In a proactive measure to manage funding costs and liquidity, the Bank paid special attention to the funding mix and the Liquid Asset Ratio. The excess liquidity maintained is a strategic decision as the IRMC sees that liquidity is a key Risk until the pandemic effects eases off and the economy shifts to an acceptable new normal. Further, the Bank embarked on diligent cost management initiatives across the board with reductions vs pre COVID run rates.
- » The Committee approved the ICAAP document of the bank, which was subsequently submitted to CBSL. The localised guidelines by CBSL have directed that Banks who are with an asset base of LKR 500 Bn or less and which are non-SIB's maintain their minimum Capital Adequacy Ratio at 12.5%. The IRMC provided its 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 the compliance culture within the Bank through various enablers such as 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.
- » 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), the Executive Risk Management Committee (ERMC), the Operational Risk Management Committee (ORMC), Fraud Risk Management Committee (FRMC) and Information Security Committee (ISC).
- » The Board of Directors provides oversight to the Business and Risk strategy of the bank along with the risk appetite statement. Accordingly, as the effects of unforeseen pandemic events and macroeconomic vulnerabilities continued during 2022 where, the Board's direction in risk governance also has evolved. Additionally, the Committee is content with the successfully deployed risk management initiatives to ensure the continued stability of the Bank for the year under review and beyond.



Michael J O'Hanlon

Chairman

Integrated Risk Management Committee

28 February 2023

Composition of the Nomination Committee

The Nomination Committee ('the Committee') comprises five Non-Executive Directors appointed by the Board of the Bank. The following Directors whose profiles are given on pages 137 to 139 of this Annual Report, currently serve on the Committee,

Name	Directorship Status	Committee Membership Status
Dilshani Wijayawardana	Independent, Non-Executive	Chairperson
Atul Malik	Non Independent, Non-Executive	Member
Michael O'Hanlon	Non Independent, Non-Executive	Member
Trevine Fernandopulle	Independent, Non-Executive	Member
Sarath Wikramanayake	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 2022. 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 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 2022.

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 2022

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.

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.

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

28 February 2023

Human Resources and Remuneration Committee Report

Composition of the Committee

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

The present Committee is constituted with Ms. Dilshani Wijayawardana as Chairperson and, Mr. Atul Malik, Mr. Michael O'Hanlon, Mr. Trevine Fernandopulle, and Mr. Sarath Wikramanyake as Committee members.

Given the significance of the Committee towards the strategic objective of investing and developing employees, 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 2022

In 2022 the Committee focused on the following areas;

Performance Management - The Committee reviewed the performance of the Key Management Personnel (KMP) of the Bank in 2021 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 2022 aligned to the Bank's strategic goals and annual financial budgets.

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

Staff Safety and Well-being - the Committee and the management team focused on business continuity and staff safety and well-being during the COVID-19 outbreaks and other civil disturbances in the country in the year 2022. Additional measures were taken to give an ex-gratia financial assistance to middle management and junior grade staff to help them to cope with the drastically increased living expenses.

Strengthening the Key Management

Personnel Team - The committee approved the recruitment and remuneration of the Vice President-HR to lead the HR team and provide strategic input to the Bank's business plans.

Salary Adjustments for Trainee Banking

Assistants - The committee reviewed and approved a proposal to provide salary adjustments to Trainee Banking Assistants of the Bank.

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

Meetings

The Committee held Seven (07) meetings during the year 2022.

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

28 February 2023

Related Party Transactions Review Committee Report

Composition of the Committee

The Related Party Transactions Review Committee ('the Committee') currently comprises three Non-Executive Directors and one Executive Director appointed by the Board of the Bank. The following Directors whose profiles are given on pages 137 to 139 of this Annual Report, currently serve on the Committee.

Name	Directorship Status	Committee Membership Status
Trevine Fernandopulle	Independent, Non-Executive	Chairman
Roshan Perera (Dr.)	Independent, Non-Executive	Member
Sabry Ibrahim	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 Of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka ('Directions') and the Related Party Transactions Policy of the Bank.

Key Responsibilities of the Committee

The TOR adopted on the 20th of January 2016 and periodically reviewed 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 and ensures arm's length dealings with related parties and strict compliance with the provisions of the Listing Rules, Directions and the Policy.

Activities in 2022

Details of all transactions with the related parties during the year 2022 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 February 2022.

Details of related party transactions are disclosed under Note 48 on pages 247 to 249 of the Financial Statements.

Evaluation of the Committee's Effectiveness

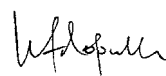
As part of the annual self-assessment of the Directors, the performance and effectiveness of the Committee was also assessed by the Board as a whole.

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 31st December 2022 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.



Trevine Fernandopulle

Chairman – Related Party Transactions Review Committee

28 February 2023

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

UNION BANK
Annual Report 2022

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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 2022 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 28 February 2023. 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 etc.

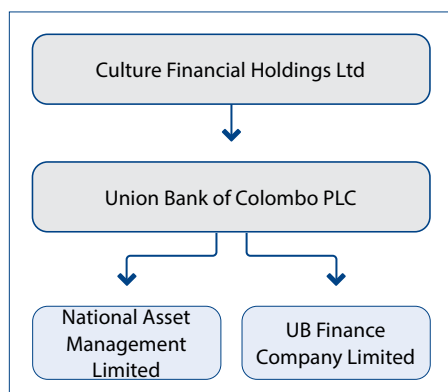
3.2 Subsidiaries

The Bank had two Subsidiaries as at 31 December 2022. 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 91.77% of the issued capital of UBF.
Board of Directors and CEO as at 31 December 2022	Alexis Indrajit Lovell Indrajit Wickramasinghe Wijenanda Punchi Banda Dambawinne Siew Bee Khoo Ravi Dassanayake Prins Perera Suren Madanayake Charana Jayasuriya – Chief Executive Officer	Atul Malik Michael J O'Hanlon Indrajit Wickramasinghe Lisa Gayle Thomas Raj Moahan Balendra Sabry Ghouse Mr. Jayendra Setukavalar Ransith Karunaratne - Chief Executive Officer/ Executive Director

4. Changes to the Group Structure

During the year 2022, 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 2022 are contained in the Chairman's Message on pages 20 to 21, the Chief Executive Officer's Message on pages 22 to 24 and the Management Discussion and Analysis on pages 27 to 49. 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 20 to 21, the Chief Executive Officer's Message on pages 22 to 24 and the Management Discussion and Analysis on pages 27 to 49.

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 31st December 2022 duly signed by the Chief Financial Officer, two Directors of the Bank and the Company Secretary are given on pages 154 to 285 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 285 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 128 to 129 forms an integral part of the Annual Report of the Board of Directors.

9. Auditor's Report

The Auditors of the Bank Messrs Ernst and Young carried out the audit on the Financial Statements of the Group and the Bank for the year ended 31 December 2022 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 285.

11. Financial Results and Appropriations

11.1 Income

The gross income of the Group for 2022 was LKR 21,092 Mn (2021: LKR 12,723 Mn) while the Bank's gross income was LKR 18,966 Mn (2021: LKR 10,979 Mn). An analysis of the income is given in Note 06 to the financial statements on page 173.

11.2 Profit and appropriations

The Group's has recorded a decrease in profit before tax of 58% and a decrease in profit after tax of 50% in 2022. The Bank's Profit before tax has decreased by 64% and the decrease in profit after tax is 59% in 2022.

Total Comprehensive Income (net of tax) of the group for the year was LKR 353 Mn (2021: LKR 65 Mn) while the Bank has recorded a total comprehensive income (net of tax) of LKR 246 Mn (a comprehensive loss of LKR 24 Mn in 2021).

Details of the Bank's performance and appropriation of profit are tabulated as follows:

	2022 LKR 000	2021 LKR 000
Profit before income tax	356,428	979,339
Less: income tax expense	(42,240)	(214,420)
Profit for the year	314,188	764,919
Profit brought forward from previous year	1,879,002	1,244,184
Profit available for appropriation	2,193,190	2,009,103
Less: Appropriations		
Transfer to the reserves	(15,709)	(38,246)
Dividend paid for previous year	-	(140,863)
Other comprehensive income	(74,502)	49,008
Total appropriation	(90,211)	(130,101)
Unappropriated profit carried forward	2,102,979	1,879,002

12. Taxation

Income tax rate applicable on the Bank's operations is 30% from 01 July 2022 and 24% upto 30 June 2022 (2021: 24%). The Bank is also liable for Financial Services VAT at 18% (2021:15%) and VAT on services other than Financial Services at 15% from 01 September 2022, 12% from 01 June 2022 to 30 August 2022 and 8% upto 30 June 2022 (2021:8%). Social Security Contribution Levy (SSCL) rate applied in 2022 is 2.5% (with effect from 1 October 2022).

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 and Equipment and Right of Use of Assets of the Group and the Bank

are given in Notes 33 and 34 to the Financial Statements on pages 219 and 226

The details of capital expenditure approved and contracted for are given in Note 46.2 to the Financial Statements on page 243.

14. Net Book Value Of Freehold Properties

The net book values of freehold properties owned by the Group as at 31 December 2022 are included in the accounts at LKR 41 Mn (2021: LKR 42.0 Mn).

15. Stated Capital

The stated capital of the Bank as at 31 December 2022 was LKR 16,334,781,724 consisting of 1,083,558,338 ordinary shares (2021: LKR 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 65 and 67.

17. Shareholdings

As at 31 December 2022, there were 28,828 registered ordinary shareholders (2021: 29,151). 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 66 and 67.

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 (2021:9) Directors with wide financial and commercial knowledge and experience as detailed in their profiles given on pages 137 to 139.

19.2 Classification of Directors and appointments, retirements and cessations during 2022

Names of the Directors of the Bank during the year 2022 are given below. There were no new appointments or cessations during the year.

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
Trevine Sylvester Anthony Fernandopulle (Deputy Chairman/ Senior Director)	Independent, Non-Executive Director	Director since 01.04.2017	None
Indrajit Asela Wickramasinghe (Director/CEO)	Non-Independent, Executive Director	Director since 19.11.2014	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
Drayton Sarath Palitha Wikramanayake	Independent, Non-Executive Director	Director since 21.06.2019	None
Roshan Anne Perera (Dr)	Independent, Non-Executive Director	Director since 05.07.2021	None
Ahamed Sabry Ibrahim	Independent, Non-Executive Director	Director since 15.08.2021	None

19.3 Retirement by rotation/reappointment of Directors

Mr. Trevine Fernandopulle, Mr. Michael J O' Hanlon and Mr. Puneet Bhatia 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 2022 are tabulated below.

Name of Director	Name of Entity	Position
Atul Malik	YES Bank	Director
	UB Finance Company Limited	Non-Executive Director
Trevine Fernandopulle	Continental Insurance Lanka Limited	Director
	Dutch Lanka Trailer Manufacturers Ltd	Director
	Dutch Lanka Engineering (Private) Limited	Director
	Enterprise Ceylon Capital (Pvt) Limited	Director
	AMW Capital Leasing and Finance PLC	Chairman
	Ceylon Capital Market Advisors Limited	Director
Indrajit Wickramasinghe	National Asset Management Ltd.	Non-Executive Director
	UB Finance Company Ltd.	Non-Executive/Non-Independent Director
	Financial Ombudsman Sri Lanka (Guarantee) Ltd.	Non-Executive 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
	R R Kabel Limited	Director
	Sai Life Science Limited	Director
	SCCA Property Mart Private Limited	Director
	Fractal Analytics Private Limited	Director
Michael J O'Hanlon	Roosevelt Management Company LLC	Chairman
	Rushmore Loan Management Services LLC	Chairman
	Kensington Holdings Ltd	Director
	The College of St. Rose, (Non-profit College in Albany, NY)	Trustee Director
	O'Hanlon Corporate Consulting LLC	Managing Member
	UB Finance Company Ltd	Director
Dilshani Wijayawardana	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)	Shriram General Insurance Company Limited	Nominee Director
	Shriram Life Insurance Company Limited	Director
Roshan Perera (Dr)	Senkadagala Finance PLC	Director
Sabry Ibrahim	Fintrex Finance Limited	Director
	Regal Images Limited	Director
	Asset Trust Management (Pvt) Ltd	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 113 to 120.

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 2022 are given in Note 15 to the Financial Statements on page 181.

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 247 to 249 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 2022.

20. Related Party Transactions

The details of the related party transactions are set out in Note 48 to the Financial Statements on pages 247 to 249. 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 2022, are as follows:

Directors and Key Management Personnel	2022 LKR 000	As a % Bank's Regulatory Capital	As a % Bank's Total Assets
Directors Fee, Remuneration and other employment benefits	375,094		
Loans			
Directors / KMPs	131,067	0.70%	0.10%
Close Family Members	997	0.01%	0.00%
Deposits			
Directors / KMPs	13,595	0.07%	0.01%
Close Family Members	1,586	0.01%	0.00%

Transactions with Subsidiaries	2022 LKR 000	As a % Bank's Regulatory Capital	As a % Bank's Total Assets
Loans	301,453	1.60%	0.23%
Repurchase Agreement	100,063	0.53%	0.08%
Deposits	76,318	0.41%	0.06%

During the year ended 31 December 2022, 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 2022, 1,164 persons were in employment of the Bank (2021: 1,227).

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

On 1 December 2015 the Bank established three share option plans that entitle employees to purchase shares of the Bank. The first scheme of employee share grants was issued to employees at the grade of Vice President and above.

By 1 December 2020, options attached to first scheme completed the vesting period and based on pre-agreed targets reserve has been adjusted. The option holders are entitled to exercise the options vested on or before 17 June 2025.

During the year 2022, no options were granted to the employees under the scheme one of ESOP and no options already vested were exercised by them.

The second scheme of the employee share grants was issued to eligible Key Management Personnel of the Bank effective 1 April 2021. This ESOP grant provides employees with an option to purchase shares of the Bank at the given exercise price once these are vested as per the rules of the plan. Share options are vested based on time ratably over a 5-year period.

During the year 2022, 1,811,025 options were granted to the employees under scheme two of ESOP and no options were vested as at December 2022 of the same.

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 52 to 61 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

During the year, the Bank made donations amounting to LKR Nil (2021: LKR Nil) in terms of the resolution passed at the last Annual General Meeting.

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 and Young, Chartered Accountants served as the Bank's Auditors during the year under review. Based on the declaration made by Messrs Ernst and 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 LKR 9.95 Mn (2021: LKR 9.75 Mn) and LKR 12.86 Mn (2021: LKR 12.19 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 and 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 71 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 128 to 130.

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 has 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 and 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 12 to 13.

33. Annual General Meeting

The 28th Annual General Meeting will be held on 31 March 2023 at 2.30 p.m. Notice of the meeting relating to the 28th Annual General Meeting is enclosed at the end of the Annual Report.

34. Acknowledgement of the Contents of the Report

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

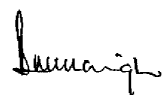
For and on behalf of the Board of Directors,



Atul Malik
Chairman



Indrajit Wickramasinghe
Director/Chief Executive Officer



Christine Munasinghe
Company Secretary

28 February 2023

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 of 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 its 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 113 to 115;
- » Policies/Charters are developed covering all functional areas of the Bank and these are recommended by Board appointed committees and are approved by the Board. Such policies and charters are reviewed and approved periodically.

- » 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.

The Banking sector is facing challenges in terms of increase in Fraud risk with the current economic crisis which could impact the Internal control system. In order to address the specific risk, independent verification needs to be carried out to evaluate whether the company's controls sufficiently address identified risks of material misstatement due to fraud. In addition, focus should be placed on controls intended to address the risk of management override of other controls.

Internal Audit Division has further strengthened this process and has introduced "Online monitoring" to identify and control over significant transactions that are outside the normal course of business for the company or otherwise appear to be unusual due to their timing, size, or nature ("significant unusual transactions") particularly those that result in late or unusual journal entries. The controls on Cyber security and data security were also monitored through the assignments handled and all controls and significant findings identified are corrected during the year.

The Bank continued to assess risk on collections and credit culture deteriorations, which could increase the provisioning requirements of the banks. The Bank continued to monitor the impact on the moratorium and other subsidy measures provided 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.

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 and 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 existing models were further refined to incorporate the potential implications on economic changes, based on stress testing carried out on risk elevated sectors and adjustments made to economic factors and Management overlays.

The Bank will continue to focus on strengthening the review and testing process of the said models and the financial statements for the year ended 31 December 2022 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 have been taken to rectify them. The recommendations made by the External Auditors in 2022 in connection with the internal control system over financial reporting will be dealt within 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 and Young, have reviewed the above Director's Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2022 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 130 of this Annual Report.

By Order of the Board



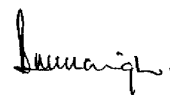
Sarath Wikramanayake
Chairman - Board Audit Committee



Atul Malik
Chairman



Indrajit Wickramasinghe
Chief Executive Officer



Christine Munasinghe
Company Secretary

28 February 2023

Assurance Report on the Directors' Statement on Internal Control over Financial Reporting

UNION BANK
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APAG/WDPL/PR

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 2022.

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 behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

28 February 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeevani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCA FCMA

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Statement of use	Union Bank Colombo Plc has reported in accordance with the GRI Standards for the period 1 January 2022 to 31 December 2022.					
GRI 1 used	GRI 1: Foundation 2021					
GRI Standard	Disclosure	Description	Location	Omission		
				Requirement(s)	Reasons	Explanation

General disclosures						
GRI 2 : General Disclosures 2021	The organisation and its reporting practices					
	2-1	Organisational Details	Inner Back Cover			
	2-2	Entities included in the organisation's sustainability reporting	36			
	2-3	Reporting period, frequency and contact point	6/11			
	2-4	Restatements of Information	6			
	2-5	External Assurance	6/134-135			
	Activities and workers					
	2-6	Activities, value chain and other business relationships	27/44-45/60			
	2-7	Employees	53-54			
	2-8	Workers who are not employees	53			
	Governance					
	2-9	Governance Structure and composition	88			
	2-10	Nomination and selection of the highest governance body	89-90/91-92/96			
	2-11	Chair of the highest governance body	91			
	2-12	Role of the highest governance body in overseeing the management of impacts	88/91			
	2-13	Delegation of responsibility for managing impacts	91-92			
	2-14	Role of the highest governance body in sustainability reporting	87			
	2-15	Conflicts of interest	93			
	2-16	Communication of critical concerns	94			
	2-17	Collective knowledge of the highest governance body	90			
	2-18	Evaluation of the performance of the highest governance body	90			
	2-19	Remuneration policies	107			
	2-20	Process to determine remuneration	107			
	2-21	Annual total compensation ratio	-	2-21	*	**
	Strategies, policies and practices					
	2-22	Statement on sustainable development strategy	20-21			
	2-23	Policy commitments	52/60/75/112			
	2-24	Embedding policy commitments	52/60/75/112			
	2-25	Processes to remediate negative impacts	112			
	2-26	Mechanisms for seeking advice and raising concerns	80/112			
	2-27	Compliance with laws and regulations	61			
	2-28	Membership associations	60			
	Stakeholder Engagement					
	2-29	Approach to stakeholder engagement	12-13			
	2-30	Collective bargaining agreements	53			

* Confidentiality Constraints

** The disclosure required sensitive information relevant to individuals, therefore its not possible to disclose

GRI Standard	Disclosure	Description	Location	Omission		
				Requirement(s)	Reasons	Explanation
GRI 3 : Material Topics 2021	3-1	Process to determine material topics	6-11			
	3-2	List of material topics	6-11			
	3-3	Management of material topics	6-11			
Topic Specific Disclosures						
GRI 201 : Economic Performance 2016	201-1	Direct economic value generated and distributed	301			
	201-2	Financial implications and other risks and opportunities due to climate change	16-17			
	201-3	Defined benefit plan obligations and other retirement plans	233-235			
	201-4	Financial assistance received from the government	182-185*			
GRI 204 : Procurement Practices 2016	204- 1	Proportion of spending on local suppliers	61			
GRI 206 : Anti-Competitive Behavior 2016	206- 1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	61			
GRI 207 : Tax 2019	207-1	Approach to Tax	182-185/214/ 226-227			
	207-2	Tax governance, control and risk management	182-185/214/ 226-227			
	207-3	Stakeholder engagement and management of concerns related to Tax	12-13			
	207-4	Country by Country Reporting	182-185/214/ 226-227			
GRI 302 : Energy 2016	302-1	Energy consumption within the organisation	7			
	302-2	Energy consumption outside of the organisation	-	From 302-2 to 302-5	Information Unavailable/ Incomplete	**
	302-3	Energy intensity	-			
	302-4	Reduction of energy consumption	-			
	302-5	Reductions in energy requirements of products and services	-			
GRI 401 : Employment 2016	401-1	New employee hires and employee turnover	57-58			
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	56			
	401-3	Parental Leave	-	401-3	Information Unavailable	***
GRI 402 : Labor/ Management Relations 2016	402-1	Minimum notice periods regarding operational changes	10			

* Apart from tax credits, there are no other financial assistance received from the government

** We have initiated recording energy consumption details related to the Head Office level only, since the process has started recently the information has not reached to a considerable level. We are looking forward to extending the process to branch wide level and initiate disclosure procedure.

*** The respective information is currently not available and will be disclosed from next year onwards

GRI Standard	Disclosure	Description	Location	Omission		
				Requirement(s)	Reasons	Explanation
GRI 403 : Occupational Health and Safety 2018	403-1	Occupational health and safety management system	53			
	403-2	Hazard identification, risk assessment, and incident investigation	59			
	403-3	Occupational health services	58-59			
	403-4	Worker participation, consultation, and communication on occupational health and safety	58-59			
	403-5	Worker training on occupational health and safety	59			
	403-6	Promotion of worker health	58-59			
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	54			
	403-8	Workers covered by an occupational health and safety management system	58-59			
	403-9	Work related injury	59			
	403-10	Work related ill health	59			
GRI 404 : Training and Education 2016	404-1	Average hours of training per year per employee	55			
	404-2	Programmes for upgrading employee skills and transition assistance programmes	55			
	404-3	Percentage of employees receiving regular performance and career development reviews	56			
GRI 405 : Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	54			
	405-2	Ratio of basic salary and remuneration of women to men	57			
GRI 406: Non Discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	53			
GRI 408 : Child Labor 2016	408-1	Operations and suppliers at significant risk for incidents of child labor	57			
GRI 409 : Forced or Compulsory Labour 2016	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	57			
GRI 417 : Marketing and Labelling 2016	417-1	Requirements for product and service information and labelling	52			
	417-2	Incidents of non-compliance concerning product and service information and labelling	61			
	417-3	Incidents of non-compliance concerning marketing communications	61			
GRI 418 : Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	61			

Independent Assurance Report on Sustainability Reporting

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Independent Assurance Report to the Board of Directors of Union Bank of Colombo PLC

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 its Integrated Annual Report for the year ended 31 December 2022 ("the Report").

- » Reasonable assurance on the information on financial performance as specified on page 301 of the Report.
- » Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards.

Basis of our work and level of assurance

We perform our procedures to provide reasonable and limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000) (Revised): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.

The criteria applied for this assurance engagement:

- » The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website 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 ISAE-3000 (Revised) 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.

Management of the Bank's responsibility for the Report

The management of the Bank is responsible for selecting the criteria, and for the preparation and presentation and self-declaration of the information contained in the Report in accordance with the given criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the information, such that it is free from material misstatement, whether due to fraud or error.

Ernst and Young's responsibilities

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 given criteria. This Report is made solely to the Bank in accordance with our engagement letter dated 17 February 2023. 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 of Ethics for Professional Accountants issued by CA Sri Lanka,

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, 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.

Key Assurance Procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusions. We performed such other procedures as we considered necessary in the circumstances. Key assurance procedures included:

- » Agreed the information on financial performance as disclosed on page 301 of the Report to audited financial statements
- » Validated the information presented and checked the calculations performed by the organisation through recalculation
- » Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks.
- » Conducted interviews with relevant organisation's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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- » Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- » Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Limitations and considerations

Social, Natural and Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- » The information on financial performance as specified on page 301 of the Report are properly derived from the audited financial statements for the year ended 31 December 2022.
- » Nothing has come to our attention that causes us to believe that the information presented in the Report are not fairly presented, in all material respects, in accordance with the relevant criteria.

28 February 2023
Colombo



Atul Malik
Chairman
(Non-Independent, Non-Executive Director)



Trevine Fernandopulle
Deputy Chairman/Senior Independent Director
(Independent, Non-Executive Director)



Indrajit Wickramasinghe
Executive Director/ Chief Executive Officer



Puneet Bhatia
Non-Independent, Non-Executive Director



Michael J O'Hanlon
Non-Independent, Non-Executive Director



Dilshani Wijayawardana
Independent, Non-Executive Director



Sarath Wikramanayake
Independent, Non-Executive Director



Dr. Roshan Perera
Independent, Non-Executive Director



Mr. Sabry Ibrahim
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 developed and emerging markets in Asia.

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 and Advisors, a boutique private equity firm, from 2011 to 2012.

Between 2007 and 2011, he was the Managing Director/Regional Head Asia-Private and 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 year 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 business 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 a B Tech Degree from IIT Bombay (1985).

Trevine Fernandopulle

Deputy Chairman/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 function 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 serves as the Chairman of AMW Capital Leasing and Finance PLC (an AI Futtaim Group Dubai owned company). He also serves on the Boards of Directors of Enterprise Ceylon Capital (Pvt) Ltd., Continental Insurance Lanka Limited, Dutch Lanka Trailer Manufacturers Ltd. and Dutch Lanka Engineering (Private) Limited. He is a Past President of the Chartered Institute of Bankers (Sri Lanka Branch) and a Founder Member/Past Vice President of the Association of Banking Risk Professionals of Sri Lanka and has also served on the Board of the National Insurance Trust Fund.

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 over 33 years of management experience having worked in the financial and consumer sectors in both local and multinational companies. He holds an MBA from the University of Sri Jayawardenepura, 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 Union 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 the position of Vice President in the functions of Human Resource, Marketing and Retail Banking, heading Retail Banking for a period of seven years. 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 and Vishal Retail and invested over \$500mn 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 Honours 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. In addition to serving as a Director of UB Finance, he is currently the 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 Brothers' investment in Aozora Bank.

Mr. O'Hanlon holds an MBA in Finance and Accounting from the State University of New York at Albany USA (1979) and a BSc Business Administration from the College of St. Rose (1977).

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 appears in primary and appellate court litigation.

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 and 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.

Sarath Wikramanayake

Independent, Non-Executive Director

Sarath Wikramanayake is a senior financial executive with extensive experience of over 28 years in the Banking industry and 17 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.

Dr. Roshan Perera

Independent, Non-Executive Director

Dr. Roshan Perera counts over 20 years of experience as a public policy specialist responsible for advising on monetary and fiscal policy issues. Her vast experience also includes expertise in regulating and supervising financial institutions and supporting the enhancement of risk management frameworks. Dr. Perera was a Director at the Central Bank of Sri Lanka and presently works as an independent consultant to multilateral agencies both in Sri Lanka and overseas. She served as a Board Member in several organisations including the Institute of Policy Studies and the Sri Lanka Institute of Directors. Presently she functions as a Director on the Board of Senkadagala Finance PLC.

Dr. Perera completed a Master in Public Administration as an Edward S Mason Fellow at the John F. Kennedy School of Government at Harvard University USA. She also holds a PhD in Economics from the University of Melbourne Australia, a Master in Environmental Geography from the University of Illinois in Chicago, IL, USA and a Master in Economics and a Bachelor of Arts in Economics from the University of Colombo. She is a passed finalist of the Chartered Institute of Management Accountants, UK.

Sabry Ibrahim

Independent, Non-Executive Director

Sabry Ibrahim has over 37 years of banking experience primarily in the areas of Corporate Banking, Treasury Management and Risk Management. He holds an Honours Degree (BSc) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers - UK (FCIB).

Mr. Ibrahim served as the Chief Executive Officer of People's Leasing and Finance PLC from July 2017 to November 2020 and prior to that held very senior positions both locally and internationally including, Senior Deputy General Manager, Wholesale Banking (October 2014 to September 2016) and Senior Deputy General Manager, Risk Management (August 2007 to October 2014) of People's Bank, Deputy General Manager, Head of Treasury, Head of Corporate Banking and Recoveries, Chief Risk Officer and Chief Credit Officer of Hatton National Bank PLC (2004 to July 2007) and Head of Credit and GSAM, Standard Chartered Bank (2002 to 2004). Mr. Ibrahim has also been a Director of People's Insurance PLC, People's Merchant Finance PLC, People's Leasing Fleet Management Limited, People's Leasing Havelock Properties Limited, People's Micro-Commerce Limited, People's Leasing Property Development Limited and Lankan Alliance Finance Limited in Bangladesh.

He currently serves on the Boards of Asset Trust Management (pvt) Ltd., Fintrex Finance Limited and Real Images Limited.

Sanjeev Mehra

Alternate to Puneet Bhatia

Sanjeev Mehra is a Director 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

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Indrajit Wickramasinghe
Director/Chief Executive Officer



Hiranthi de Silva
Senior Vice President - Wholesale
Banking



Lilanthi Delgoda
Vice President - Human Resources



S. Sri Ganendran
Senior Vice President - Operations



K. Kandeepan Ihsan
Chief Financial Officer



Chaya Jayawardane
Senior Vice President - Retail
Banking



Nisala Kodippili
Chief Information Officer



Indika Mendis
Senior Vice President - Head of
Treasury



Asanka Ranhotty
Senior Vice President – SME and
Transaction Banking



Suhen Vanigasooriya
Chief Risk Officer

Vice Presidents



Rushira De Silva
Vice President - Corporate Banking
Team Head Unit I



Thishani Dissanayake
Vice President - Marketing



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



Indrajith Hapuarachchie
Deputy Chief Information Officer



Mahendra Illangasinghe
Vice President - Head of Branch
Network and Distribution



Ayesha Naotunna
Vice President - Financial Controller



Malinda Perera
Vice President – Liability and
Asset Sales, Service Quality and
Contact Centre



Nirosha Perera
Vice President – Head of Internal
Audit



Asanga Tennakoon
Vice President - Corporate Banking
Team Head Unit II

Assistant Vice Presidents

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Myuravathani Balamurali
*Assistant Vice President - Treasury
Services and Central Operations*



Sandamali Munasinghe
Head of Legal



Christine Munasinghe
*Assistant Vice President -
Company Secretary*



Ruchira Perera
*Assistant Vice President -
Corporate Banking*



Menaka Raigambandarage
Head of Compliance



Anuruddha Ranasinghe
*Assistant Vice President
Zonal Head - Zone II*



Saman Kottawatta
*Assistant Vice President
Zonal Head - Zone III*



Dinuke Wijesinghe
*Assistant Vice President - Risk
Management*

Chief Managers

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Nalin Ahangama
Chief Manager - Trade Operations



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



Clifford Fernando
Chief Manager - Head of Elite Banking



Chaminda Fernando
Chief Manager - Zonal Head - Zone I B



Darsha Hendaheewa
Chief Manager - Treasury and Bank Notes Operation



Janaka Iroshan
Chief Manager - Application Development and Support



Jayanath Kariyakarawana
Chief Manager - Recoveries



Irani Karunanayake
Chief Manager - Legal



Kathirgamathamby Nishaaharan
Chief Manager - Zonal Head - Zone IV



Chandani Perera
Chief Manager - Credit Operations



Dinuk Perera
Chief Manager - SME



Jeewantha Perera
Chief Manager - Branch Operations/Head of Leasing



Shiran Punchihewa
Chief Manager - Business IT



Visal Rupasinghe
Chief Manager - Human Resources

Senior Managers

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Dinesh Balendran
*Senior Manager - Operational Risk
and Information Security*



Kanchana De Silva
*Senior Manager - Trade
Operations*



Charitha De Silva
Senior Manager - Legal



Janaka Edirisinghe
*Senior Manager - Development Financing
Business Revival/Rehabilitation*



Deepal Edirisinghe
Senior Manager - Premises



Rangika Ekanayaka
*Senior Manager - Nugegoda
Branch*



Manula Ekanayake
*Senior Manager - Implementations
and Client Integration*



Amila Erandi
Senior Manager - Internal Audit



Minoli Fernando
Senior Manager - Finance



Dilaksha Fernando
Senior Relationship Manager - SME



Roshan Fernando
Senior Manager - Internal Audit



Tharindu Gamage
Senior Manager - Compliance



Thangavelu Gobinath
*Senior Manager -
Institutional CASA*



Osadhi Gunasekara
Senior Manager - Internal Audit



Mohamed Shazly Hasseen
*Senior Manager - Head Office
Branch*



Samuel Hensman
Senior Manager - Jaffna Branch



Minesh Jayasekera
*Senior Manager - Remittances and
NR Products*



Ranmalee Jayasuriya
*Senior Manager - Customer
Experience*



Suranga Jayaweera
*Senior Manager -
Retail Liability Sales*



Jesdharajan Shanmugeswaran
Senior Manager – Kotahena Branch



Niroscha Kapurubandara
*Senior Manager -
Product Development*



Prathapa Karunasinghe
*Senior Manager - Credit
Underwriting*



Janithi Karunasiri
*Senior Manager - Clearing and
Transaction Processing Operations*



Kaminda Kumarasinghe
Senior Manager - Recoveries



Salinda Kumarasiri
*Senior Manager - Credit Risk
Management*



Gayan Lokupitiya
*Senior Manager - IT Application
Administration*



Sailajah Nadarajah
Senior Manager - Treasury



Frank Nesarajah
*Cluster Head - Trade Hub
Zone 1A*



Madhavi Obadage
Senior Manager - SME Credit



Surani Ondatjie
Senior Manager - Consumer Risk



Kasun Parakrama
*Senior Manager - Process Control
and Branch Operations*



Ridmika Perera
*Senior Manager - Corporate
Banking - Unit I*



Shabbir Raheem

*Senior Manager - Customer
Onboarding and Card Operations*



Dulin Rajapakse

Senior Manager - IT New Projects



Arosha Rajapaksha

*Senior Manager - SME Liability and
Transactional Banking Products*



Asanka Ranasinghe

Senior Manager - Credit Referrals



Achala Ratnayake

Senior Manager - Finance



Dilan Rodrigo

*Senior Manager -
Transaction Banking*



Sarma Sakthitharan

*Senior Manager -
Systems & Network Administration*



Natalie Salgado

Senior Manager - Treasury



Thilini Samarasinghe

Senior Manager - Contact Centre



Nadika Senaratne

Senior Manager - IT Operations



Dhanushka Ranpa Sethuhewa

Senior Manager - Market Risk



Christella Sivapragasam

*Senior Manager - Head of Elite
Centre*



Iroshi Suriyasena
*Senior Manager - Corporate
Banking Unit II*



Shehan Uduwara
*Senior Manager - Head of Retail
Recoveries*



Nilmini Weerasekera
*Senior Relationship Manager -
Corporate Banking*



Mithila Wickramasinghe
*Senior Manager - Maharagama
Branch*



Ramani Wijeratne
Senior Manager - Marawila Branch



Hasitha Wijerathne
Senior Manager - Nawala Branch



Ravihara Wijesinghe
*Senior Manager - IT Security and
Governance*

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Financial Calendar

2021 Annual Report and Audited Financial Statements was signed on	25-Feb-22
27th Annual General Meeting was held on	30-Mar-22

	2022			
	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
Q1 ended 31 March*	13-May-22	30-May-22	30-May-22	30-May-22
Q2 ended 30 June*	29-Jul-22	30-Aug-22	30-Aug-22	30-Aug-22
Q3 ended 30 September*	31-Oct-22	28-Nov-22	28-Nov-22	28-Nov-22
Q4 ended 31 December	28-Feb-23	31-Mar-23	31-Mar-23	31-Mar-23

2022 Annual Report and Audited Financial Statements signed on	28-Feb-23
28th Annual General Meeting to be held on	31-Mar-23

	2023 to be submitted on or before			
	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
Q1 ended 31 March*	15-May-23	31-May-23	31-May-23	31-May-23
Q2 ended 30 June*	15-Aug-23	31-Aug-23	31-Aug-23	31-Aug-23
Q3 ended 30 September*	15-Nov-23	30-Nov-23	30-Nov-23	30-Nov-23
Q4 ended 31 December	29-Feb-24	31-Mar-24	31-Mar-24	31-Mar-24

* Based on unaudited information

Independent Auditor's Report on Financial Statements

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APAG/WDPL/PR

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 2022, 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 2022, 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.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited



Key audit matter	How our audit addressed the key audit matter
Impairment Allowance on financial assets carried at amortised cost Impairment allowance on financial assets carried at amortised cost as stated in Notes 27.5.1, 27.5.2 and 27.5.3 respectively is determined by management in accordance with the accounting policies described in Notes 3.4, 3.5, 3.6, 4.7 and 27.5. This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; management overlays to incorporate the current economic contraction. the incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios.	In addressing the adequacy of the impairment allowance on financial assets carried at amortised cost, our audit procedures included the following key procedures; • We assessed the alignment of the Bank's impairment allowance computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report. • We evaluated the internal controls over estimation of impairment allowance, which included assessing the level of oversight, review and approval of impairment allowance policies and procedures by the Board and management. • We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank. • In addition to the above, the following procedures were performed: For loans and advances assessed on an individual basis for impairment: • We evaluated the reasonableness of credit quality assessments. • We checked the arithmetical accuracy of the underlying individual impairment calculations. • We evaluated the reasonableness of key inputs used in the impairment allowance made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals. For financial assets assessed on a collective basis for impairment: • We tested the key inputs and the calculations used in the impairment allowance. • We assessed whether judgements, assumptions and estimates used by the Management when estimating future cashflows, in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used based on available market data, economic scenarios considered, and probability weighting assigned to each of those scenarios. • We assessed the adequacy of the related financial statement disclosures set out in notes 27.5.1, 27.5.2, 27.5.3, 28, 53.2.1 to 53.2.1.5.
Information Technology (IT) systems and controls over financial reporting Bank's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following: • We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures. • We identified and test checked relevant controls of IT systems related to the Bank's financial reporting process. • We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management. • We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the bank and the actions taken to address these risks. • We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.



Other information included in the Group's 2022 Annual Report

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either

intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine

that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1697.

28 February 2023
Colombo

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Statement of Profit or Loss

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For the year ended 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross income	6	18,966,036	10,978,924	21,091,781	12,723,121
Interest income	7.1	16,728,096	9,146,880	18,681,445	10,699,360
Less: Interest expenses	7.2	10,914,005	4,889,654	11,919,476	5,514,469
Net interest income		5,814,091	4,257,226	6,761,969	5,184,891
Fee and commission income	8.1	1,444,896	1,054,185	1,540,486	1,188,398
Less: Fee and commission expenses	8.2	302,386	194,130	326,848	220,438
Net fee and commission income		1,142,510	860,055	1,213,638	967,960
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	9	39,097	233,567	47,093	227,327
Net gains/(losses) from financial assets at fair value through other comprehensive income	10	3,906	205,235	5,635	208,078
Net other operating income	11	750,041	339,057	817,122	399,958
Total operating income		7,749,645	5,895,140	8,845,457	6,988,214
Less: Impairment for loans and other losses	12	2,555,959	932,879	2,970,048	1,136,663
Net operating income		5,193,686	4,962,261	5,875,409	5,851,551
Less: Operating expenses					
Personnel expenses	13	2,003,351	1,811,802	2,306,386	2,064,869
Depreciation and amortisation	14	727,484	677,675	787,282	737,050
Other expenses	15	1,538,316	1,190,738	1,791,229	1,380,819
Total operating expenses		4,269,151	3,680,215	4,884,897	4,182,738
Results from operating activities		924,535	1,282,046	990,512	1,668,813
Share of profit/(losses) of equity accounted investees, net of tax	32.1	(136,361)	66,038	-	-
Profit before value added tax (VAT) on financial services & social security contribution Levy		788,174	1,348,084	990,512	1,668,813
Less: VAT on financial services & social security contribution levy	16	431,746	368,745	465,236	428,955
Profit before income tax		356,428	979,339	525,276	1,239,858
Less: Income tax expense	17	42,240	214,420	102,337	389,676
Profit for the year		314,188	764,919	422,939	850,182
Attributable to:					
Equity holders of the parent		314,188	764,919	434,065	836,834
Non-controlling interest	45	-	-	(11,126)	13,348
Profit for the year		314,188	764,919	422,939	850,182
Earnings per share					
Earnings per share - Basic (LKR)	18.1	0.29	0.71	0.40	0.77
Earnings per share - Diluted (LKR)	18.2	0.29	0.71	0.40	0.77

The notes to the Financial Statements from pages 160 - 285 form an integral part of these Financial Statements.

Statement of Comprehensive Income

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For the year ended 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit for the year		314,188	764,919	422,939	850,182
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:					
<i>Debt instruments at fair value through other comprehensive income</i>					
Net change in fair value during the year		12,439	(620,905)	9,397	(621,737)
Reclassification to the income statement		(1,430)	(496,346)	(1,430)	(496,346)
Less: Income tax effect on above		(3,248)	268,140	(3,248)	268,340
Less: Income tax effect on rate change		(55)	11,673	(55)	11,473
Share of other comprehensive income of equity accounted investees, net of tax	32.1	(1,552)	(424)	-	-
Total items that will be reclassified to the statement of profit or loss		6,154	(837,862)	4,664	(838,270)
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	(105,665)	54,346	(108,941)	55,338
Revaluation gains/ (losses) on equity instruments at fair value through other comprehensive income		-	-	6,108	15,425
Less: Income tax effect on above		31,699	(13,004)	30,850	(16,944)
Less: Income tax effect on rate change		(1,569)	(1,167)	(2,495)	(1,167)
Share of other comprehensive income of equity accounted investees, net of tax	32.1	1,033	8,833	-	-
Total items that will not be reclassified to the statement of profit or loss		(74,502)	49,008	(74,478)	52,652
Other comprehensive income/(loss) for the year, net of taxes		(68,348)	(788,854)	(69,814)	(785,618)
Total comprehensive income for the year, net of tax		245,840	(23,935)	353,124	64,564
Attributable to:					
Equity holders of the parent		245,840	(23,935)	365,716	47,980
Non-controlling interest		-	-	(12,592)	16,584
Total comprehensive income for the year, net of tax		245,840	(23,935)	353,124	64,564

The notes to the Financial Statements from pages 160 - 285 form an integral part of these Financial Statements.

Statement of Financial Position

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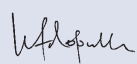
As at 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Assets					
Cash and cash equivalents	21	5,831,375	2,322,357	6,016,521	2,470,657
Balances with Central Bank of Sri Lanka	22	2,170,248	1,492,713	2,170,248	1,492,713
Placements with banks	23	1,659,589	118,969	1,659,589	118,969
Reverse repurchase agreements	24	375,582	1,000,505	375,582	1,144,628
Derivative financial instruments	25	14,794	26,402	14,794	26,402
Financial assets at fair value through profit or loss	26	1,648,699	2,575,616	2,218,303	2,584,312
Financial assets at amortised cost - loans and advances to customers	27	67,726,643	67,835,059	76,103,118	75,303,620
Financial assets at amortised cost - debt and other instruments	28	35,889,996	17,157,602	35,795,165	16,991,208
Financial assets at fair value through other comprehensive income	29	5,286,053	18,249,861	5,307,787	18,276,759
Investments in real estate	31	-	-	76,222	89,110
Investments in subsidiaries	32	2,761,747	2,905,051	-	-
Goodwill and intangible assets	33	1,459,304	1,318,660	1,793,296	1,657,051
Property, plant and equipment and Right of use assets	34	1,710,640	1,763,340	1,913,671	1,948,758
Deferred tax assets	35	483,966	351,256	673,278	614,876
Other assets	36	2,464,317	1,288,710	2,561,431	1,373,862
Total assets		129,482,953	118,406,101	136,679,005	124,092,925
Liabilities					
Due to banks	37	2,601,475	6,056,855	2,679,312	5,824,570
Derivative financial instruments	25	-	22,327	-	22,327
Repurchase agreements	38	12,551,812	8,662,744	12,451,749	8,282,700
Financial liabilities at amortised cost - Due to customers	39	92,591,545	83,416,119	98,942,753	87,618,235
Financial liabilities at amortised cost - Other borrowed funds	40	-	-	331,516	1,636,362
Current tax liability	30	276,181	365,844	283,816	388,738
Deferred tax liabilities	35	-	-	-	193
Other liabilities	41	2,649,109	1,956,993	2,974,110	2,298,948
Total liabilities		110,670,122	100,480,882	117,663,256	106,072,073
Equity					
Stated capital	42	16,334,782	16,334,782	16,334,782	16,334,782
Share warrants	42.1	65,484	65,484	65,484	65,484
Statutory reserve fund	43.1	258,182	242,473	282,802	267,093
Fair value through OCI reserve	43.2	14,099	(620,022)	26,335	(607,786)
Retained earnings	43.3	2,102,979	1,879,002	1,998,295	1,654,441
ESOP reserve	44.3.2	37,305	23,500	37,305	23,500
Total equity attributable to equity holders of the Bank		18,812,831	17,925,219	18,745,003	17,737,514
Non-controlling interest	45	-	-	270,746	283,338
Total equity		18,812,831	17,925,219	19,015,749	18,020,852
Total equity and liabilities		129,482,953	118,406,101	136,679,005	124,092,925
Contingent liabilities and Commitments	46	33,826,971	35,615,022	33,805,270	35,613,440
Net asset value per share (LKR)		17.36	16.54	17.30	16.37

The notes to the Financial Statements from pages 160 - 285 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.



K. Kandeepan Ihsan
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Approved and signed for and on behalf of the Board;



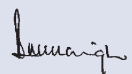
Trevine Fernandopulle
Deputy Chairman

Colombo

28 February 2023



Indrajit Wickramasinghe
Director/Chief Executive Officer



Christine Munasinghe
Company Secretary

Statement of Changes in Equity

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BANK

	Note	Stated Capital LKR '000	Share Warrants LKR '000	Statutory Reserve Fund LKR '000	Fair value through OCI Reserve LKR '000	Retained Earnings LKR '000	ESOP Reserve LKR '000	Total Equity LKR '000
Balance as at 1 January 2021		16,334,782	65,484	204,227	217,840	1,244,184	23,500	18,090,017
Total comprehensive income for the year								
Net profit for the year		-	-	-	-	764,919	-	764,919
Other comprehensive income		-	-	-	(837,862)	49,008	-	(788,854)
Total comprehensive income		-	-	-	(837,862)	813,927	-	(23,935)
Transactions with equity holders, recognised directly in equity								
Dividends to equity holders		-	-	-	-	(140,863)	-	(140,863)
Transfers during the year	43	-	-	38,246	-	(38,246)	-	-
Balance as at 31 December 2021		16,334,782	65,484	242,473	(620,022)	1,879,002	23,500	17,925,219
Total comprehensive income for the year								
Net profit for the year		-	-	-	-	314,188	-	314,188
Other comprehensive income		-	-	-	6,154	(74,502)	-	(68,348)
Total comprehensive income		-	-	-	6,154	239,686	-	245,840
Transactions with equity holders, recognised directly in equity								
Fair value of ESOP	44.3.1	-	-	-	-	-	13,805	13,805
Instruments transferred to Amortised cost		-	-	-	627,967	-	-	627,967
Transfers during the year	43	-	-	15,709	-	(15,709)	-	-
Balance as at 31 December 2022		16,334,782	65,484	258,182	14,099	2,102,979	37,305	18,812,831

GROUP

	Note	Stated Capital LKR '000	Share Warrants LKR '000	Statutory Reserve Fund LKR '000	Fair value through OCI Reserve LKR '000	Retained Earnings LKR '000	ESOP Reserve LKR '000	Total Equity LKR '000	Non Controlling Interest LKR '000	Total LKR '000
Balance as at 1 January 2021		16,334,782	65,484	228,847	230,076	951,674	23,500	17,834,363	230,593	18,064,956
Total comprehensive income for the year										
Net profit for the year		-	-	-	-	836,834	-	836,834	13,348	850,182
Other comprehensive income		-	-	-	(837,862)	49,008	-	(788,854)	3,236	(785,618)
Total comprehensive income		-	-	-	(837,862)	885,842	-	47,980	16,584	64,564
Transactions with equity holders, recognised directly in equity										
Dividends to equity holders		-	-	-	-	(140,863)	-	(140,863)	-	(140,863)
Transfers during the year	43	-	-	38,246	-	(38,246)	-	-	-	-
Share issue - right issue		-	-	-	-	-	-	-	32,195	32,195
Change in control	45	-	-	-	-	(3,966)	-	(3,966)	3,966	-
Balance as at 31 December 2021		16,334,782	65,484	267,093	(607,786)	1,654,441	23,500	17,737,514	283,338	18,020,852
Total comprehensive income for the year										
Net profit for the year		-	-	-	-	434,065	-	434,065	(11,126)	422,939
Other comprehensive income		-	-	-	6,154	(74,502)	-	(68,348)	(1,466)	(69,814)
Total comprehensive income		-	-	-	6,154	359,563	-	365,717	(12,592)	353,125
Transactions with equity holders, recognised directly in equity										
Fair value of ESOP	44.3.1	-	-	-	-	-	13,805	13,805	-	13,805
Transfers during the year	43	-	-	15,709	-	(15,709)	-	-	-	-
Instruments transferred to Amortised cost		-	-	-	627,967	-	-	627,967	-	627,967
Balance as at 31 December 2022		16,334,782	65,484	282,802	26,335	1,998,295	37,305	18,745,003	270,746	19,015,749

The notes to the Financial Statements from pages 160 - 285 form an integral part of these Financial Statements.

Statement of Cash Flows

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ACCOUNTING POLICY

The cash flow statement has been prepared by using 'The Direct Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised.

Cash and cash equivalents for the purpose of cash flow statement comprise of cash in hand and at banks, placements with banks, reverse repurchased agreements and unfavourable balances with local & foreign banks that are subject to an insignificant risk of change in their value.

	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash Flow from Operating Activities					
Interest receipts		15,418,589	8,755,576	17,144,240	9,788,679
Fee and commission receipts		1,142,510	860,055	1,213,638	967,960
Interest payments		(9,402,352)	(5,746,365)	(10,300,189)	(6,437,221)
Receipts from other operating activities		802,592	792,117	875,591	832,467
Payments on other operating activities		(3,896,519)	(3,431,949)	(4,478,809)	(3,948,424)
Operating profit before changes in operating assets & liabilities		4,064,820	1,229,434	4,454,471	1,203,461
(Increase)/decrease in operating assets:					
Balances with Central Bank of Sri Lanka		(677,535)	(769,986)	(677,535)	(769,986)
Financial assets at amortised cost - loans and advances to customers		(1,309,841)	(849,595)	(2,424,740)	(2,355,458)
Others		(1,164,000)	(244,896)	(1,163,071)	(225,494)
		(3,151,376)	(1,864,477)	(4,265,346)	(3,350,938)
Increase /(decrease) in operating liabilities:					
Due to banks		724,454	(480,389)	724,454	(480,389)
Due to customers		7,758,163	1,917,731	9,724,332	1,357,411
Repurchase agreements		3,868,181	(1,555,645)	4,148,162	(1,830,677)
Others		283,430	(89,228)	290,303	(242,989)
		12,634,228	(207,531)	14,887,251	(1,196,644)
Net cash from/(used in) operating activities before income tax		13,547,673	(842,574)	15,076,376	(3,344,121)
Retirement benefit obligation paid	41.2.2	(41,630)	(22,900)	(44,095)	(24,888)
Income tax paid		(436,165)	(250,720)	(436,762)	(253,326)
Net cash from/(used in) operating activities		13,069,878	(1,116,194)	14,595,519	(3,622,335)
Cash flow from/(used in) investing activities					
Dividends received		1,093	1,041	2,822	3,884
Financial assets at fair value through profit or loss		957,820	4,537,306	(117,894)	5,067,724
Financial assets at fair value through other comprehensive income		(5,114,113)	(67,999)	(5,111,990)	(82,684)
Financial assets at amortised cost - debt and other instruments		149,833	3,800,779	348,821	3,549,782
Investment in subsidiaries		-	(1,956,015)	-	-
Purchase of property, plant & equipment	34	(118,698)	(418,176)	(143,602)	(433,530)
Purchase of intangible assets	33	(382,347)	(235,178)	(382,689)	(236,656)
Proceeds from Sale of property, plant & equipment		3,331	169	3,331	8,359
Net cash from/(used in) investing activities		(4,503,081)	5,661,927	(5,401,201)	7,876,879
Cash flow from/(used in) financing activities					
Increase/(decrease) in borrowings		(4,084,406)	(3,494,704)	(4,821,685)	(3,576,801)
Dividend paid		-	(140,863)	-	(140,863)
Net cash from/(used in) financing activities		(4,084,406)	(3,635,567)	(4,821,685)	(3,717,664)
Net increase/(decrease) in cash and cash equivalents		4,482,390	910,166	4,372,633	536,880
Cash and cash equivalents at beginning of the year		3,324,765	2,414,599	3,619,664	3,082,784
Cash and cash equivalents at end of the year		7,807,155	3,324,765	7,992,297	3,619,664
Reconciliation of cash and cash equivalents					
Cash in hand and at banks	21	5,831,375	2,322,357	6,016,521	2,470,657
Placements with banks	23	1,659,589	118,969	1,659,589	118,969
Due to banks - unfavourable balances with banks	37	(59,391)	(117,066)	(59,395)	(114,590)
Reverse repurchase agreements	24	375,582	1,000,505	375,582	1,144,628
Total cash and cash equivalents at end of the year		7,807,155	3,324,765	7,992,297	3,619,664

Reconciliation of liabilities arising from financing activities

For the year ended 31 December 2022

	31 Dec 2022 LKR '000	Cash change- Cash flow LKR '000	Non cash change- Foreign exchange movement LKR '000	1 Jan 2022 LKR '000
BANK				
Due to banks	1,311,278	(4,179,833)	-	5,491,112
Less : Unfavourable balances with banks	(59,391)	57,674	-	(117,066)
Less : Interest payable	(6,692)	37,753	-	(44,445)
Total	1,245,195	(4,084,406)	-	5,329,601
GROUP				
Due to banks	1,389,115	(3,869,711)	-	5,258,826
Other borrowed funds	331,516	(1,304,846)	-	1,636,362
Less : Unfavourable balances with banks	(59,395)	126,101	-	(185,496)
Less : Interest payable	(86,639)	226,771	-	(313,410)
Total	1,574,597	(4,821,685)	-	6,396,282

For the year ended 31 December 2021

	31 Dec 2021 LKR '000	Cash change- Cash flow LKR '000	Non cash change- Foreign exchange movement LKR '000	1 Jan 2021 LKR '000
BANK				
Due to banks	5,491,112	(3,450,846)	7,500	8,934,458
Less : Unfavourable balances with banks	(117,066)	(110,826)	-	(6,240)
Less : Interest payable	(44,445)	66,968	-	(111,413)
Total	5,329,601	(3,494,704)	7,500	8,816,805
GROUP				
Due to banks	5,258,826	(2,870,620)	7,500	8,121,946
Other borrowed funds	1,636,363	(711,271)	-	2,347,634
Less : Unfavourable balances with banks	(185,496)	53,385	-	(238,881)
Less : Interest payable	(313,411)	(48,295)	-	(265,116)
Total	6,396,282	(3,576,801)	7,500	9,965,583

The Notes to the Financial Statements from pages 160 - 285 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 Reporting Entity

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 are listed on the Colombo Stock Exchange.

The staff strength of the Bank as at 31 December 2022 was 1,164 (2021: 1,227).

1.1.1 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2022 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 was 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 is registered with the Central Bank of Sri Lanka as a Licensed Finance Company under the Finance Business Act No 42 of 2011.

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 3.10, 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 which is registered in Caymen Islands the ultimate parent is TPG Inc. (NASDAQ: TPG) (Delaware) which is registered in United States of America and produces consolidated financial statements available for public use.

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, administering and managing 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. All subsidiaries are domiciled in Sri Lanka.

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 amendments thereto and provide appropriate disclosures as required by listing rules of the CSE.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL in the Circular No 02 of 2019 dated on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks". The Bank also publish annual and quarterly financial information and other disclosures in the press and the website in compliance with section 4.2 of the aforementioned circular.

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 Sri Lanka Accounting Standards and the provisions of the Companies Act No. 07 of 2007.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors' on the Affairs of the Bank, 'Statement of Directors' Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on page 121.

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 Pages 158 and 159).
- Notes to the financial statements, which comprise of the significant accounting policies and other explanatory notes and information (Refer Pages 160 to 285).

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 2022 were authorised for issue by the Board of Directors in accordance with the resolution of the Board of Directors on 28 February 2023.

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 assets at fair value through other comprehensive income (FVOCI) are measured at fair value (Note 29).
- Financial assets 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 statements.

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 Standard.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's classification in order to provide better 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 maturing within three months from the date of the Statement of Financial Position 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. The 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 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 the 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, if not available, judgment was used to establish 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 allowances.

3.4.1 Individual Impairment Assessment

The Group review their individually significant loans and advances at each reporting date to assess whether an impairment allowance 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 allowance. These estimates are based on a number of assumptions 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 categorising 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 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 with the current economic outlook have been more fully described in Note 53.1.5 to the financial statements.

3.5 Impairment of Other Financial Assets

The Group reviews its debt securities classified as FVOCI/ amortised cost at each reporting date to assess whether they are impaired. Objective evidence that a debt security held at FVOCI/amortised cost is impaired/ having

an increased credit risk 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. Management judgement has been involved in determining whether there is significant increase in credit risk of these instruments as at the reporting date.

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 Taxation

The Group is subject to income tax and judgement is required to determine the total provision for current, deferred, and other taxes, due to the uncertainties that exist with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations, and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual

agreements, differences arising between actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made.

3.9 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 41.2.1 to the financial statements.

3.10 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.

3.11 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.

3.12 Contingent Liabilities and Commitments

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 Contingent Liabilities and Commitments are disclosed in Note 46 to the financial statements.

3.13 SLFRS 16

The Group uses its judgement to determine whether an operating lease contract qualifies to recognise as right-of-use assets. It also uses judgement in the determination of the discount rate use in the calculation of lease liability. The lease liability is initially measured as the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. As the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ('IBR') to measure the lease liabilities. The IBR is the rate of interest that the Group 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. Further the Group applies judgement in evaluating whether it is reasonably certain to renew or terminate the lease at the end of the lease term. That is, it considers all relevant factors that create an economic benefit for it to exercise, either a renewal or termination option.

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 2022 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.

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

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 statements. 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 into 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 prevailing at that date and all differences arising from these activities are taken to "Net 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 and SWAPs are valued at the forward market rates ruling on the reporting date. Resulting net unrealised gains or losses are dealt within the Statement of Profit or Loss.

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.

Transaction cost in relation to financial assets and financial liabilities at FVPL are dealt through the Statement of Profit or Loss.

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.

The "Day 1 loss" arising in the case of loans granted to employees at the concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest Income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

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. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

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 inputs that is significant to the measurement as a 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 level 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, Reverse Repurchase Agreements

The Group measures Due from banks, Loans and advances to customers and other financial assets 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).

The details of these conditions are outlined below.

4.5.1.1 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:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial

assets held within that business model) and, in particular, the way those risks are managed

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Group's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.5.1.2 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 amortisation of the premium/discount.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de-minimise 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 foreign currency swaps, 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 "Net other operating 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 is 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/losses are recognised in the statement of 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. The OCI reserve has been maintained to account the changes in assets classified as FVOCI.

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 include 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 the statement of profit or loss.

4.5.5 Financial Liabilities at amortised cost - Due to banks, Due to Customers, Repurchased Agreements and Other Borrowed Funds

After initial measurement, financial liabilities at amortised cost - due to banks, due to customers, repurchased agreements and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds and costs that are an integral part of the EIR.

4.6 Derecognition of Financial Assets and Financial Liabilities**4.6.1 Derecognition due to substantial modification of terms and conditions**

The Group derecognises a financial asset, such as loan to a customer, when the terms and conditions have been renegotiated and substantially the financial asset becomes

a new loan. The change in cashflows discounted at the original EIR, recognises as a modification gain or loss, to the extent that an impairment loss has not been recorded. The newly recognised loans are classified under stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of granting. If the modification does not result in substantially different cashflows, the modification does not result in derecognition.

4.6.2 Derecognition other than for substantial modification**(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 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 derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of profit or loss.

4.7 Impairment Allowance for 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 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 and Stage 3.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs.
- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECLs.
- Purchased or Originated Credit Impaired: 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 more than 90 days past due on its contractual payments.

Further, as per "CBSL" Direction No. 13 of 2021 classification, recognition and measurement of credit facilities in licensed Banks, additional criteria are also used to classify borrowers as default.

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.

It is the Group's policy to consider a financial asset, as 'cured' and therefore, reclassified out of stage 3 when none of the material default criteria have been presented and the borrower is no longer considered as non-performing as per the directions issued by the Central Bank of Sri Lanka.

The Group's criteria for 'cure' for rescheduled or restructured loans is more stringent than ordinary loans and is explained in Note 4.7.4.4.

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 a significant increase in credit risk since initial recognition.

The Group considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days as per CBSL directions. 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.

The Group has identified industries such as Construction, Tourism and Financial Services as industries carrying an increased credit risk. Accordingly, exposures outstanding from the borrowers operating in these industries have been analysed on case-by-case basis and required additional provisions have been made by moving stages.

4.7.4 The Calculation of ECL

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 is reviewed on a monthly basis. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Land, Land and Building which are obtained as collateral against any accommodation including foreclosed properties were revalued by professionally qualified independent valuers. Individually assessed impairment is only reversed when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through 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 into sub categories based on a combination of internal characteristics of the loans such as Product type and 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 categorised into 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 modelling the range of possible exposure outcomes at various point in time, corresponding the multiple scenarios. The PDs are then assigned to each economic scenario based on the outcome of Group's models.

4.7.4.2.3 Loss Given Default

The LGD rates take in to account the EAD in comparison to the amount 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.

For financial assets 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.

To reflect these uncertainties in the calculation of ECLs, the Group change the weightages assigned for multiple economic scenarios.

To ensure the completeness and accuracy, the Group obtains the above data primarily from the Central Bank of Sri Lanka (CBSL). Other sources such as World Bank, Department of Census and Statistics etc. are also used when CBSL data is not available.

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 recognised in OCI as an accumulated impairment amount, with a correspondence charge to the statement of profit or loss. The accumulated loss recognised in OCI is reclassified to the statement of profit or loss 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. Reschedule 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.

Generally, Restructure or Reschedule is a qualitative indicator of a significant increase in credit risk and an expectation of Restructure or Reschedule may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered under Stage 01.

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 the statement of 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 Group as the Lessee**4.9.1.1 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.

4.9.1.2 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 discounted using the Groups' incremental borrowing rate.

The Lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments based on the decisions of extensions, early terminations etc. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in the statement of profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Group presents Right of use asset in Note 34 and correspondence Lease liability in Note 41.1 to these Financial Statements.

4.9.1.3 Short term leases and leases of low value assets

The Group has elected not to recognise right of use assets and lease liabilities for short term leases (that have a lease term of 12 months or less) and leases of low value assets.

4.9.2 Bank as a Lessor

To classify each lease as Finance lease or an operating lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. In this case, it is a Finance lease. If not it is an operating lease.

4.10 Provisions

As a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, provision is recognised in the Financial Statements. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. In a situation where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

4.11 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 DECEMBER 2022 & NEW AND AMENDED STANDARDS AND INTERPRETATIONS**Standards Issued but not yet Effective as at 31 December 2022**

The new and amended standards and interpretations that are issued up to the date of issuance of the Group's financial statements but are not effective for the current annual reporting period, 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 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

5.2 Amendments to LKAS 8 - Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

5.3 Amendments to LKAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

5.4 Amendments to LKAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

5.5 Amendments to LKAS 1 - Classification of Liabilities as Current or Non-current

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify.

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

However these do not have a material impact on the consolidated/separate financial statements of the Group/Bank.

New and amended standards and interpretations

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5.6 Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts – Costs of Fulfilling a Contract

On 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. However, the amendment did not have a material impact on the Consolidated/Separate Financial Statements of the Group/Bank.

5.7 Amendments to LKAS 16 Property, Plant & Equipment : Proceeds before Intended Use

On 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in the statement of profit or loss. The Group has complied with the amendment in presenting Financial Statements of the Group.

5.8 Amendments to SLFRS 3 Business Combinations : Updating a reference to conceptual framework

On 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments

are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

However, the amendment does not have a material impact on the Consolidated/Separate Financial Statements of the Group/Bank.

5.9 SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

However, the amendment does not have a material impact on the Consolidated/Separate Financial Statements of the Group/Bank.

5.10 SLFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

However, this amendment does not have a material impact on the Consolidated/Separate Financial Statements of the Group/Bank.

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest income	7.1	16,728,096	9,146,880	18,681,445	10,699,360
Fee and commission income	8.1	1,444,896	1,054,185	1,540,486	1,188,398
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	9	39,097	233,567	47,093	227,327
Net gains/ (losses) from financial investments	10	3,906	205,235	5,635	208,078
Net other operating income	11	750,041	339,057	817,122	399,958
Total		18,966,036	10,978,924	21,091,781	12,723,121

7. NET INTEREST INCOME

ACCOUNTING POLICY

The Group recognises 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.

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, the 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest income	7.1	16,728,096	9,146,880	18,681,445	10,699,360
Less: Interest expense	7.2	10,914,005	4,889,654	11,919,476	5,514,469
Net interest income		5,814,091	4,257,226	6,761,969	5,184,891

7. NET INTEREST INCOME (CONTD.)**7.1 Interest income**

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Reverse repurchase agreements	54,113	8,087	68,890	19,517
Placements with banks	24,688	5,048	30,468	10,719
Financial assets at fair value through profit or loss	238,236	156,267	308,979	156,267
Financial assets at amortised cost - loans and advances to customers	10,880,453	6,162,497	12,596,996	7,608,719
Interest income accrued on impaired financial assets	990,343	621,502	990,343	621,502
Financial assets at amortised cost - debt and other instruments	4,080,894	997,216	4,226,400	1,086,373
Financial assets at fair value through other comprehensive income	459,369	1,196,263	459,369	1,196,263
Total	16,728,096	9,146,880	18,681,445	10,699,360

7.2 Interest expenses

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due to banks	171,854	432,162	191,020	412,430
Repurchased agreements	1,646,297	385,714	1,636,600	385,714
Financial liabilities at amortised cost - Due to customers	8,492,198	3,988,856	9,383,533	4,421,633
Financial liabilities at amortised cost - Other borrowed funds	603,656	82,922	708,323	294,692
Total	10,914,005	4,889,654	11,919,476	5,514,469

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Fee and commission income	8.1	1,444,896	1,054,185	1,540,486	1,188,398
Fee and commission expenses	8.2	302,386	194,130	326,848	220,438
Net Fee and commission income		1,142,510	860,055	1,213,638	967,960

8. NET FEE AND COMMISSION INCOME (CONTD.)

8.1 Fee and commission income

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Loans	61,871	113,501	93,158	143,983
Trade and remittances	530,555	216,723	530,555	216,723
Credit and debit cards	568,151	433,799	568,151	433,799
Bancassurance	22,152	47,311	22,152	47,311
Factoring	1,355	1,804	1,355	1,804
Fund management	-	-	44,647	81,346
Deposits related fee	148,179	151,144	148,179	151,144
Guarantees	80,453	76,547	80,453	76,547
Others	32,180	13,356	51,836	35,741
Total	1,444,896	1,054,185	1,540,486	1,188,398

8.2 Fee and commission expenses

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Financial services	74,762	57,997	99,224	84,305
Credit and debit cards	168,359	95,493	168,359	95,493
Brokerage fees	59,265	40,640	59,265	40,640
Total	302,386	194,130	326,848	220,438

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 assets 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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Government securities				
Net marked to market gain/(loss)	(12,841)	2,103	(12,841)	2,103
Net capital gain/(loss)	5,700	(29,381)	5,700	(29,381)
Subtotal	(7,141)	(27,278)	(7,141)	(27,278)
Unit investments				
Net marked to market gain/(loss)	-	(875)	4,059	(7,115)
Net capital gain	46,238	261,720	50,175	261,720
Subtotal	46,238	260,845	54,234	254,605
Total	39,097	233,567	47,093	227,327

10. NET GAINS/(LOSSES) FROM FINANCIAL ASSETS AT FAIR VALE THROUGH OTHER COMPREHENSIVE INCOME**ACCOUNTING POLICY**

Net gains/(losses) from financial assets at fair value through other comprehensive income include capital gains/(losses) and dividend income on financial assets 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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Dividend income	1,093	1,041	2,822	3,884
Gain on Government securities	2,813	204,194	2,813	204,194
Total	3,906	205,235	5,635	208,078

11. NET 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 net 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.

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Net gain/(loss) on sale of property, plant and equipment	2,659	(165)	2,537	3,209
Foreign exchange gain	733,372	336,918	733,372	336,918
Income from real estate	-	-	21,231	29,691
Others	14,010	2,304	59,982	30,140
Total	750,041	339,057	817,122	399,958

Foreign exchange gains includes profit from inter-bank foreign exchange transactions amounting to LKR 187.5 Mn (LKR 98.8 Mn : 2021).

12. IMPAIRMENT FOR LOANS AND OTHER LOSSES

ACCOUNTING POLICY

The Group recognises 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Financial assets at amortised cost - loans and advances to customers	12.1	2,428,494	789,416	2,845,014	996,460
Financial assets at amortised cost - debt and other instruments	12.2	(38,443)	120,888	(38,443)	122,590
Contingent liabilities and commitments	12.3	159,484	14,686	160,859	9,724
Investments in subsidiaries	32.1	6,424	7,889	-	-
Investments in real estate	31.1	-	-	450	-
Goodwill and intangible assets		-	-	2,168	7,889
Total impairment charge		2,555,959	932,879	2,970,048	1,136,663

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

BANK

For the year ended 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Term loans	(73,162)	115,540	1,364,209	1,406,587	(24,143)	230,474	185,445	391,776
Overdrafts	63,952	(7,959)	502,645	558,638	34,144	18,205	261,602	313,951
Trade finance	83,432	102,320	37,771	223,523	11,157	8,205	18,887	38,249
Lease and hire purchase	(616)	(208)	2,313	1,489	(642)	(3,077)	11,021	7,302
Factoring	1,317	(110)	36,141	37,348	382	318	10,839	11,539
Credit cards	9,725	53,206	138,470	201,401	9,115	12,011	4,580	25,706
Others	(546)	-	54	(492)	443	-	450	893
Impairment charge	84,102	262,789	2,081,603	2,428,494	30,456	266,136	492,824	789,416

GROUP

For the year ended 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Term loans	(39,588)	188,989	1,507,296	1,656,697	(4,789)	205,556	386,867	587,634
Overdrafts	63,952	(7,933)	502,645	558,664	34,144	19,134	261,602	314,880
Trade finance	83,432	102,320	37,771	223,523	11,157	8,205	18,887	38,249
Lease and hire purchase	(19,860)	45,786	102,710	128,636	26,852	(13,296)	(9,427)	4,129
Factoring	668	(595)	63,445	63,518	734	488	23,542	24,764
Credit cards	9,725	53,206	138,470	201,401	9,115	12,011	4,580	25,706
Others	5,047	5,009	2,519	12,575	2,953	497	(2,352)	1,098
Impairment charge	103,376	386,782	2,354,856	2,845,014	80,166	232,595	683,699	996,460

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

	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Other financial assets at amortised cost	(260,656)	222,213	-	(38,443)	120,888	-	-	120,888
Impairment charge/ (reversal)	(260,656)	222,213	-	(38,443)	120,888	-	-	120,888

GROUP

For the year ended 31 December

	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Other financial assets at amortised cost	(260,656)	222,213	-	(38,443)	122,590	-	-	122,590
Impairment charge/ (reversal)	(260,656)	222,213	-	(38,443)	122,590	-	-	122,590

12.3 Contingent liabilities and Commitments**BANK**

For the year ended 31 December

	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Undrawn loan commitments	90,394	59,568	4,723	154,685	(3,264)	15,643	610	12,989
Other commitments	4,282	150	367	4,799	1,664	33	-	1,697
Impairment charge/ (reversal)	94,676	59,718	5,090	159,484	(1,600)	15,676	610	14,686

GROUP

For the year ended 31 December

	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Undrawn loan commitments	93,131	65,329	(2,401)	156,059	(2,463)	12,382	(1,892)	8,027
Other commitments	4,283	150	367	4,800	1,664	33	-	1,697
Impairment charge/ (reversal)	97,414	65,479	(2,034)	160,859	(799)	12,415	(1,892)	9,724

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Salary and bonus		1,396,249	1,275,771	1,635,808	1,484,177
Contributions to defined contribution plans		189,036	174,655	220,066	196,395
Contributions to defined benefit plans	41.2.3	50,730	36,715	57,881	42,067
Share based expense	44.3	13,805	-	13,805	-
Others	13.2	353,531	324,661	378,826	342,230
Total		2,003,351	1,811,802	2,306,386	2,064,869

13.1 Contributions to defined benefit plans have been made based on the actuarial valuation carried out as at 31 December 2022. 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.

Depreciation of asset ceases at the earlier of the date that the asset is classified as held for sale or the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

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/amortisation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. Accordingly, Group reassessed the estimates and revised at each reporting date.

For the year ended 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Amortisation of intangible assets	33	241,267	213,656	243,843	216,174
Depreciation of property, plant and equipment	34	189,952	184,827	222,490	219,425
Amortisation of right of use assets	34	296,265	279,192	320,949	301,451
Total		727,484	677,675	787,282	737,050

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Auditor's remuneration	15.1	9,954	9,751	12,863	12,186
Directors' fees	15.2	14,917	13,979	18,943	17,151
Professional and legal expenses		35,115	28,920	40,509	35,160
Advertising and marketing expenses		49,555	32,652	83,358	55,792
Office administration and establishment expenses		1,208,782	941,788	1,400,439	1,080,071
Deposit insurance expenses		93,338	77,315	102,136	78,479
Others	15.3	126,655	86,333	132,981	101,980
Total		1,538,316	1,190,738	1,791,229	1,380,819

15.1 Auditor's remuneration

For the year ended 31 December		BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Audit fees		5,036	4,934	7,945	7,369
Non audit expenses		4,918	4,817	4,918	4,817
Total		9,954	9,751	12,863	12,186

15.2 Directors' fees include fees paid to Non Executive Directors. Remuneration paid to the 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 of the group.

16. VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES & SOCIAL SECURITY CONTRIBUTION LEVY

Disclosure 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 2022 is 18% (2021: 15%).

Social Security Contribution Levy

Social Security Contribution Levy (SSCL) on Financial Services (value addition) is calculated in accordance with the Social Security Contribution Levy Act, No. 25 of 2022 and value addition is computed based on the guidelines given under the Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The SSCL rate applied in 2022 is 2.5% (with effect from 1 October 2022).

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Value added tax on financial services	419,737	368,745	451,784	428,955
Social Security Contribution Levy	12,009	-	13,452	-
Total	431,746	368,745	465,236	428,955

17. TAX EXPENSE

Disclosure 207-1/207-2/207-4/201-4

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, 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. 24 of 2017 and the amendments thereto.

For the year ended 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current tax expense	17.1	436,948	413,908	438,996	407,164
Under/(Over) provision in respect of prior years		(90,448)	(60,033)	(104,740)	(55,807)
Deferred tax charge/ (reversal)	17.1	(304,260)	(139,455)	(231,919)	38,320
Total		42,240	214,420	102,337	389,676
Effective tax rate		8.57%	23.48%	19.48%	31.40%

17. TAX EXPENSE (CONTD.)

17.1 Reconciliation of accounting profit to income tax expense

For the year ended 31 December	BANK				GROUP			
	2022		2021		2022		2021	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
Profit before tax		356,428		979,339		525,276		1,239,858
Adjust : Share of profit of equity accounted investees, net of tax		136,361		(66,038)		-		-
Adjusted profit before taxes		492,789		913,301		525,276		1,239,858
- First 6 months		331,791				525,276		
- Second 6 months		160,998				129,915		
Tax using the comparable tax rate								
- First 6 months (@24%)		79,630				94,887		
- Second 6 months (@30% and UBF 24%/30%)		48,299				33,560		
Add: disallowable expenses	224.29%	1,105,290	57.70%	526,658	228.88%	1,207,161	47.30%	587,031
Less: Tax deductible expenses	(150.32%)	(740,751)	(31.70%)	(289,928)	(153.13%)	(807,222)	(29.00%)	(360,202)
Less: Tax exempt income	(11.80%)	(58,168)	(6.80%)	(62,105)	(11.13%)	(58,475)	(5.10%)	(63,833)
Adjustment for leasing	0.54%	2,648	2.20%	20,091	0.50%	2,648	1.60%	20,091
	88.67%	436,948	45.30%	413,908	83.57%	438,996	38.80%	480,653
Tax losses utilised	-	-	-	-	-	-	(5.90%)	(73,489)
Taxable profit	88.67%	436,948	45.30%	413,908	83.57%	438,996	32.80%	407,164
Under /(Over) provision in respect of previous years	(18.35%)	(90,448)	(6.60%)	(60,033)	(19.94%)	(104,740)	(4.50%)	(55,807)
Deferred tax charge/(reverse)								
- Related to change in tax rate	(8.09%)	(39,858)	-	-	(16.91%)	(88,845)	-	-
- Related to other changes	(53.65%)	(264,402)	-	-	(27.24%)	(143,074)	-	-
Tax expense	8.57%	42,240	23.50%	214,420	19.48%	102,337	31.40%	389,676

17.1.1 Applicable rates of tax

For the year ended 31 December	2022		2021
	Jan - June	July - Dec	Jan - Dec
Income tax on Union Bank of Colombo PLC	24%	30%	24%
Income tax on National Asset Management Limited (NAMAL)			
Profits from Unit trust business	10%	30%	10%
Profits from Investments	24%	30%	14%
Others	24%	30%	24%
Income tax on Serandib Capital (Pvt) Limited	24%	30%	24%
	2022		2021
	Jan - Sep	Oct - Dec	Jan - Dec
Income tax on UB Finance Company Limited	24%	30%	24%

The above tax rates have been changed due to changes in tax regulations.

17. TAX EXPENSE (CONTD.)**17.2 The deferred tax charge/ (reversal) in the Statement of Profit or Loss, Statement of Comprehensive Income and Retained Earnings****BANK**

For the year ended 31 December

	2022				
	Deferred Tax Assets LKR '000	Deferred Tax Liabilities LKR '000	Statement of Profit or Loss LKR '000	Other Comprehensive Income LKR '000	Retained Earnings LKR '000
Depreciation allowances for tax purpose	-	287,282	13,046	-	-
Impairment allowance	617,498	-	(281,094)	-	-
Re-measurement of financial assets - at fair value through other comprehensive income	-	3,577	-	3,303	198,377
Retirement benefit obligation	66,501	-	(15,485)	-	-
Actuarial gains/ (losses) on defined benefit plan liability	23,853	-	-	(30,130)	-
Other temporary differences	66,973	-	(20,727)	-	-
Total	774,825	290,859	(304,260)	(26,827)	198,377
Related to change in tax rate	-	-	(39,858)	1,624	-
Related to other changes	-	-	(264,402)	(28,452)	198,377
Total deferred tax charge/ (reverse)	-	-	(304,260)	(26,828)	198,377

BANK

For the year ended 31 December

	2021			
	Deferred Tax Assets LKR '000	Deferred Tax Liabilities LKR '000	Statement of Profit or Loss LKR '000	Other Comprehensive Income LKR '000
Depreciation allowances for tax purpose	-	274,236	(104,819)	-
Impairment allowance	336,404	-	(64,716)	-
Re-measurement of financial assets - at fair value through other comprehensive income	198,103	-	-	(279,813)
Retirement benefit obligation	51,016	-	4,634	-
Actuarial gains/ (losses) on defined benefit plan liability	(6,277)	-	-	14,171
Other temporary differences	46,246	-	25,446	-
Total	625,492	274,236	(139,455)	(265,642)
Related to change in tax rate	-	-	(2,854)	10,545
Related to other changes	-	-	(136,601)	(276,187)
Total deferred tax charge/ (reverse)	-	-	(139,455)	(265,642)

17. TAX EXPENSE (CONTD.)

GROUP

For the year ended 31 December

	2022				
	Deferred Tax Assets LKR '000	Deferred Tax Liabilities LKR '000	Statement of Profit or Loss LKR '000	Other Comprehensive Income LKR '000	Retained Earnings LKR '000
Depreciation allowances for tax purpose	-	316,511	8,187	-	-
Impairment allowance	723,736	-	(336,250)	-	-
Carried forward losses	100,197	-	138,757	-	-
Retirement benefit obligation	75,715	-	(18,452)	-	-
Actuarial gains/ (losses) on defined benefit plan liability	24,836	-	-	(31,113)	-
Re-measurement of financial assets - at fair value through other comprehensive income	-	10,037	-	6,060	198,377
Other temporary differences	75,342	-	(24,161)	-	-
Total	999,826	326,548	(231,919)	(25,053)	198,377
Related to change in tax rate	-	-	(88,845)	2,549	-
Related to other changes	-	-	(143,074)	(27,602)	198,377
Total deferred tax charge/ (reverse)	-	-	(231,919)	(25,053)	198,377

GROUP

For the year ended 31 December

	2021			
	Deferred Tax Assets LKR '000	Deferred Tax Liabilities LKR '000	Statement of Profit or Loss LKR '000	Other Comprehensive Income LKR '000
Depreciation allowances for tax purpose	-	307,963	(130,964)	-
Impairment allowance	387,486	-	(110,473)	-
Carried forward losses	238,954	-	248,929	-
Re-measurement of financial assets - at fair value through other comprehensive income	-	(198,103)	-	(279,813)
Retirement benefit obligation	60,127	-	2,470	-
Actuarial gains/ (losses) on defined benefit plan liability	(9,141)	-	-	14,409
Revaluation of equity assets at fair value through other comprehensive income	(3,702)	-	-	3,702
Other temporary differences	50,820	-	28,357	-
Total	724,544	109,860	38,320	(261,702)
Related to change in tax rate	-	-	(66,820)	10,920
Related to other changes	-	-	105,140	(272,622)
Total deferred tax charge/ (reverse)	-	-	38,320	(261,702)

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

For the year ended 31 December	Note	BANK		GROUP	
		2022	2021	2022	2021
Net profit attributable to ordinary shareholders (LKR '000)		314,188	764,919	434,065	836,834
Weighted average number of ordinary shares ('000)	18.1.1	1,083,558	1,083,558	1,083,558	1,083,558
Basic earnings per ordinary share (LKR)		0.29	0.71	0.40	0.77

18.1.1 Weighted average number of ordinary shares for basic EPS**BANK & GROUP**

For the year ended 31 December	2022		2021	
	Outstanding '000	Weighted Average '000	Outstanding '000	Weighted Average '000
Number of shares held as at 1 January	1,083,558	1,083,558	1,083,558	1,083,558
Number of shares held as at 31 December	1,083,558	1,083,558	1,083,558	1,083,558

18.2 Earnings per share - Diluted

For the year ended 31 December	Note	BANK		GROUP	
		2022	2021	2022	2021
Net profit attributable to ordinary shareholders (LKR '000)		314,188	764,919	434,065	836,834
Weighted average number of ordinary shares ('000)	18.2.1	1,089,854	1,083,558	1,089,854	1,083,558
Diluted earnings per ordinary share (LKR)		0.29	0.71	0.40	0.77

18.2.1 Weighted average number of ordinary shares for diluted EPS

For the year ended 31 December	Note	BANK & GROUP	
		2022 '000	2021 '000
Number of ordinary shares used as denominator for Basic EPS	18.1.1	1,083,558	1,083,558
Effect of dilution :			
Add: Weighted average number of potential ordinary shares outstanding under warrant	42.1	218,281	218,281
Add: Weighted average number of potential ordinary shares outstanding under ESOP	44.2	22,875	4,765
Less: Weighted average number of potential ordinary shares that would have been issued at average market price		(234,860)	(223,046)
Number of shares held as at 31 December		1,089,854	1,083,558

19. DIVIDEND PAID AND PROPOSED**ACCOUNTING POLICY**

Interim and final dividend are recognised and accrued at the time the dividend is proposed and approved by the Board of Directors and is in accordance with the Companies Act No 7 of 2007.

There are no dividends paid or proposed during the financial year 2022.

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

As at 31 December	Note	2022			
		Fair Value through P&L LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	21	-	-	5,831,375	5,831,375
Balances with Central Bank of Sri Lanka	22	-	-	2,170,248	2,170,248
Placements with banks	23	-	-	1,659,589	1,659,589
Reverse repurchased agreements	24	-	-	375,582	375,582
Derivative financial instruments	25	14,794	-	-	14,794
Financial assets at fair value through profit or loss	26	1,648,699	-	-	1,648,699
Financial assets at amortised cost - loans and advances to customers	27	-	-	67,726,643	67,726,643
Financial assets at amortised cost - debt and other instruments	28	-	-	35,889,996	35,889,996
Financial assets at fair value through other comprehensive income	29	-	5,286,053	-	5,286,053
Other financial assets	36	-	-	561,048	561,048
Total financial assets		1,663,493	5,286,053	114,214,481	121,164,027

As at 31 December

As at 31 December	Note	2022		
		Fair Value through P&L	Amortised Cost	Total
		LKR '000	LKR '000	LKR '000
Liabilities				
Due to banks	37	-	2,601,475	2,601,475
Repurchased agreements	38	-	12,551,812	12,551,812
Financial liabilities at amortised cost - Due to customers	39	-	92,591,545	92,591,545
Other financial liabilities	41	-	1,661,709	1,661,709
Total financial liabilities		-	109,406,541	109,406,541

20. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)

BANK

As at 31 December

As at 31 December	Note	2021			
		Fair Value through P&L	Fair Value through OCI	Amortised Cost	Total
		LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	21	-	-	2,322,357	2,322,357
Balances with Central Bank of Sri Lanka	22	-	-	1,492,713	1,492,713
Placements with banks	23	-	-	118,969	118,969
Reverse repurchased agreements	24	-	-	1,000,505	1,000,505
Derivative financial instruments	25	26,402	-	-	26,402
Financial assets at fair value through profit or loss	26	2,575,616	-	-	2,575,616
Financial assets at amortised cost - loans and advances to customers	27	-	-	67,835,059	67,835,059
Financial assets at amortised cost - debt and other instruments	28	-	-	17,157,602	17,157,602
Financial assets at fair value through other comprehensive income	29	-	18,249,861	-	18,249,861
Other financial assets	36	-	-	328,756	328,756
Total financial assets		2,602,018	18,249,861	90,255,961	111,107,840

As at 31 December

As at 31 December	Note	2021		
		Fair Value through P&L LKR '000	Amortised Cost LKR '000	Total LKR '000
Liabilities				
Due to banks	37	-	6,056,855	6,056,855
Derivative financial instruments	25	22,327	-	22,327
Repurchased agreements	38	-	8,662,744	8,662,744
Financial liabilities at amortised cost - Due to customers	39	-	83,416,119	83,416,119
Other financial liabilities	41	-	1,230,021	1,230,021
Total financial liabilities		22,327	99,365,739	99,388,066

20. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)

GROUP

As at 31 December

As at 31 December	Note	2022			
		Fair Value through P&L LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	21	-	-	6,016,521	6,016,521
Balances with Central Bank of Sri Lanka	22	-	-	2,170,248	2,170,248
Placements with banks	23	-	-	1,659,589	1,659,589
Reverse repurchased agreements	24	-	-	375,582	375,582
Derivative financial instruments	25	14,794	-	-	14,794
Financial assets at fair value through profit or loss	26	2,218,303	-	-	2,218,303
Financial assets at amortised cost - loans and advances to customers	27	-	-	76,103,118	76,103,118
Financial assets at amortised cost - debt and other instruments	28	-	-	35,795,165	35,795,165
Financial assets at fair value through other comprehensive income	29	-	5,307,787	-	5,307,787
Other financial assets	36	-	-	581,014	581,014
Total financial assets		2,233,097	5,307,787	122,701,237	130,242,121

As at 31 December

As at 31 December	Note	2022		
		Fair Value through P&L	Amortised Cost	Total
		LKR '000	LKR '000	LKR '000
Liabilities				
Due to banks	37	-	2,679,312	2,679,312
Repurchased agreements	38	-	12,451,749	12,451,749
Financial liabilities at amortised cost - Due to customers	39	-	98,942,753	98,942,753
Financial liabilities at amortised cost - Other borrowed funds	40	-	331,516	331,516
Other financial liabilities	41	-	1,870,432	1,870,432
Total financial liabilities		-	116,275,762	116,275,762

20. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)**GROUP**

As at 31 December

As at 31 December	Note	2021			
		Fair Value through P&L LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	21	-	-	2,470,657	2,470,657
Balances with Central Bank of Sri Lanka	22	-	-	1,492,713	1,492,713
Placements with banks	23	-	-	118,969	118,969
Reverse repurchased agreements	24	-	-	1,144,628	1,144,628
Derivative financial instruments	25	26,402	-	-	26,402
Financial assets at fair value through profit or loss	26	2,584,312	-	-	2,584,312
Financial assets at amortised cost - loans and advances to customers	27	-	-	75,303,620	75,303,620
Financial assets at amortised cost - debt and other instruments	28	-	-	16,991,208	16,991,208
Financial assets at fair value through other comprehensive income	29	-	18,276,759	-	18,276,759
Other financial assets	36	-	-	352,998	352,998
Total financial assets		2,610,714	18,276,759	97,874,793	118,762,266

As at 31 December

As at 31 December	Note	2021		
		Fair Value Through P&L LKR '000	Amortised Cost LKR '000	Total LKR '000
Liabilities				
Due to banks	37	-	5,824,570	5,824,570
Derivative financial instruments	25	22,327	-	22,327
Repurchased agreements	38	-	8,282,700	8,282,700
Financial liabilities at amortised cost - Due to customers	39	-	87,618,235	87,618,235
Financial liabilities at amortised cost - Other borrowed funds	40	-	1,636,362	1,636,362
Other financial liabilities	41	-	1,471,374	1,471,374
Total financial liabilities		22,327	104,833,241	104,855,568

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 unfavourable balances with local and foreign banks.

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Local currency in hand	2,044,628	1,914,153	2,091,241	1,947,162
Foreign currency in hand	1,173,665	91,547	1,173,665	91,547
Balances with local banks	19,341	14,291	157,874	129,582
Balances with foreign banks	2,593,741	302,366	2,593,741	302,366
Total	5,831,375	2,322,357	6,016,521	2,470,657

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 statutory reserve requirement on rupee deposit liabilities was 4% (2021: 4%) 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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Statutory balances with Central Bank of Sri Lanka	2,170,248	1,492,713	2,170,248	1,492,713

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.

Placement with Banks are carried at amortised cost in the Statement of Financial Position.

As at 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Placements outside Sri Lanka	23.1	1,659,589	118,969	1,659,589	118,969
Total		1,659,589	118,969	1,659,589	118,969

23. PLACEMENTS WITH BANKS (CONTD.)

23.1 The below table shows the stage wise classification of placements

BANK & GROUP

As at 31 December

	2022			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	1,659,589	-	-	1,659,589
	1,659,589	-	-	1,659,589

As at 31 December

	2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Placements	118,969	-	-	118,969
	118,969	-	-	118,969

24. REVERSE REPURCHASE 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. 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due from banks		-	100,013	-	244,136
Due from customers		375,582	900,492	375,582	900,492
Total	24.1	375,582	1,000,505	375,582	1,144,628

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

BANK

As at 31 December

	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Reverse repurchase agreements on Government securities	375,582	-	-	375,582	1,000,505	-	-	1,000,505
Total	375,582	-	-	375,582	1,000,505	-	-	1,000,505

24. REVERSE REPURCHASE AGREEMENTS (CONTD.)

GROUP

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Reverse repurchase agreements on Government securities	375,582			375,582	1,144,628	-	-	1,144,628
Total	375,582	-	-	375,582	1,144,628	-	-	1,144,628

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 "Net 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	2022		2021	
	Assets LKR '000	Liabilities LKR '000	Assets LKR '000	Liabilities LKR '000
Forward foreign exchange contracts				
- Sales	2,613	-	13	103
- Purchases	13	-	3,840	-
Currency SWAPs				
- Sales	-	-	-	-
- Purchases	12,168	-	22,549	22,224
Total	14,794	-	26,402	22,327

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**ACCOUNTING POLICY**

This includes financial assets that are held for trading purposes. The financial assets are classified as held for trading if:

- They are acquired principally for the purpose of selling in the near term; or
- They are held 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 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government securities	26.1	1,648,699	777,700	2,166,142	777,700
Investment in units	26.2	-	1,797,916	52,161	1,806,612
Total		1,648,699	2,575,616	2,218,303	2,584,312

26.1 Sri Lanka Government securities

BANK Year of Maturity	2022		2021	
	Cost of Investment LKR '000	Fair Value LKR '000	Cost of Investment LKR '000	Fair Value LKR '000
2022	-	-	363,998	362,618
2023	1,092,767	1,081,191	367,884	363,479
2024	-	-	-	-
2025	496,223	485,008	50,263	51,603
2027	-	-	-	-
2028	76,997	82,500	-	-
Total	1,665,987	1,648,699	782,145	777,700

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

26.1 Sri Lanka Government securities (contd.)

GROUP Year of Maturity	2022		2021	
	Cost of Investment LKR '000	Fair Value LKR '000	Cost of Investment LKR '000	Fair Value LKR '000
2022	-	-	363,998	362,618
2023	1,610,209	1,598,634	367,884	363,479
2024	-	-	-	-
2025	496,223	485,008	50,263	51,603
2027	-	-	-	-
2028	76,997	82,500	-	-
Total	2,183,429	2,166,142	782,145	777,700

26.2 Investment in Units

BANK

As at 31 December	2022			2021		
	No of units '000	Cost LKR '000	Market Value LKR '000	No of units '000	Cost LKR '000	Market Value LKR '000
NAMAL High Yield Fund	-	-	-	10,589	276,162	276,279
Capital Alliance Income Fund	-	-	-	46,269	1,021,296	1,021,532
First Capital Money Market Fund	-	-	-	245	500,000	500,105
Total		-	-		1,797,458	1,797,916

GROUP

As at 31 December	2022			2021		
	No of units '000	Cost LKR '000	Market Value LKR '000	No of units '000	Cost LKR '000	Market Value LKR '000
NAMAL High Yield Fund	1,698	47,858	52,161	10,922	284,613	284,974
Capital Alliance Income Fund	-	-	-	46,269	1,021,296	1,021,532
First Capital Money Market Fund	-	-	-	245	500,000	500,106
Total		47,858	52,161		1,805,909	1,806,612

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

The Bank recognises 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).

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

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in "Other income" in the Statement of Profit or Loss. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts 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 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross loans and receivables	27.1	72,810,492	70,560,551	82,203,105	78,722,989
Less: Impairment	27.5.2	(5,083,849)	(2,725,492)	(6,099,987)	(3,419,369)
Net loans and receivables		67,726,643	67,835,059	76,103,118	75,303,620

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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Term loans	42,993,167	46,828,260	47,426,169	50,579,275
Overdrafts	12,479,038	9,807,653	12,479,038	9,805,178
Trade finance	12,108,817	9,525,250	12,108,817	9,525,249
Lease and hire purchase	192,078	267,450	3,709,959	3,730,853
Factoring	188,650	161,238	426,541	401,688
Pawning & gold loans	543,116	280,941	1,714,218	971,138
Credit cards	3,157,181	2,432,784	3,157,181	2,432,784
Staff loans	1,148,445	1,256,975	1,181,182	1,276,824
Gross loans and receivables	72,810,492	70,560,551	82,203,105	78,722,989

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

BANK

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Term loans	24,991,627	9,042,720	8,958,820	42,993,167	35,494,072	7,164,153	4,170,035	46,828,260
Overdrafts	10,562,921	497,220	1,418,897	12,479,038	8,010,129	880,114	917,410	9,807,653
Trade finance	9,593,064	2,389,973	125,780	12,108,817	8,569,664	916,490	39,096	9,525,250
Lease and hire purchase	2,172	5,881	184,025	192,078	47,179	15,501	204,770	267,450
Factoring	52,107	11,955	124,588	188,650	50,108	13,752	97,378	161,238
Pawning	535,968	5,320	1,828	543,116	277,482	-	3,459	280,941
Credit cards	2,461,960	356,518	338,703	3,157,181	2,196,066	180,430	56,288	2,432,784
Staff loans	1,148,445	-	-	1,148,445	1,256,975	-	-	1,256,975
Total	49,348,264	12,309,587	11,152,641	72,810,492	55,901,675	9,170,440	5,488,436	70,560,551

GROUP

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Term loans	27,340,391	9,503,118	10,582,660	47,426,169	38,315,189	7,101,357	5,162,729	50,579,275
Overdrafts	10,562,921	497,220	1,418,897	12,479,038	8,010,129	877,639	917,410	9,805,178
Trade finance	9,593,064	2,389,973	125,780	12,108,817	8,569,663	916,490	39,096	9,525,249
Lease and hire purchase	1,132,929	1,066,312	1,510,718	3,709,959	2,101,295	589,482	1,040,076	3,730,853
Factoring	58,628	11,955	355,958	426,541	67,518	14,778	319,392	401,688
Pawning & gold loans	1,485,232	155,590	73,396	1,714,218	867,251	66,194	37,693	971,138
Credit cards	2,461,960	356,518	338,703	3,157,181	2,196,066	180,430	56,288	2,432,784
Staff loans	1,179,717	1,456	9	1,181,182	1,274,749	2,075	-	1,276,824
Total	53,814,842	13,982,142	14,406,121	82,203,105	61,401,860	9,748,445	7,572,684	78,722,989

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**

As at 31 December 2022	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Gross carrying amount 1 January	55,901,675	9,170,440	5,488,436	70,560,551	61,401,860	9,748,445	7,572,684	78,722,989
Current status of new assets originated	25,456,098	8,188,495	1,380,230	35,024,823	28,381,637	9,153,194	2,082,697	39,617,528
Assets derecognised	(28,164,819)	(4,449,415)	(343,674)	(32,957,908)	(30,659,705)	(4,835,580)	(879,869)	(36,375,154)
Transfers to Stage 1	700,650	(685,248)	(15,402)	-	848,908	(806,314)	(42,594)	-
Transfers to Stage 2	(2,507,698)	2,570,638	(62,940)	-	(3,238,490)	3,395,757	(157,267)	-
Transfers to Stage 3	(1,508,683)	(2,879,155)	4,387,838	-	(2,446,589)	(3,070,165)	5,516,754	-
Amounts written off	-	-	(70,137)	(70,137)	-	-	(164,396)	(164,396)
Other adjustments*	(528,959)	393,832	388,290	253,163	(472,779)	396,806	478,111	402,138
Gross carrying amount 31 December	49,348,264	12,309,587	11,152,641	72,810,492	53,814,842	13,982,142	14,406,121	82,203,105

As at 31 December 2021	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Gross carrying amount 1 January	55,235,123	5,596,732	9,162,925	69,994,780	58,794,855	6,455,651	11,674,214	76,924,720
Current status of new assets originated	35,789,891	6,981,592	616,668	43,388,151	39,692,114	7,472,999	1,029,872	48,194,985
Assets derecognised	(34,735,308)	(5,206,167)	(2,339,875)	(42,281,350)	(36,722,484)	(5,604,672)	(3,344,417)	(45,671,574)
Transfers to Stage 1	1,061,710	(912,176)	(149,534)	-	667,799	(704,148)	36,349	-
Transfers to Stage 2	(1,213,415)	2,775,108	(1,561,693)	-	(904,505)	2,151,674	(1,247,169)	-
Transfers to Stage 3	(236,326)	(64,649)	300,975	-	(125,919)	(23,059)	148,978	-
Amounts written off	-	-	(541,030)	(541,030)	-	-	(725,143)	(725,143)
Gross carrying amount 31 December	55,901,675	9,170,440	5,488,436	70,560,551	61,401,860	9,748,445	7,572,684	78,722,989

*This includes the effect of interest accrual utilisation, repayments as well as movement in foreign exchange rates.

27.2 Loans and advances to customers - By currency

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Rupee	58,826,536	59,145,914	68,219,149	67,308,352
United States Dollar	13,965,305	11,407,038	13,965,305	11,407,038
Euro	8,063	6,289	8,063	6,289
Others	10,588	1,310	10,588	1,310
Gross loans and receivables	72,810,492	70,560,551	82,203,105	78,722,989

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

	2022		2021	
	%	LKR '000	%	LKR '000
Agriculture * and fishing	9%	6,665,182	9%	6,665,987
Manufacturing	17%	12,537,481	16%	10,987,836
Tourism	8%	5,684,551	6%	4,041,536
Transport	1%	712,041	1%	535,752
Construction	7%	5,410,809	6%	4,648,944
Wholesale and retail trade	20%	14,697,071	20%	14,345,848
Information technology and communication services	1%	753,665	1%	386,044
Financial and business services	3%	1,885,424	3%	2,540,425
Infrastructure	4%	2,710,005	3%	1,883,057
Other services	12%	8,842,610	13%	9,059,688
Other customers including pawning	18%	12,911,653	22%	15,465,434
Gross loans and receivables	100%	72,810,492	100%	70,560,551

* 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 2022 and 31 December 2021. The computation method used to derive the industry-wise exposure given in note 27.3 above is different from the method used for CBSL minimum lending requirement calculation to agriculture sector. Based on CBSL guidelines, the Bank's lending to agriculture sector percentage computes to 10.60% as at 31 December 2022 (2021 - 11.10%).

GROUP

As at 31 December

	2022		2021	
	%	LKR '000	%	LKR '000
Agriculture and fishing	9%	7,242,762	9%	7,264,189
Manufacturing	16%	13,345,413	15%	11,751,232
Tourism	7%	5,861,075	5%	4,271,431
Transport	2%	1,317,005	1%	1,087,397
Construction	7%	5,900,638	6%	5,115,820
Wholesale and retail trade	20%	16,681,721	21%	16,163,707
Information technology and communication services	1%	833,355	1%	457,157
Financial and business services	3%	2,821,965	4%	3,284,210
Infrastructure	3%	2,732,767	2%	1,905,737
Other services	12%	10,213,765	13%	10,287,384
Other customers including pawning	19%	15,252,639	22%	17,134,725
Gross loans and receivables	100%	82,203,105	100%	78,722,989

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
27.4.1 Lease receivable					
Total lease rentals receivable		235,031	317,210	4,856,458	4,787,263
Unearned lease income		(57,034)	(68,688)	(1,161,585)	(1,076,722)
Gross lease receivable		177,997	248,522	3,694,873	3,710,541
Less: Impairment allowance for lease receivable		(54,374)	(53,472)	(419,701)	(299,533)
Net lease receivables		123,623	195,050	3,275,172	3,411,008
Gross lease receivable within one year	27.4.1.1	102,076	158,134	1,616,926	1,674,255
Gross lease receivable from one to five years	27.4.1.2	75,921	90,388	2,068,991	2,023,145
Gross lease receivable after five years	27.4.1.3	-	-	8,956	13,141
Total gross lease receivable		177,997	248,522	3,694,873	3,710,541
27.4.1.1 Lease receivable within one year					
Total lease receivable within one year		124,944	184,954	2,147,105	2,129,857
Unearned lease income		(22,868)	(27,820)	(530,179)	(455,602)
Gross lease receivable		102,076	158,134	1,616,926	1,674,255
Less: Impairment allowance for lease receivable		(44,834)	(27,135)	(138,873)	(71,083)
Net lease receivables		57,242	130,999	1,478,053	1,603,172
27.4.1.2 Lease receivable from one to five years					
Total lease receivable from one to five years		110,087	131,256	2,699,470	2,643,097
Unearned lease income		(34,166)	(40,868)	(630,479)	(619,952)
Gross lease receivable		75,921	90,388	2,068,991	2,023,145
Less: Impairment allowance for lease receivable		(9,540)	(26,337)	(275,388)	(225,517)
Net lease receivables		66,381	64,051	1,793,603	1,797,628
27.4.1.3 Lease receivable after five years					
Total lease receivable after five years		-	-	9,883	14,308
Unearned lease income		-	-	(927)	(1,167)
Gross lease receivable		-	-	8,956	13,141
Less: Impairment allowance for lease receivable		-	-	(5,440)	(2,933)
Net lease receivables		-	-	3,516	10,208

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

As at 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
27.4.2 Hire purchase receivables					
Total hire purchase receivable		16,924	22,314	17,929	23,699
Unearned hire purchase income		(2,843)	(3,387)	(2,843)	(3,387)
Gross hire purchase receivable		14,081	18,927	15,086	20,312
Less: Impairment allowance for hire purchase receivable		(14,081)	(15,541)	(15,086)	(16,925)
Net hire purchase receivables		-	3,386	-	3,386
Gross hire purchase receivable within one year	27.4.2.1	14,081	18,927	15,086	20,312
Total gross hire purchase receivable		14,081	18,927	15,086	20,312
27.4.2.1 Hire purchase receivable within one year					
Total hire purchase receivable within one year		16,924	22,314	17,929	23,699
Unearned hire purchase income		(2,843)	(3,387)	(2,843)	(3,387)
Gross hire purchase receivable		14,081	18,927	15,086	20,312
Less: Impairment allowance for hire purchase receivable		(14,081)	(15,541)	(15,086)	(16,925)
Net hire purchase receivables		-	3,386	-	3,386

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)**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 which are assessed under individual impairment. All individually significant loans and advances to customers 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 the 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 loss estimate.

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 net 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 records 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.

The impact of the current economic outlook 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	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	479,916	498,208	1,747,368	2,725,492	449,460	232,072	1,795,574	2,477,106
Charge/(reversal) to statement of profit or loss	84,102	262,789	2,081,603	2,428,494	30,456	266,136	492,824	789,416
Write-offs during the year	-	-	(70,137)	(70,137)	-	-	(541,030)	(541,030)
Closing balance as at 31 December	564,018	760,997	3,758,834	5,083,849	479,916	498,208	1,747,368	2,725,492

GROUP

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Opening balance as at 1 January	581,112	537,284	2,300,973	3,419,369	500,946	304,689	2,342,417	3,148,052
Charge/(reversal) to statement of profit or loss	103,376	386,782	2,354,856	2,845,014	80,166	232,595	683,699	996,460
Write-offs during the year	-	-	(164,396)	(164,396)	-	-	(725,143)	(725,143)
Closing balance as at 31 December	684,488	924,066	4,491,433	6,099,987	581,112	537,284	2,300,973	3,419,369

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

	2022							
	Term Loans LKR '000	Overdrafts LKR '000	Trade Finance LKR '000	Lease & Hire Purchases LKR '000	Factoring LKR '000	Credit Cards LKR '000	Others LKR '000	Total LKR '000
Stage 1								
Opening balance as at 1 January	347,685	80,392	26,302	645	1,926	22,374	592	479,916
Charge/(reversal) to statement of profit or loss	(73,162)	63,952	83,432	(616)	1,317	9,725	(546)	84,102
Closing balance as at 31 December	274,523	144,344	109,734	29	3,243	32,099	46	564,018
Stage 2								
Opening balance as at 1 January	422,262	34,758	8,468	426	318	31,976	-	498,208
Charge/(reversal) to statement of profit or loss	115,540	(7,959)	102,320	(208)	(110)	53,206	-	262,789
Closing balance as at 31 December	537,802	26,799	110,788	218	208	85,182	-	760,997
Stage 3								
Opening balance as at 1 January	1,138,658	443,345	23,796	67,942	47,313	26,314	-	1,747,368
Charge/(reversal) to statement of profit or loss	1,364,209	502,645	37,771	2,313	36,141	138,470	54	2,081,603
Net write-offs during the year	(41,370)	(19,766)	-	(2,047)	-	(6,900)	(54)	(70,137)
Closing balance as at 31 December	2,461,497	926,224	61,567	68,208	83,454	157,884	-	3,758,834
Total								
Opening balance as at 1 January	1,908,605	558,495	58,566	69,013	49,557	80,664	592	2,725,492
Charge/(reversal) to statement of profit or loss	1,406,587	558,638	223,523	1,489	37,348	201,401	(492)	2,428,494
Net write-offs during the year	(41,370)	(19,766)	-	(2,047)	-	(6,900)	(54)	(70,137)
Closing balance as at 31 December	3,273,822	1,097,367	282,089	68,455	86,905	275,165	46	5,083,849

BANK

As at 31 December

	2021							
	Term Loans LKR '000	Overdrafts LKR '000	Trade Finance LKR '000	Lease & Hire Purchases LKR '000	Factoring LKR '000	Credit Cards LKR '000	Others LKR '000	Total LKR '000
Stage 1								
Opening balance as at 1 January	371,828	46,248	15,145	1,287	1,544	13,259	149	449,460
Charge/(reversal) to statement of profit or loss	(24,143)	34,144	11,157	(642)	382	9,115	443	30,456
Closing balance as at 31 December	347,685	80,392	26,302	645	1,926	22,374	592	479,916
Stage 2								
Opening balance as at 1 January	191,788	16,553	263	3,503	-	19,965	-	232,072
Charge/(reversal) to statement of profit or loss	230,474	18,205	8,205	(3,077)	318	12,011	-	266,136
Closing balance as at 31 December	422,262	34,758	8,468	426	318	31,976	-	498,208
Stage 3								
Opening balance as at 1 January	1,091,743	535,740	39,819	56,921	49,162	22,189	-	1,795,574
Charge/(reversal) to statement of profit or loss	185,445	261,602	18,887	11,021	10,839	4,580	450	492,824
Net write-offs during the year	(138,530)	(353,997)	(34,910)	-	(12,688)	(455)	(450)	(541,030)
Closing balance as at 31 December	1,138,658	443,345	23,796	67,942	47,313	26,314	-	1,747,368
Total								
Opening balance as at 1 January	1,655,359	598,541	55,227	61,711	50,706	55,413	149	2,477,106
Charge/(reversal) to statement of profit or loss	391,776	313,951	38,249	7,302	11,539	25,706	893	789,416
Net write-offs during the year	(138,530)	(353,997)	(34,910)	-	(12,688)	(455)	(450)	(541,030)
Closing balance as at 31 December	1,908,605	558,495	58,566	69,013	49,557	80,664	592	2,725,492

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

GROUP

As at 31 December

	2022							
	Term Loans LKR '000	Overdrafts LKR '000	Trade Finance LKR '000	Lease & Hire Purchases LKR '000	Factoring LKR '000	Credit Cards LKR '000	Others LKR '000	Total LKR '000
Stage 1								
Opening balance as at 1 January	385,320	80,392	26,302	61,035	2,588	22,374	3,100	581,112
Charge/(reversal) to statement of profit or loss	(39,588)	63,952	83,432	(19,860)	668	9,725	5,047	103,376
Closing balance as at 31 December	345,732	144,344	109,734	41,175	3,256	32,099	8,148	684,488
Stage 2								
Opening balance as at 1 January	431,878	34,732	8,468	27,810	803	31,976	1,618	537,284
Charge/(reversal) to statement of profit or loss	188,989	(7,933)	102,320	45,786	(595)	53,206	5,009	386,782
Closing balance as at 31 December	620,867	26,799	110,788	73,596	208	85,182	6,627	924,066
Stage 3								
Opening balance as at 1 January	1,424,898	443,344	23,796	227,614	153,838	26,312	1,170	2,300,973
Charge/(reversal) to statement of profit or loss	1,507,296	502,645	37,771	102,710	63,445	138,470	2,519	2,354,856
Net write-offs during the year	(127,315)	(19,766)	-	(10,306)	-	(6,900)	(109)	(164,396)
Closing balance as at 31 December	2,804,879	926,223	61,567	320,018	217,283	157,882	3,580	4,491,433
Total								
Opening balance as at 1 January	2,242,096	558,468	58,566	316,459	157,229	80,662	5,888	3,419,369
Charge/(reversal) to statement of profit or loss	1,656,697	558,664	223,523	128,636	63,518	201,401	12,575	2,845,014
Net write-offs during the year	(127,315)	(19,766)	-	(10,306)	-	(6,900)	(109)	(164,396)
Closing balance as at 31 December	3,771,478	1,097,366	282,089	434,789	220,747	275,163	18,355	6,099,987

GROUP

As at 31 December

	2021							
	Term Loans LKR '000	Overdrafts LKR '000	Trade Finance LKR '000	Lease & Hire Purchases LKR '000	Factoring LKR '000	Credit Cards LKR '000	Others LKR '000	Total LKR '000
Stage 1								
Opening balance as at 1 January	390,109	46,248	15,145	34,183	1,854	13,259	147	500,945
Charge/(reversal) to statement of profit or loss	(4,789)	34,144	11,157	26,852	734	9,115	2,953	80,166
Closing balance as at 31 December	385,320	80,392	26,302	61,035	2,588	22,374	3,100	581,112
Stage 2								
Opening balance as at 1 January	226,322	15,598	263	41,106	315	19,965	1,120	304,689
Charge/(reversal) to statement of profit or loss	205,556	19,134	8,205	(13,296)	488	12,011	498	232,595
Closing balance as at 31 December	431,878	34,732	8,468	27,810	803	31,976	1,618	537,284
Stage 3								
Opening balance as at 1 January	1,261,579	535,739	39,819	317,432	161,358	22,188	4,301	2,342,417
Charge/(reversal) to statement of profit or loss	386,867	261,602	18,887	(9,427)	23,542	4,580	(2,352)	683,699
Net write-offs during the year	(223,548)	(353,997)	(34,910)	(80,391)	(31,062)	(456)	(779)	(725,143)
Closing balance as at 31 December	1,424,898	443,344	23,796	227,614	153,838	26,312	1,170	2,300,973
Total								
Opening balance as at 1 January	1,878,010	597,585	55,227	392,721	163,527	55,412	5,568	3,148,052
Charge/(reversal) to statement of profit or loss	587,634	314,880	38,249	4,129	24,764	25,706	1,099	996,460
Net write-offs during the year	(223,548)	(353,997)	(34,910)	(80,391)	(31,062)	(456)	(779)	(725,143)
Closing balance as at 31 December	2,242,096	558,468	58,566	316,459	157,229	80,662	5,888	3,419,369

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

27.5.3 Changes in the expected credit loss amount of loans and receivables

As at 31 December 2022

	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
As at 1 January	479,916	498,208	1,747,368	2,725,492	581,112	537,284	2,300,973	3,419,369
Current stage of new assets originated	234,683	434,360	114,880	783,923	293,665	498,436	264,565	1,056,666
Assets derecognised or repaid	(115,845)	(79,399)	(37,498)	(232,742)	(141,692)	(100,362)	(206,759)	(448,813)
Effect of remeasurement/ additional impairment	69,735	156,941	1,650,637	1,877,313	99,243	220,577	1,917,341	2,237,161
Transfers to Stage 1	22,129	(12,981)	(9,148)	-	27,400	(17,260)	(10,140)	-
Transfers to Stage 2	(45,355)	54,742	(9,387)	-	(68,918)	88,216	(19,298)	-
Transfers to Stage 3	(81,245)	(290,874)	372,119	-	(106,322)	(302,825)	409,147	-
Amounts written off	-	-	(70,137)	(70,137)	-	-	(164,396)	(164,396)
As at 31 December	564,018	760,997	3,758,834	5,083,849	684,488	924,066	4,491,433	6,099,987

As at 31 December 2021

	BANK				GROUP			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
As at 1 January	449,460	232,072	1,795,574	2,477,106	500,946	304,689	2,342,417	3,148,052
Current stage of new assets originated	156,878	243,914	156,625	557,417	225,878	270,586	508,834	1,005,298
Assets derecognised or repaid	(291,021)	31,447	491,573	231,999	(316,263)	223	307,202	(8,838)
Transfers to Stage 1	193,441	(82,167)	(111,274)	-	184,624	(76,594)	(108,030)	-
Transfers to Stage 2	(20,951)	79,272	(58,321)	-	(10,910)	41,126	(30,216)	-
Transfers to Stage 3	(7,891)	(6,330)	14,221	-	(3,163)	(2,746)	5,909	-
Amounts written off	-	-	(541,030)	(541,030)	-	-	(725,143)	(725,143)
As at 31 December	479,916	498,208	1,747,368	2,725,492	581,112	537,284	2,300,973	3,419,369

The are no contractual amount outstanding on financial assets that have been written off during the year and that is still subject to enforcement activity (2021 : LKR 530 Mn).

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

ACCOUNTING POLICY

As per SLFRS 9, "Financial assets" 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Investment in deep discounted bond	28.1	3,380,857	3,250,816	-	-
Fixed deposits		-	-	3,286,026	3,032,618
Sri Lanka development bonds		3,776,256	4,109,711	3,776,256	4,109,711
Investment in debentures	28.2	-	251,834	-	251,834
Sri Lanka Government securities	28.3	28,955,609	9,706,294	28,955,609	9,706,294
Commercial paper		-	100,116	-	151,920
Total		36,112,722	17,418,771	36,017,891	17,252,378
Less: Impairment	28.5	(222,726)	(261,169)	(222,726)	(261,169)
Net carrying value		35,889,996	17,157,602	35,795,165	16,991,208

28.1 Investment in deep discounted bond

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Serandib Capital Private Limited	3,380,857	3,250,816	-	-

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 LKR 1,578 Mn settled by transferring a part of the Bank's portfolio at its book value of LKR 978 Mn and balance in cash. The face value of the bond amounts to LKR 3,458 Mn and will mature on 1 August 2023. It is recorded at cost plus accrued interest 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

	2022		2021	
	No. of	Carrying	No. of	Carrying
	Debentures	Value	Debentures	Value
	'000	LKR '000	'000	LKR '000
Senior debentures				
LB Finance PLC	-	-	2,500	251,834
Total		-		251,834

GROUP

As at 31 December

	2022		2021	
	No. of	Carrying	No. of	Carrying
	Debentures	Value	Debentures	Value
	'000	LKR '000	'000	LKR '000
Senior debentures				
LB Finance PLC	-	-	2,500	251,834
Total		-		251,834

28.3 Sri Lanka Government securities**BANK & GROUP**

As at 31 December

Year of Maturity	2022		2021	
	Amortised	Fair	Amortised	Fair
	Cost	Value	Cost	Value
	LKR '000	LKR '000	LKR '000	LKR '000
2022	-	-	8,258,249	8,234,907
2023	20,722,509	20,275,308	1,212,106	1,205,161
2024	4,048,405	2,990,057	107,872	106,692
2025	1,476,560	1,068,772	-	-
2026	1,507,274	913,665	-	-
2027	965,495	510,246	128,067	127,377
2030	235,366	109,054	-	-
Total	28,955,609	25,867,102	9,706,294	9,674,137

In accordance with the Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka on the reclassification of the debt portfolio, the Bank has classified LKR 18,893 Mn of the debt portfolio from Fair Value through Other Comprehensive Income to Amortised Cost category on 30 June 2022 as holding these instruments in the fair value through other comprehensive income category is not commercially viable in the current economic environment. The cumulative losses from these instruments previously recognised in Other Comprehensive Income has been removed from equity and adjusted against the fair value of the financial asset at the reclassification date. Accordingly, the reclassified assets have been measured at the reclassification date as if they had always been measured at Amortised Cost. The cumulative losses and the fair value as at 31 December 2022 if the assets have continued to be measured at Fair Value through Other Comprehensive Income amounts to LKR 3,068 Mn and LKR 9,462 Mn respectively.

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

28.4 Stage-wise classification - debt and other instruments

BANK

As at 31 December

	2022					
	Deep Discounted Bond LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Sri Lanka Government Securities LKR '000	Total LKR '000
Stage 1	3,380,857	-	-	-	28,955,609	32,336,466
Stage 2	-	3,776,256	-	-	-	3,776,256
Stage 3	-	-	-	-	-	-
Total	3,380,857	3,776,256	-	-	28,955,609	36,112,722

BANK

As at 31 December

	2021					
	Deep Discounted Bond LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Sri Lanka Government Securities LKR '000	Total LKR '000
Stage 1	3,250,816	4,109,711	251,834	100,116	9,706,294	17,418,771
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	3,250,816	4,109,711	251,834	100,116	9,706,294	17,418,771

GROUP

As at 31 December

	2022					
	Fixed Deposits LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Sri Lanka Government Securities LKR '000	Total LKR '000
Stage 1	3,286,026	-	-	-	28,955,609	32,241,635
Stage 2	-	3,776,256	-	-	-	3,776,256
Stage 3	-	-	-	-	-	-
Total	3,286,026	3,776,256	-	-	28,955,609	36,017,891

As at 31 December

	2021					
	Fixed Deposits LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Sri Lanka Government Securities LKR '000	Total LKR '000
Stage 1	3,032,618	4,109,712	251,834	151,920	9,706,294	17,252,378
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	3,032,618	4,109,712	251,834	151,920	9,706,294	17,252,378

28. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (CONTD.)**28.5 Impairment allowance on financial assets at amortised cost - debt and other instruments****BANK**

As at 31 December

	2022				
	Deep Discounted Bond LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Total LKR '000
Stage 1					
Opening balance as at 1 January	55	261,045	67	2	261,169
Charge/(reversal) to statement of profit or loss	458	(261,045)	(67)	(2)	(260,656)
Closing balance as at 31 December	513	-	-	-	513
Stage 2					
Opening balance as at 1 January	-	-	-	-	-
Charge/(reversal) to statement of profit or loss	-	222,213	-	-	222,213
Closing balance as at 31 December	-	222,213	-	-	222,213
Total					
Opening balance as at 1 January	55	261,045	67	2	261,169
Charge/(reversal) to statement of profit or loss	458	(38,832)	(67)	(2)	(38,443)
Closing balance as at 31 December	513	222,213	-	-	222,726

BANK

As at 31 December

	2021				
	Deep Discounted Bond LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Total LKR '000
Stage 1					
Opening balance as at 1 January	63	138,388	81	47	138,579
Charge/(reversal) to statement of profit or loss	(8)	122,657	(14)	(45)	122,590
Closing balance as at 31 December	55	261,045	67	2	261,169
Stage 2					
Opening balance as at 1 January	-	-	1,702	-	1,702
Charge/(reversal) to statement of profit or loss	-	-	(1,702)	-	(1,702)
Closing balance as at 31 December	-	-	-	-	-
Total					
Opening balance as at 1 January	63	138,388	1,783	47	140,281
Charge/(reversal) to statement of profit or loss	(8)	122,657	(1,716)	(45)	120,888
Closing balance as at 31 December	55	261,045	67	2	261,169

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

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

GROUP

As at 31 December

	2022				
	Fixed Deposits LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Total LKR '000
Stage 1					
Opening balance as at 1 January	55	261,045	67	2	261,169
Charge/(reversal) to statement of profit or loss	458	(261,045)	(67)	(2)	(260,656)
Closing balance as at 31 December	513	-	-	-	513
Stage 2					
Opening balance as at 1 January	-	-	-	-	-
Charge/(reversal) to statement of profit or loss	-	222,213	-	-	222,213
Closing balance as at 31 December	-	222,213	-	-	222,213
Total					
Opening balance as at 1 January	55	261,045	67	2	261,169
Charge/(reversal) to statement of profit or loss	458	(38,832)	(67)	(2)	(38,443)
Net write-offs during the year	-	-	-	-	-
Closing balance as at 31 December	513	222,213	-	-	222,726

GROUP

As at 31 December

	2021				
	Fixed Deposits LKR '000	Sri Lanka Development Bonds LKR '000	Investment in Debentures LKR '000	Commercial Paper LKR '000	Total LKR '000
Stage 1					
Opening balance as at 1 January	63	138,388	81	47	138,579
Charge/(reversal) to statement of profit or loss	(8)	122,657	(14)	(45)	122,590
Net write-offs during the year	-	-	-	-	-
Closing balance as at 31 December	55	261,045	67	2	261,169
Total					
Opening balance as at 1 January	63	138,388	81	47	138,579
Charge/(reversal) to statement of profit or loss	(8)	122,657	(14)	(45)	122,590
Net write-offs during the year	-	-	-	-	-
Closing balance as at 31 December	55	261,045	67	2	261,169

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)**ACCOUNTING POLICY****Debt instruments at FVOCI**

The Bank applies the SLFRS 9 on 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lanka Government securities	29.1	5,283,523	18,247,331	5,283,523	18,247,331
Equity securities					
- Quoted	29.2	-	-	-	11,272
- Unquoted	29.3	2,530	2,530	24,264	18,156
Total		5,286,053	18,249,861	5,307,787	18,276,759
Less: Impairment		-	-	-	-
Net carrying value		5,286,053	18,249,861	5,307,787	18,276,759

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

29.1 Sri Lanka Government securities

BANK & GROUP

As at 31 December

Year of Maturity	2022		2021	
	Cost of Investment LKR '000	Fair Value LKR '000	Cost of Investment LKR '000	Fair Value LKR '000
2022	-	-	7,100,227	6,970,590
2023	3,849,270	3,886,857	4,567,910	4,420,700
2024	-	-	3,965,496	3,766,338
2025	1,320,228	1,339,665	824,731	807,144
2026	-	-	1,529,600	1,361,792
2027	-	-	839,519	717,693
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	238,510	196,822
2033	95,329	53,731	-	-
2034	6,773	3,270	6,767	6,252
Total	5,271,600	5,283,523	19,072,760	18,247,331

29.2 Equity securities - Quoted investments

GROUP

As at 31 December

	2022			2021		
	No. of Shares '000	Cost of Investment LKR '000	Market Value LKR '000	No. of Shares '000	Cost of Investment LKR '000	Market Value LKR '000
Dialog Axiata PLC	-	-	-	702	9,478	7,654
Hatton National Bank PLC	-	-	-	27	5,757	3,618
Total		-	-		15,235	11,272
Less : Mark to market adjustment		-			(3,963)	
Net carrying value		-			11,272	

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI) (CONTD.)**29.3 Equity securities - Unquoted investments****BANK**

As at 31 December

	2022			2021		
	No. of Shares '000	Cost of Investment LKR '000	Market Value LKR '000	No. of Shares '000	Cost of Investment LKR '000	Market Value LKR '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

	2022			2021		
	No. of Shares '000	Cost of Investment LKR '000	Market Value LKR '000	No. of Shares '000	Cost of Investment LKR '000	Market Value LKR '000
Lanka Financial Service Bureau Limited	200	2,000	2,000	209	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	200	200	200
CEG Education Holdings	23	21,533	21,533	23	15,425	15,425
Total		24,264	24,264		18,156	18,156
Less : Mark to market adjustment		-			-	
Net carrying value		24,264			18,156	

Unquoted equity securities categories under financial assets 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 ASSETS

Disclosure 207-1/207-2/207-4

ACCOUNTING POLICY

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax computation is based on the provisions of the Inland Revenue Act, No. 24 of 2017 is the principal enactment as amended by Inland Revenue (Amendment) Act, No. 10 of 2021 and any subsequent amendments thereto enacted (or substantively enacted) as at the end of the reporting period.

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current tax liability	276,181	365,844	283,816	388,738

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.

As at 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Land		-	-	8,174	20,612
Housing projects		-	-	13,521	13,521
Other projects		-	-	177,832	177,832
Total		-	-	199,527	211,965
Less: Impairment	31.1	-	-	(123,305)	(122,855)
Net carrying value		-	-	76,222	89,110

31.1 Impairment on investments in real estate

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Opening balance as at 1 January	-	-	122,855	122,855
Impairment charge/ (reversal)	-	-	450	-
Closing balance as at 31 December	-	-	123,305	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, 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 recognised using the equity method in separate financial statements of the Bank.

The statement of profit or loss in the separate financial statements reflects the parent’s ownership share of the after-tax profits of the subsidiaries. The parent’s ownership share in the other comprehensive income of those subsidiaries is presented in the statement of other comprehensive income. In addition, any change recognised directly in the equity of the subsidiaries is presented in the statement of changes in equity.

The Bank reviews its investment in subsidiaries at each reporting date to assess whether there are any impairment indicators. Impairment if any is calculated as the difference between the recoverable amount of the subsidiaries and its carrying value, and recognises the loss within ‘Share of profit of equity accounted investees, net of tax’ in the statement of profit or loss.

The financial statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for the UB Finance Company Limited, whose financial year ends on March 31. The financial statements of the Bank’s subsidiaries are prepared using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

The Group did not acquire / dispose any subsidiaries during the year ended 31 December 2022.

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

BANK

As at 31 December

Name of the subsidiary	Note	2022			2021		
		Percentage Holding %	Equity Basis LKR '000	Cost LKR '000	Percentage Holding %	Equity Basis LKR '000	Cost LKR '000
National Asset Management Limited	32.1	51.00	265,846	331,500	51.00	268,666	331,500
UB Finance Company Limited	32.1	91.77	2,495,901	2,797,312	91.77	2,636,385	2,797,312
Total			2,761,747	3,128,812		2,905,051	3,128,812

32. INVESTMENTS IN SUBSIDIARIES (CONTD.)

32.1 Movement of equity accounted investee

BANK

As at 31 December

	2022		
	UB Finance Company Limited LKR '000	National Asset Management Limited LKR '000	Total LKR '000
Percentage of ownership interest	91.77%	51.00%	
Balance brought forward	(160,928)	(62,833)	(223,761)
Current year share of profit (net of tax)	(137,628)	1,267	(136,361)
Other comprehensive income (net of tax)			
- To be reclassified to profit or loss	-	(1,552)	(1,552)
- Not to be reclassified to profit or loss	1,112	(79)	1,033
Less: Impairment	(3,967)	(2,457)	(6,424)
Total share of equity accounted investees retained profits	(301,411)	(65,654)	(367,065)
Total share of equity accounted investees retained profits	(301,411)	(65,654)	(367,065)
Cost of equity accounted investees	2,797,312	331,500	3,128,812
Total carrying amount of investments in equity accounted investees	2,495,901	265,846	2,761,747

BANK

As at 31 December

	2021		
	UB Finance Company Limited LKR '000	National Asset Management Limited LKR '000	Total LKR '000
Percentage of ownership interest	91.77%	51.00%	
Balance brought forward	(228,729)	(61,590)	(290,319)
Current year share of profit (net of tax)	59,534	6,504	66,038
Other comprehensive income (net of tax)			
- To be reclassified to profit or loss	-	(424)	(424)
- Not to be reclassified to profit or loss	8,267	566	8,833
Less: Impairment	-	(7,889)	(7,889)
Total share of equity accounted investees retained profits	(160,928)	(62,833)	(223,761)
Total share of equity accounted investees retained profits	(160,928)	(62,833)	(223,761)
Cost of equity accounted investees	2,797,312	331,500	3,128,812
Total carrying amount of investments in equity accounted investees	2,636,384	268,667	2,905,051

32. INVESTMENTS IN SUBSIDIARIES (CONTD.)**32.2 Summarised financial information of subsidiaries**

As at 31 December

	2022		2021	
	UB Finance Company Limited LKR '000	National Asset Management Limited LKR '000	UB Finance Company Limited LKR '000	National Asset Management Limited LKR '000

For the year ended 31 December

Net operating income	467,523	59,440	676,174	89,793
Less: Operating expenses	558,338	57,410	427,187	75,308
Profit before taxes	(90,815)	2,030	248,987	14,485
Less: Tax expense (including VAT on financial services & Social security contribution levy)	33,491	-	182,354	1,733
Profit after tax	(149,970)	2,483	66,633	12,752
Total comprehensive income	(148,759)	(714)	78,000	13,030

As at 31 December

Financial assets at amortised cost - loans and advances to customers	8,670,602	-	7,769,383	-
Financial assets at amortised cost - debt and other instruments	-	-	15,626	11,272
Financial assets at fair value through other comprehensive income	21,734	-	-	73,943
Intangible assets	6,874	151	8,853	406
Property, plant and equipment and Right of use assets	178,547	24,483	177,145	8,272
Other assets	76,490	20,017	55,255	26,874
Total assets	10,012,224	159,611	9,092,432	131,816
Financial liabilities at amortised cost - Due to customers	6,427,525	-	4,316,619	-
Financial liabilities at amortised cost - Other borrowed funds	632,969	-	1,636,362	-
Other liabilities	286,298	40,327	329,759	11,354
Total liabilities	7,424,625	41,681	6,356,065	13,172
Total equity	2,587,599	117,929	2,736,358	118,644

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. Goodwill is not amortised but tested for impairment.

(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.

Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from 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

	2022			2021		
	Computer Software LKR '000	Software under Development LKR '000	Total LKR '000	Computer Software LKR '000	Software under Development LKR '000	Total LKR '000
Cost						
Opening balance as at 1 January	1,934,810	420	1,935,230	1,740,844	598	1,741,442
Additions	382,347	-	382,347	235,178	-	235,178
Adjustments/transfers	(322)	(112)	(434)	(41,212)	(178)	(41,388)
Closing balance as at 31 December	2,316,835	308	2,317,143	1,934,810	420	1,935,230
Less: Amortisation						
Opening balance as at 1 January	616,572	-	616,572	427,208	-	427,208
Charge for the year	241,267	-	241,267	213,656	-	213,656
Adjustments/transfers	-	-	-	(24,292)	-	(24,292)
Closing balance as at 31 December	857,839	-	857,839	616,572	-	616,572
Net book value as at 31 December	1,458,996	308	1,459,304	1,318,238	420	1,318,660

GROUP

As at 31 December

As at 31 December	2022						
	Goodwill LKR '000	Computer Software LKR '000	Software under Development LKR '000	Brand Value LKR '000	Asset Mgt. & Advisory Intangible LKR '000	Licenses and related Infrastructure LKR '000	Total LKR '000
Cost							
Opening balance as at 1 January	113,031	1,982,976	420	10,169	118,947	136,001	2,361,544
Additions	-	382,689	-	-	-	-	382,689
Adjustments/transfers	-	(322)	(112)	-	-	-	(434)
Closing balance as at 31 December	113,031	2,365,343	308	10,169	118,947	136,001	2,743,799
Less: Amortisation							
Opening balance as at 1 January	-	655,476	-	1,441	22,468	14,738	694,123
Charge for the year	-	243,843	-	-	-	-	243,843
Adjustments/transfers	-	-	-	-	-	-	-
Closing balance as at 31 December	-	899,319	-	1,441	22,468	14,738	937,966
Less: Impairment allowance	-	-	-	279	12,258	-	12,537
Net book value as at 31 December	113,031	1,466,024	308	8,449	84,221	121,263	1,793,296

33. GOODWILL AND INTANGIBLE ASSETS (CONTD.)

GROUP

As at 31 December

2021

	Goodwill LKR '000	Computer Software LKR '000	Software under Development LKR '000	Brand Value LKR '000	Asset Mgt. & Advisory Intangible LKR '000	Licenses and related Infrastructure LKR '000	Total LKR '000
Cost							
Opening balance as at 1 January	113,031	1,787,532	598	10,169	118,947	136,001	2,166,278
Additions	-	236,656	-	-	-	-	236,656
Adjustments/transfers	-	(41,212)	(178)	-	-	-	(41,390)
Closing balance as at 31 December	113,031	1,982,976	420	10,169	118,947	136,001	2,361,544
Less: Amortisation							
Opening balance as at 1 January	-	463,594	-	1,441	22,468	14,738	502,241
Charge for the year	-	216,174	-	-	-	-	216,174
Adjustments/transfers	-	(24,292)	-	-	-	-	(24,292)
Closing balance as at 31 December	-	655,476	-	1,441	22,468	14,738	694,123
Less: Impairment charge	-	-	-	279	10,091	-	10,370
Net book value as at 31 December	113,031	1,327,500	420	8,449	86,388	121,263	1,657,051

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;

	Goodwill	Brand Value	License and related Infrastructure
2022			
Discount rate	18.00%	18.00%	18.00%
Terminal growth rate	1.51%	1.51%	1.00%
2021			
Discount rate	16.61%	16.61%	16.14%
Terminal growth rate	1.01%	1.01%	1.00%

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 and market rates.

Brand Value, Asset Management and Advisory Intangible and Licenses and related Infrastructure items recognised as intangibles were initially asses as having indefinite useful life based on characteristics of these assets and the future benefits expected to be derived. These assets are tested for impairment on annual basis or more frequently as and when warranted.

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 "Net 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

	2022								
	Property, plant and equipment					Right of use assets			
	Leasehold Improvements LKR '000	Computer & Equipment LKR '000	Furniture & Fittings LKR '000	Motor Vehicles LKR '000	Subtotal LKR '000	Building LKR '000	Motor Vehicles LKR '000	Subtotal LKR '000	Total LKR '000
Cost									
Opening balance as at 1 January	643,600	1,925,720	389,923	26,638	2,985,881	1,638,697	106,140	1,744,837	4,730,718
Additions	4,864	110,706	3,128	-	118,698	316,598	-	316,598	435,296
Disposals	(7,681)	(7,938)	(3,355)	(1,639)	(20,613)	(321,175)	(6,273)	(327,448)	(348,061)
Adjustments/transfers	10,301	117	-	-	10,418	-	-	-	10,418
Closing balance as at 31 December	651,084	2,028,605	389,696	24,999	3,094,384	1,634,120	99,867	1,733,987	4,828,371
Less: Accumulated depreciation/ amortisation									
Opening balance as at 1 January	615,688	1,237,878	306,274	7,807	2,167,647	748,344	51,387	799,730	2,967,377
Charge for the year	14,398	143,066	29,989	2,499	189,952	277,331	18,934	296,265	486,217
Disposals	(7,681)	(7,573)	(3,048)	(1,639)	(19,941)	(320,067)	(6,273)	(326,340)	(346,281)
Adjustments/transfers	10,301	117	-	-	10,418	-	-	-	10,418
Closing balance as at 31 December	632,706	1,373,488	333,215	8,667	2,348,076	705,608	64,048	769,655	3,117,731
Net book value as at 31 December	18,378	655,117	56,481	16,332	746,308	928,512	35,819	964,332	1,710,640

BANK

	2021								
	Property, plant and equipment					Right of use assets			
	Leasehold Improvements LKR '000	Computer & Equipment LKR '000	Furniture & Fittings LKR '000	Motor Vehicles LKR '000	Subtotal LKR '000	Building LKR '000	Motor Vehicles LKR '000	Subtotal LKR '000	Total LKR '000
Cost									
Opening balance as at 1 January	637,921	1,514,476	389,161	26,638	2,568,196	1,159,772	93,336	1,253,108	3,821,304
Additions	5,860	411,554	762	-	418,176	478,925	12,804	491,729	909,905
Disposals	(181)	(310)	-	-	(491)	-	-	-	(491)
Closing balance as at 31 December	643,600	1,925,720	389,923	26,638	2,985,881	1,638,697	106,140	1,744,837	4,730,718
Less: Accumulated depreciation/ amortisation									
Opening balance as at 1 January	591,504	1,114,469	271,695	5,309	1,982,977	488,314	32,224	520,538	2,503,515
Charge for the year	24,234	123,516	34,579	2,498	184,827	260,030	19,163	279,192	464,019
Disposals	(50)	(107)	-	-	(157)	-	-	-	(157)
Closing balance as at 31 December	615,688	1,237,878	306,274	7,807	2,167,647	748,344	51,387	799,730	2,967,377
Net book value as at 31 December	27,912	687,842	83,649	18,831	818,234	890,353	54,753	945,106	1,763,340

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

	2022									
	Property, plant and equipment					Subtotal LKR '000	Right of use assets			Total LKR '000
	Land and Buildings LKR '000	Leasehold Improvements LKR '000	Computer & Equipment LKR '000	Furniture & Fittings LKR '000	Motor Vehicles LKR '000		Building LKR '000	Motor Vehicles LKR '000	Subtotal LKR '000	
Cost										
Opening balance										
as at 1 January	51,923	700,320	2,014,008	495,230	87,215	3,348,696	1,758,812	106,138	1,864,951	5,213,647
Additions	-	11,996	113,836	13,162	4,608	143,602	368,127	-	368,127	511,729
Disposals	-	(7,681)	(7,938)	(6,832)	(1,639)	(24,090)	(322,651)	(6,273)	(328,924)	(353,014)
Adjustments/transfers	-	10,301	117	-	-	10,418	-	-	-	10,418
Closing balance										
as at 31 December	51,923	714,936	2,120,023	501,560	90,184	3,478,626	1,804,288	99,865	1,904,154	5,382,780
Less: Accumulated depreciation/amortisation										
Opening balance										
as at 1 January	9,927	659,167	1,314,339	375,170	35,452	2,394,055	819,446	51,387	870,833	3,264,888
Charge for the year	666	21,378	148,642	39,752	12,052	222,490	302,015	18,934	320,949	543,439
Disposals	-	(7,681)	(7,573)	(6,403)	(1,639)	(23,296)	(320,067)	(6,273)	(326,340)	(349,636)
Adjustments/transfers	-	10,301	117	-	-	10,418	-	-	-	10,418
Closing balance										
as at 31 December	10,593	683,165	1,455,525	408,519	45,865	2,603,667	801,394	64,048	865,442	3,469,109
Net book value as at										
31 December	41,330	31,771	664,498	93,041	44,319	874,959	1,002,894	35,817	1,038,712	1,913,671

GROUP

	2021									
	Property, plant and equipment					Subtotal LKR '000	Right of use assets			Total LKR '000
	Land and Buildings LKR '000	Leasehold Improvements LKR '000	Computer & Equipment LKR '000	Furniture & Fittings LKR '000	Motor Vehicles LKR '000		Building LKR '000	Motor Vehicles LKR '000	Subtotal LKR '000	
Cost										
Opening balance										
as at 1 January	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
Additions	-	6,983	416,862	6,675	3,010	433,530	505,145	12,804	517,949	951,479
Disposals	-	(181)	(310)	-	(19,500)	(19,991)	-	-	-	(19,991)
Closing balance										
as at 31 December	51,923	700,320	2,014,008	495,230	87,215	3,348,696	1,758,812	106,138	1,864,951	5,213,647
Less: Accumulated depreciation/amortisation										
Opening balance										
as at 1 January	9,261	628,978	1,183,606	331,099	36,527	2,189,471	537,158	32,224	569,383	2,758,853
Charge for the year	666	30,239	130,840	44,071	13,609	219,425	282,288	19,163	301,451	520,876
Disposals	-	(50)	(107)	-	(14,684)	(14,841)	-	-	-	(14,841)
Closing balance										
as at 31 December	9,927	659,167	1,314,339	375,170	35,452	2,394,055	819,446	51,387	870,833	3,264,888
Net book value										
as at 31 December	41,996	41,153	699,669	120,060	51,763	954,641	939,366	54,751	994,117	1,948,758

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, are as follows:

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Leasehold improvements	596,248	541,482	602,858	545,080
Computer and equipment	928,689	835,428	964,041	867,244
Furniture and fittings	160,004	136,606	189,897	164,710
Motor vehicles	-	1,639	158	1,797
Intangible assets	45,935	12,230	55,184	21,479
Total	1,730,876	1,527,385	1,812,138	1,600,310

34.2 Details of Group's land and buildings stated at cost and revaluation model

As at 31 December					2022					
Independent Valuer	Location	Date of Valuation	Method of Valuation	No. of Buildings	Cost Model				Revalued Amount	
					Land LKR '000	Building LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000	Land LKR '000	Building LKR '000
Mr. D. Jayawardena	Negombo property	09-Mar-20	Contractor's Method	1	6,981	20,000	10,593	16,388	35,000	20,000
Mr. D. Jayawardena	Battaramulla property	17-Jan-21	Direct Comparison Method	-	9,775	-	-	9,775	15,000	-
Mr. D. Jayawardena	Bokundara property	20-Mar-20	Direct Comparison Method	-	15,167	-	-	15,167	44,243	-
					31,923	20,000	10,593	41,330	94,243	20,000

As at 31 December					2021					
Independent Valuer	Location	Date of Valuation	Method of Valuation	No. of Buildings	Cost Model				Revalued Amount	
					Land LKR '000	Building LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000	Land LKR '000	Building LKR '000
Mr. D. Jayawardena	Negombo property	09-Mar-20	Contractor's Method	1	6,981	20,000	9,927	17,054	35,000	20,000
Mr. D. Jayawardena	Battaramulla property	25-Nov-17	Direct Comparison Method	-	9,775	-	-	9,775	12,500	-
Mr. D. Jayawardena	Bokundara property	20-Mar-20	Direct Comparison Method	-	15,167	-	-	15,167	44,243	-
					31,923	20,000	9,927	41,996	91,743	20,000

34. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (CONTD.)**34.3 Temporarily idle property, plant and equipment - Bank & Group**

There were no property, plant and equipment idle from active use as at the reporting date (2021: NIL).

34.4 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 (2021: NIL).

34.5 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 (2021: NIL).

34.6 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 (2021: NIL).

34.7 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 (2021: NIL).

34.8 Fair value assessment of property, plant and equipment - Bank & Group

There are no material differences between the cost and fair value of property, plant and equipment.

35. DEFERRED TAXATION

Disclosure 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 utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The rates applicable as at reporting date are given in Note 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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax asset (Net)	483,966	351,256	673,278	614,876
Deferred tax liability (Net)	-	-	-	193
Deferred tax assets/ (liabilities) movement				
Balance as at beginning of the year	351,256	(53,841)	614,683	391,301
Deferred tax (charged)/reversed to the Statement of Profit or Loss	304,260	139,455	231,919	(38,320)
Deferred tax (charged)/reversed to the Statement of Other Comprehensive Income	26,827	265,642	25,053	261,702
Deferred tax (charged)/reversed to Retained Earnings	(198,377)	-	(198,377)	-
Balance as at 31 December	483,966	351,256	673,278	614,683

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

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax assets				
Carry forward losses	-	-	100,197	238,954
Retirement benefit obligation	66,501	51,016	75,715	57,263
Impairment allowance	617,498	336,404	723,736	387,486
Share based payments	14,899	5,640	14,899	10,936
Operating leases	52,074	40,606	60,443	40,245
Total	750,972	433,666	974,990	734,884
Deferred tax liability				
Accelerated depreciation allowance for tax purposes (Property, plant and equipment)	(251,955)	(234,677)	(266,892)	(248,440)
Accelerated depreciation allowance for tax purposes (Lease rental receivable)	(35,327)	(39,559)	(49,619)	(59,884)
Total	(287,282)	(274,236)	(316,511)	(308,324)

35.2 Deferred tax asset or liability applicable for Statement of Other Comprehensive Income and Retained Earnings

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deferred tax assets/ (liabilities)				
Actuarial gains/ (losses) on defined benefit plan liability	23,853	(6,277)	24,836	(6,277)
Gains / (losses) on re-measuring financial assets through OCI	(3,577)	198,103	(10,037)	194,400
Total	20,276	191,826	14,799	188,123

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Other financial assets					
Refundable deposits		16,060	15,565	22,609	20,255
Other debtors		544,988	313,191	558,405	332,743
Total other financial assets		561,048	328,756	581,014	352,998
Other non financial assets					
Advances		849,999	345,617	856,062	351,304
Prepaid expenses		187,212	86,225	239,533	128,419
Prepaid staff cost	36.1	429,026	311,408	445,906	318,562
Prepaid lease rental		3,885	4,507	3,885	4,507
Others*		433,147	214,601	435,031	220,476
Total other non financial assets		1,903,269	962,358	1,980,417	1,023,268
Less : Provision for other assets		-	(2,404)	-	(2,404)
Total		2,464,317	1,288,710	2,561,431	1,373,862

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

36.1 Prepaid staff cost

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance as at 1 January	311,408	342,646	318,562	347,170
Add : Adjustments for new grants and settlements	215,357	40,883	241,687	49,872
Less : Charge to personnel expenses	(97,739)	(72,121)	(114,343)	(78,480)
Balance as at 31 December	429,026	311,408	445,906	318,562

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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Local bank borrowings	-	4,049,715	77,833	3,819,906
Foreign bank borrowings	-	-	-	-
Refinance borrowings	1,251,887	1,324,330	1,251,887	1,324,330
Unfavourable balances with banks	59,391	117,066	59,395	114,590
Deposits	1,290,197	565,744	1,290,197	565,744
Total	2,601,475	6,056,855	2,679,312	5,824,570

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. 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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due to banks				
Treasury products	8,365,799	2,931,171	8,365,799	2,931,171
Due to customers				
Treasury products	4,186,013	5,731,573	4,085,950	5,351,529
Total	12,551,812	8,662,744	12,451,749	8,282,700

39. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO CUSTOMERS**ACCOUNTING POLICY**

Due to customers include demand 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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Total deposits	39.1	92,591,545	83,416,119	98,942,753	87,618,235
39.1 Due to customers - By product					
Demand deposits		7,942,439	5,848,730	7,918,328	5,846,438
Savings deposits		13,780,849	19,296,880	13,733,972	19,290,504
Fixed deposits		69,209,839	56,387,061	75,632,035	60,597,845
Other deposits		1,658,418	1,883,448	1,658,418	1,883,448
Total deposits		92,591,545	83,416,119	98,942,753	87,618,235
39.1.1 Due to customers - Local currency deposits					
Demand deposits		7,616,768	5,616,718	7,592,657	5,614,427
Savings deposits		9,422,565	14,174,426	9,375,688	14,168,050
Fixed deposits		54,707,031	46,334,174	61,129,227	50,544,958
Other deposits		1,658,418	1,883,448	1,658,418	1,883,447
Total local currency deposits		73,404,782	68,008,766	79,755,990	72,210,882
39.1.2 Due to customers - Foreign currency deposits					
Demand deposits		325,671	232,012	325,671	232,012
Savings deposits		4,358,284	5,122,454	4,358,284	5,122,454
Fixed deposits		14,502,808	10,052,887	14,502,808	10,052,887
Total foreign currency deposits	39.1.2.1	19,186,763	15,407,353	19,186,763	15,407,353
Total deposits		92,591,545	83,416,119	98,942,753	87,618,235

39.1.2.1 Foreign currency deposits - By currency

As at 31 December		BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
United States Dollar		17,918,017	14,477,568	17,918,017	14,477,568
Great Britain Pounds		533,790	455,539	533,790	455,539
Euro		455,586	397,221	455,586	397,221
Australian Dollar		264,058	74,166	264,058	74,166
Others		15,312	2,859	15,312	2,859
Total deposits		19,186,763	15,407,353	19,186,763	15,407,353

39. FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO CUSTOMERS (CONTD.)

39.2 Due to customers - By province

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Central	3,104,003	2,743,679	3,224,787	2,792,980
Eastern	793,712	640,277	806,079	644,433
North Central	636,359	536,860	663,889	540,819
North Western	2,597,232	3,192,445	2,640,231	3,200,114
Northern	2,953,811	2,488,005	2,953,811	2,488,005
Sabaragamuwa	1,663,217	1,381,131	1,686,636	1,389,017
Southern	4,234,811	3,570,720	4,377,191	3,651,850
Uva	873,027	597,192	873,027	597,192
Western	75,735,373	68,265,810	81,717,102	72,313,825
Total deposits	92,591,545	83,416,119	98,942,753	87,618,235

40. FINANCIAL LIABILITIES AT AMORTISED COST - 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		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Borrowings from non banking institutions	-	-	331,516	1,636,362

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	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Other financial liabilities					
Other creditors*		746,009	414,077	865,063	577,691
Lease liability	41.1	915,700	815,944	1,005,369	893,683
Total other financial liabilities		1,661,709	1,230,021	1,870,432	1,471,374
Other non financial liabilities					
Accrued expenses		144,302	124,705	183,830	160,509
Retirement benefit obligation	41.2.2	301,180	186,415	335,171	212,443
Impairment on contingent liabilities and commitments	46.1.2	268,504	109,020	289,504	128,645
Other payables**		273,414	306,832	295,173	325,977
Total other non financial liabilities		987,400	726,972	1,103,678	827,574
Total other liabilities		2,649,109	1,956,993	2,974,110	2,298,948

*Other creditors include amount payable to suppliers and other miscellaneous financial payables.

** Other payables include bonus provision, deferred commission income, deferred bancassurance commissions and other miscellaneous non-financial payables.

41.1 Lease liability

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 1 January	815,944	598,273	893,683	679,118
Additions	215,333	423,238	240,377	448,587
Accretion of interest	111,229	82,923	138,896	95,548
Payments	(226,158)	(288,490)	(265,603)	(329,570)
Termination	(648)	-	(1,984)	-
As at 31 December	915,700	815,944	1,005,369	893,683
41.1.1 Maturity analysis of lease liability				
Lease liability within one year	20,490	119,745	41,981	147,743
Lease liability within one to five years	601,253	639,821	654,535	689,562
Lease liability more than five years	293,957	56,378	308,853	56,378
Total	915,700	815,944	1,005,369	893,683

41. OTHER LIABILITIES (CONTD.)**41.2 Retirement benefit obligation**

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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 financial statements 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. There is no material change in amount, timing and uncertainty of the Bank's future cashflows from the estimated amount and timing due to the nature of above plan.

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 funded.

Funding arrangement

The gratuity liability is not externally funded.

41.2.1 Actuarial assumptions used in determining retirement benefit obligations**BANK**

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, 2021 to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2022.
	Normal retirement age	A participant is eligible for normal retirement after attainment of age 60 and completion of 5 years of service .
Financial	Rate of discount	Interest rate of 18.00% p.a. (2021 : 11.89% p.a.) has been used to discount future liabilities considering the average payment period.
	Salary increases	A salary increment of 17.00% p.a. (2021 : 7.8% p.a.) has been used in respect of the active employees.

Expected average future working life of the active participants is 14.1 years (2021 : 14.3 years).

41. OTHER LIABILITIES (CONTD.)**UB FINANCE**

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, 2021 to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2022.
	Normal retirement age	A participant is eligible for normal retirement after attainment of age 60 and completion of 5 years of service .
Financial	Rate of discount	Interest rate of 20.00% p.a. (2021 : 8.4% p.a.) has been used to discount future liabilities considering the average payment period.
	Salary increases	A salary increment of 14.00% p.a. (2021 : 7.85% p.a.) has been used in respect of the active employees.

Expected average future working life of the active participants is 1.77 years (2021 : 1.43 years).

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Type of assumption	Criteria	Description
Financial	Rate of discount	Interest rate of 18.50% p.a. (2021 : 11% p.a.) has been used to discount future liabilities considering the average payment period.
	Salary increases	A salary increment of 17.00% p.a. (2021 : 6% p.a.) has been used in respect of the active employees.

Expected average future working life of the active participants is 1.53 years (2021 : 4.30 years).

41.2.2 The movement of the retirement benefit obligation

As at 31 December	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 1 January		186,415	226,946	212,444	250,603
Charge to profit or loss	41.2.3	50,730	36,715	57,881	42,066
Charge /(reversal) to other comprehensive income	41.2.4	105,665	(54,346)	108,941	(55,338)
Contribution made for retirement benefit obligation		342,810	209,315	379,266	237,331
Payments made during the year		(41,630)	(22,900)	(44,095)	(24,888)
As at 31 December		301,180	186,415	335,171	212,443

41.2.3 Net benefit expense (recognised in profit or loss)

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Current service cost	28,566	35,733	33,361	39,712
Interest cost on benefit obligation	22,164	17,656	24,520	19,028
Immediate recognition of changing the normal retirement age	-	(16,674)	-	(16,674)
Charge to profit or loss	50,730	36,715	57,881	42,066

41. OTHER LIABILITIES (CONTD.)

41.2.4 Due to assumption change (recognised in OCI statement)

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
(Gains)/losses due to assumption change				
Financial assumptions	78,536	(48,077)	76,321	(48,160)
Experience loss/(gain) arising during the year	27,129	(6,269)	32,620	(7,178)
Total amount recognised for the year	105,665	(54,346)	108,941	(55,338)

41.2.5 Messers Piyal S. Goonathileke and Associates (Bank) and Messers Actuarial & Management Consultants (Pvt) Limited (UB Finance), firms of professional actuaries, have carried out an independent actuarial valuations 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.

Increase/ (decrease) in discount rate	Increase/ (decrease) in salary increment rate	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
1%		(28,658)	(17,343)	(29,070)	(17,650)
(1%)		33,547	20,240	33,975	20,558
	1%	32,794	20,388	33,290	20,744
	(1%)	(28,519)	(17,731)	(29,004)	(18,080)

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

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Within 12 months	13,064	10,784	26,564	21,523
Between 1 and 5 years	155,648	88,040	178,712	101,463
More than 5 years	588,089	256,234	592,504	257,186

42. STATED CAPITAL

As at 31 December	BANK		GROUP	
	2022	2021	2022	2021
Ordinary shares				
Value (LKR '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	
	2022	2021	2022	2021
Share warrants (LKR '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 LKR 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 extend the exercise period of the warrants until 31 March 2024 and 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. RESERVES**43.1 Statutory reserve fund****Union Bank of Colombo PLC**

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 applicable to licensed finance companies.

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 1 January	242,473	204,227	267,093	228,847
Transferred from retained earnings	15,709	38,246	15,709	38,246
As at 31 December	258,182	242,473	282,802	267,093

43. RESERVES (CONTD.)

43.2 Fair value through OCI reserve

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 1 January	(620,022)	217,840	(607,786)	230,076
Debt instruments at fair value through other comprehensive income				
Net change in fair value during the year	12,439	(620,905)	10,887	(621,329)
Reclassification to the income statement	(1,430)	(496,346)	(1,430)	(496,346)
Deferred tax effect				
Income tax effect on above	(3,248)	268,140	(3,248)	268,140
Income tax effect on above	(55)	11,673	(55)	11,673
Share of other comprehensive income of equity accounted investees, net of tax	(1,552)	(424)	-	-
Instruments transferred to Amortised cost	627,967	-	627,967	-
As at 31 December	14,099	(620,022)	26,335	(607,786)

43.3 Retained earnings

	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 1 January	1,879,002	1,244,184	1,654,441	951,674
Net profit for the year	314,188	764,919	434,065	836,834
Other comprehensive income	(74,502)	49,008	(74,502)	49,008
Dividends to equity holders	-	(140,863)	-	(140,863)
Change in control	-	-	-	(3,966)
Transfers during the year	(15,709)	(38,246)	(15,709)	(38,246)
As at 31 December	2,102,979	1,879,002	1,998,295	1,654,441

44. EMPLOYEE SHARE OPTION PLAN (ESOP)

On 1 December 2015 the Bank established three share option plans that entitle employees to purchase shares of the Bank. The first scheme of employee share grants was issued to employees at the grade of Vice President and above. The ESOP grant provides employees with 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.

By 1 December 2020, options attached to first tranche completed the vesting period and based on pre agreed targets reserve has been adjusted. The option holders are entitled to exercise the options vested on or before the 17th of June 2025.

The second tranche of the employee share grants was issued to eligible Key Management Personnel of the Bank effective 1 April 2021. This ESOP grant provides employees with 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 based on time ratably over a 5-year period.

If an employee leaves the Bank, before the service criteria is met, they will not be entitled to claim this benefit.

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 fair value is determined using a Black-scholes model.

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.

No expense is recognised for awards that do not ultimately vest because of service conditions have not been met.

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.

The directors have obtained a certificate from the auditors to confirm that this schemes have been implemented in accordance with the listing rules and with the special resolution passed, as required by section 5.6.9 of the listing rules.

44.1 Inputs and assumptions used to determine the fair value of share option plan are given below:

	Scheme 01		Scheme 02	
	2022	2021	2022	2021
Fair value at measurement date (LKR '000)	23,500	23,500	13,805	-
Exercise price (LKR)	21.95	21.95	15.70	-
Expected volatility	30.12%	30.12%	41.71%	-
Option life (remaining expected weighted average life)	5 Years	5 Years	5 Years	-
Risk free interest rate (based on Government bonds)	5.00%	5.00%	5.15%	-

Total expense arising from employee share option plan transactions are recorded in Note 44.3.1 to the financial statements.

The Expected volatility is based on historical average share price volatility and implied volatility derived from traded options over the Bank's ordinary shares of similar to those employees options. Historical volatility for scheme 01 was determined from 2016 and for scheme two from 2019.

44. EMPLOYEE SHARE OPTION PLAN (ESOP) (CONTD.)

44.2 Movement in weighted average exercise prices and share options during the year is given below;

	Scheme 01			
	2022		2021	
	Number of Options '000	Weighted Average Exercise Price LKR	Number of Options '000	Weighted Average Exercise Price LKR
Outstanding as at 1 January	4,765	21.95	4,765	21.95
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	4,765	21.95	4,765	21.95

	Scheme 02			
	2022		2021	
	Number of Options '000	Weighted Average Exercise Price LKR	Number of Options '000	Weighted Average Exercise Price LKR
Outstanding as at 1 January	-	-	-	-
Granted during the year	1,811	15.70	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	1,811	15.70	-	-

4,764,962 options are exercisable as at 31 December 2022 (2021: 4,764,962).

44.3 Movement during the year

BANK & GROUP	Note	Scheme 01		Scheme 02		Total	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 December							
Balance as at 1 January		23,500	113,500	-	-	23,500	113,500
Transfer to stated capital		-	-	-	-	-	-
Charge to profit or loss	44.3.1	-	-	13,805	-	13,805	-
Amount paid		-	(90,000)	-	-	-	(90,000)
Balance as at 31 December		23,500	23,500	13,805	-	37,305	23,500
44.3.1 Charge to profit or loss							
Equity settled charge for the year		-	-	13,805	-	13,805	-
Liability settled charge for the year		-	-	-	-	-	-
For the year ended 31 December		-	-	13,805	-	13,805	-
44.3.2 Break-up of the balance							
Equity component		23,500	23,500	13,805	-	37,305	23,500
Liability component		-	-	-	-	-	-
Balance as at 31 December		23,500	23,500	13,805	-	37,305	23,500

During the year there were no shares exercised, forfeited or expired.

45. NON - CONTROLLING INTEREST (NCI)

	UB Finance Company Limited LKR '000	National Asset Management Limited LKR '000	Total LKR '000
2022			
% of Ownership interest held by NCI	8.23%	49.00%	
Balance as at 1 January 2022	225,194	58,144	283,338
Profit for the year	(12,343)	1,217	(11,126)
Other comprehensive income, net of tax	100	(1,566)	(1,466)
Balance as at 31 December 2022	212,951	57,795	270,746
2021			
% of Ownership interest held by NCI	8.23%	49.00%	
Balance as at 1 January 2021	178,834	51,759	230,593
Profit for the year	7,099	6,249	13,348
Other comprehensive income, net of tax	3,100	136	3,236
Change in control	3,966	-	3,966
Share issue - right issue	32,195	-	32,195
Balance as at 31 December 2021	225,194	58,144	283,338

46. CONTINGENT LIABILITIES AND COMMITMENTS**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 contingent liabilities and 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 into various irrevocable commitments and incurred certain contingent liabilities. These consist of guarantees, letters of credit and other undrawn commitments to lend.

Though these obligations are not 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. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

46.1 Contingent liabilities and Commitments

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Commitments				
Undrawn loan commitments	18,201,843	13,516,877	18,180,142	13,515,295
Contingencies				
Guarantees	6,673,428	8,636,628	6,673,428	8,636,628
Documentary credit	1,008,817	3,963,880	1,008,817	3,963,880
Forward contracts	1,817,115	3,237,269	1,817,115	3,237,269
Spot contracts	7,175	756,119	7,175	756,119
Acceptances	3,481,532	3,713,814	3,481,532	3,713,814
Forward bonds	-	94,820	-	94,820
Forward borrowing	-	600,000	-	600,000
Other contingent items	2,637,061	1,095,615	2,637,061	1,095,615
Total contingencies	15,625,128	22,098,145	15,625,128	22,098,145
Total contingent liabilities and commitments	33,826,971	35,615,022	33,805,270	35,613,440

46.1.1 Stage movements in contingent liabilities and commitments

BANK

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Undrawn loan commitments	16,621,364	1,510,774	69,705	18,201,843	11,899,463	1,608,245	9,169	13,516,877
Other contingencies	15,461,772	37,955	125,401	15,625,128	22,094,645	3,500	-	22,098,145
Total	32,083,136	1,548,729	195,106	33,826,971	33,994,108	1,611,745	9,169	35,615,022

GROUP

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Undrawn loan commitments	16,546,374	1,526,276	107,492	18,180,142	11,981,350	1,486,500	47,445	13,515,295
Other contingencies	15,461,772	37,955	125,401	15,625,128	22,094,645	3,500	-	22,098,145
Total	32,008,146	1,564,231	232,893	33,805,270	34,075,995	1,490,000	47,445	35,613,440

46. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)**46.1.2 Stage movements in allowance for impairment****BANK**

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Undrawn loan commitments								
Opening balance as at 1 January	69,320	21,564	4,153	95,037	72,584	5,921	3,543	82,048
Charge to statement of profit or loss	90,394	59,568	4,723	154,685	(3,264)	15,643	610	12,989
Closing balance as at 31 December	159,714	81,132	8,876	249,722	69,320	21,564	4,153	95,037
Other contingencies								
Opening balance as at 1 January	13,950	33	-	13,983	12,286	-	-	12,286
Charge to statement of profit or loss	4,282	150	367	4,799	1,664	33	-	1,697
Closing balance as at 31 December	18,232	183	367	18,782	13,950	33	-	13,983
Total								
Opening balance as at 1 January	83,270	21,597	4,153	109,020	84,870	5,921	3,543	94,334
Charge to statement of profit or loss	94,676	59,718	5,090	159,484	(1,600)	15,676	610	14,686
Closing balance as at 31 December	177,946	81,315	9,243	268,504	83,270	21,597	4,153	109,020

GROUP

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Undrawn loan commitments								
Opening balance as at 1 January	70,121	20,542	23,999	114,663	72,584	8,160	25,891	106,635
Charge to statement of profit or loss	93,131	65,329	(2,401)	156,059	(2,463)	12,382	(1,892)	8,028
Closing balance as at 31 December	163,252	85,871	21,598	270,721	70,121	20,542	23,999	114,663
Other contingencies								
Opening balance as at 1 January	13,950	33	-	13,983	12,286	-	-	12,286
Charge to statement of profit or loss	4,283	150	367	4,800	1,664	33	-	1,697
Closing balance as at 31 December	18,233	183	367	18,783	13,950	33	-	13,983
Total								
Opening balance as at 1 January	84,071	20,575	23,999	128,646	84,870	8,160	25,891	118,921
Charge to statement of profit or loss	97,414	65,479	(2,034)	160,859	(799)	12,415	(1,892)	9,724
Closing balance as at 31 December	181,485	86,054	21,965	289,504	84,071	20,575	23,999	128,646

46. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

46.2 Capital commitments

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Approved and contracted for				
Capital commitments for new system implementation and others (Intangibles)	202,153	29,600	202,153	29,600
Total	202,153	29,600	202,153	29,600
Approved but not contracted for				
Capital commitments for new system implementation and others (Intangibles)	39,019	14,805	39,019	14,805
Total	39,019	14,805	39,019	14,805
Total capital commitments	241,172	44,405	241,172	44,405

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 a 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	30656/M, 5898/M, 16902/P, 405/P, 473/P, 160/2017DTS, 197/2022DTS, 191/2020DTS, 268/2018DSP, 411/2021DSP, 116/2021DSP, 160/2022DSP, 210/2019DSP, 543/T, 1330/2020T, 3713/SPL, 38/2022SPL, 18781/SPL, 114/SPL, 150/2018DDR, 4549/2021DMR, 456/2022DMR, 01/RE, 311/2022/DSP
- Commercial High Courts	518/2014MR, 496/2016MR, 411/2019MR, 592/2019MR, 112/2016MR, 13/2022MR, 270/2018MR, 53/2022MR, 24/2022MR, 186/2022MR, 185/2022MR, 176/2022MR, 15/2016/CO, 31/2013CO, 98/2018CO, 03/2019CO
- Civil Appeal Court	91/2015(F), 188/2017(F), 142/2018(F), 150/2019(F), WP/HCCA/152/18(F), EP/HCCA/LA/91/2021, NWP/HCCA/KUR/185/2018(F)
- Court of Appeal	11/2021/SC
- Supreme Court	98/2017SC, SC/HCCA/LA/116/2022, SC/CHC/Appeal/02/2018
2. Cases filed against the Bank with respect to mortgaged property, court orders, title of property	
- District Courts	11745/L, 2346/L, 1992/L, 34/2017DLM, 28736/L, 9103/L, 2053/L

46. CONTINGENT LIABILITIES AND COMMITMENTS (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 in District court	
- District Court - Colombo	DSP/222/10 , DMR 925/14, DC, DSP/122/2020, DSP 01/2022, DHP 4094/2022, DMR 3085/22
- Commercial High Court of Civil Appellate - Colombo	WP/HCCA/COL/101/19(F) , WP/HCCA/COL/314/LA
- District Court - Kandy	DMR/830/20
- District Court - Homagama	21096 MR
- District Court - Ratnapura	38494 SPL
- District Court - Elpitiya	1966-M
2. Actions filed against the Company regarding Joint Venture Projects over the construction matters, advance payments, possession of project properties and unpaid bills.	
- High Court - Civil - Colombo	HC/Civil/177/10 , DLM 000148/2017,
- Supreme Court - Colombo	SC/CHC/APPEAL/54/2019, SC/HCCA/LA/281/2021
- Commercial High Court of Civil Appellate - Colombo	WP/HCCA/COL/121/18
- District Court - Colombo	DMR/1615/17, DMR/1801/12, DLM/174/12
- District Court - Kaduwela	L/533/15,
- District Court - Negombo	8164/L, SPL 3579/17
3. Cases filed against the Company over the Fixed Deposit matters and Unpaid Deposits.	
- Magistrate Court - Colombo	B/4004/14, B/4005/14
- District Court - Colombo	DTS/279/08 ,
- Commercial High Court of Civil Appellate - Colombo	WP/HACCA/COL/LA/77/18 ,
- Commercial High Court - Colombo	CHC/503/15, CHC/533/15, CHC/535/15, CHC/536/15
- Supreme Court - Colombo	SC/HCCA/LA/NO139/2020, SC/FR/317/9
4. Actions filed against the Company with respect to mortgaged property, court orders, title of property.	
- Magistrate Court - Kesbewa	Case Number 82353,
- District Court - Kesbewa	Case number RE 44
- District Court - Colombo	DSP/0266/12, DSP 63/10,
- District Court - Panadura	2121/P
- District Court - Attanagalla	1547/L, 1558/20/L
- Commercial High Court of Civil Appellate - Kalutara	HCCA/KAL/137/13/F,
5. Cases Filed Against the Company by the employees	
- Magistrate Court - Fort	LB 76305
- Court of Appeal - Fort	CA(Writ) 315/2011
- Supreme Court - Colombo	SC/APP/26/2014
- Labour Commissioner	CE/D6/04/61/2016, CLE/COM/67/2022/16

47. ASSET PLEDGED

BANK

As at 31 December

	Note	2022				
		Encumbered		Unencumbered		Total
		Pledged as collateral LKR '000	Other LKR '000	Available as collateral LKR '000	Other LKR '000	
Cash and cash equivalents	21	-	-	5,831,375	-	5,831,375
Balances with Central Bank of Sri Lanka	22	-	2,170,248	-	-	2,170,248
Placements with banks	23	-	-	1,659,589	-	1,659,589
Reverse repurchase agreements	24	-	-	375,582	-	375,582
Derivative financial instruments	25	-	-	14,794	-	14,794
Financial assets at fair value through profit or loss	26	249,253	-	1,399,446	-	1,648,699
Financial assets at amortised cost - loans and advances to customers	27	-	-	72,810,492	-	72,810,492
Financial assets at amortised cost - debt and other instruments	28	16,750,398	-	19,362,324	-	36,112,722
Financial assets at fair value through other comprehensive income	29	1,941,156	-	3,344,897	-	5,286,053
Total		18,940,807	2,170,248	104,798,499	-	125,909,554

As at 31 December

	Note	2021				
		Encumbered		Unencumbered		Total
		Pledged as collateral LKR '000	Other LKR '000	Available as collateral LKR '000	Other LKR '000	
Cash and cash equivalents	21	-	-	2,322,357	-	2,322,357
Balances with Central Bank of Sri Lanka	22	-	1,492,713	-	-	1,492,713
Placements with banks	23	-	-	118,969	-	118,969
Reverse repurchase agreements	24	-	-	1,000,505	-	1,000,505
Derivative financial instruments	25	-	-	26,402	-	26,402
Financial assets at fair value through profit or loss	26	313,221	-	2,262,395	-	2,575,616
Financial assets at amortised cost - loans and advances to customers	27	-	-	70,560,551	-	70,560,551
Financial assets at amortised cost - debt and other instruments	28	5,510,293	-	11,908,478	-	17,418,771
Financial assets at fair value through other comprehensive income	29	6,286,572	-	11,963,289	-	18,249,861
Total		12,110,086	1,492,713	100,162,946	-	113,765,745

47. ASSET PLEDGED (CONTD.)

GROUP

As at 31 December

As at 31 December		2022				
		Encumbered		Unencumbered		
	Note	Pledged as collateral LKR '000	Other LKR '000	Available as collateral LKR '000	Other LKR '000	Total LKR '000
Cash and cash equivalents	21	-	-	6,016,521	-	6,016,521
Balances with Central Bank of Sri Lanka	22	-	2,170,248	-	-	2,170,248
Placements with banks	23	-	-	1,659,589	-	1,659,589
Reverse repurchase agreements	24	-	-	375,582	-	375,582
Derivative financial instruments	25	-	-	14,794	-	14,794
Financial assets at fair value through profit or loss	26	249,253	-	1,969,050	-	2,218,303
Financial assets at amortised cost - loans and advances to customers	27	1,232,213	-	80,970,892	-	82,203,105
Financial assets at amortised cost - debt and other instruments	28	16,750,398	-	19,267,493	-	36,017,891
Financial assets at fair value through other comprehensive income	29	1,941,156	-	3,366,631	-	5,307,787
		20,173,020	2,170,248	113,640,552	-	135,983,820

As at 31 December

As at 31 December		2021				Total LKR '000
		Encumbered		Unencumbered		
		Note	Pledged as collateral LKR '000	Other LKR '000	Available as collateral LKR '000	
Cash and cash equivalents	21	-	-	2,470,657	-	2,470,657
Balances with Central Bank of Sri Lanka	22	-	1,492,713	-	-	1,492,713
Placements with banks	23	-	-	118,969	-	118,969
Reverse repurchase agreements	24	-	-	1,144,628	-	1,144,628
Derivative financial instruments	25	-	-	26,402	-	26,402
Financial assets at fair value through profit or loss	26	313,221	-	2,271,091	-	2,584,312
Financial assets at amortised cost - loans and advances to customers	27	2,024,923	-	76,698,066	-	78,722,989
Financial assets at amortised cost - debt and other instruments	28	5,510,293	-	11,742,085	-	17,252,378
Financial assets at fair value through other comprehensive income	29	6,286,572	-	11,990,187	-	18,276,759
		14,135,009	1,492,713	106,462,085	-	122,089,807

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. The tables above sets out the availability of the Bank's financial assets to support future funding.

48. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at market rates with related parties as defined in 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 which is registered in Cayman Islands. The ultimate parent is TPG Inc. (NASDAQ: TPG) (Delaware) which is registered in United States of America and produces consolidated financial statements available for public use.

48.1.1 Transactions with Culture Finance Holding Limited (Immediate parent)

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Dividend paid	-	99,783

48.2 Transactions with Key Management Personnel (KMPs)

KMPs for financial reporting purposes, are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly, the Bank's KMPs include the Board of Directors of the Bank, Chief Executive Officer, key employees who have authority of planning, directing & controlling the activities of the Bank, KMPs of the immediate parent, and ultimate parent Company.

48.2.1 Compensation of Key Management Personnel

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Short term employee benefits	200,255	197,353	249,665	236,550
Post employment benefits	16,915	16,414	16,915	16,414
Other long term benefits	25,221	25,492	25,221	25,492
Total	242,391	239,259	291,801	278,456

48.2.2 ESOP granted to KMPs**BANK**

As at 31 December	2022 LKR '000	2021 LKR '000
No of options outstanding at the beginning of the period	4,423	4,765
No of options granted during the period	850	-
No of options adjusted for resignations	-	(342)
No of options outstanding at the end of the period	5,273	4,423

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. RELATED PARTY DISCLOSURES (CONTD.)**48.3 Transactions, arrangements and agreements involving KMPs and their Close Family Members (CFMs)**

CFMs of KMPs are those family members who may be influential over KMPs in their dealing with the entity. They may include KMPs' domestic partner and children, children of KMPs' domestic partner and dependants of the KMP or the KMPs' domestic partner.

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	2022			2021		
	Limit*	Closing Balance	Average Balance	Limit	Closing Balance	Average Balance
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets						
Financial assets at amortised cost - loans and advances to customers	2,000	786	614	1,500	294	3,916
Liabilities						
Financial liabilities at amortised cost - Due to customers	-	241	3,491	-	63	135

*The above limit relate only to Credit Cards and Overdrafts which has a closing balance of LKR 0.79 Mn as at 31 December 2022 (2021: LKR 0.29 Mn)
All financial assets are settled by way of cash payments. Except for credit cards, all other financial assets are secured.

Items in the Statement of Profit or Loss

For the year ended 31 December	2022	2021
	LKR '000	LKR '000
Interest income	-	127
Interest expense	444	10

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	2022			2021		
	Limit*	Closing Balance	Average Balance	Limit	Closing Balance	Average Balance
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets						
Financial assets at amortised cost - loans and advances to customers	125,000	301,453	460,331	125,000	303,191	620,866
Financial assets at amortised cost - debt and other instruments	-	-	184,569	-	276,162	364,292
Liabilities						
Financial liabilities at amortised cost - Due to customers	-	76,318	132,724	-	114,503	128,972
Repurchased agreements	-	100,063	161,701	-	380,044	467,717

**The above limit relate only to Overdrafts which has a closing balance of LKR Nil as at 31 December 2022 (2021 - LKR 2.58 Mn).

All financial assets are settled by way of cash payments. Except for credit cards, all other financial assets are secured.

48. RELATED PARTY DISCLOSURES (CONTD.)

Items in the Statement of Profit or Loss

For the year ended 31 December

	2022 LKR '000	2021 LKR '000
Interest income	92,496	103,002
Interest expense	10,457	9,654

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 market rates.

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 LKR 189 Mn to the Fund for the year ended 31 December 2022 (2021 - LKR 175 Mn). Fund has invested a sum of LKR 1,299 Mn with the Bank as at 31 December 2022 (2021 : LKR 991 Mn). During the year, Bank has incurred sum of LKR 127 Mn (2021 : LKR 92 Mn) as interest expense.

48.4.3 Transactions with the Serandib Capital Limited

	Balance as at 31-Dec-22 LKR '000	Income/ Expense during 2022 LKR '000	Balance as at 31-Dec-21 LKR '000	Income/ Expense during 2021 LKR '000
Deep discounted bond	3,380,857	130,041	3,250,816	127,315
Deposits	850	12	689	13
Agency Commission	-	-	-	133

48.4.4 Change in Controlling Power

As of 30 November 2022, the sole shareholder of Culture Financial Holding Ltd, TPG Asia VI SF Pte Ltd (the Ultimate Parent of Union Bank of Colombo PLC) has entered into a share sale and purchase agreement for the sale of the entirety of shares held by TPG Asia VI SF Pte. Ltd. in Culture Financial Holding Ltd to CG Capital Partners Global Pte Ltd. a private company incorporated under the law of Singapore with company number 201102051N. The Transaction is subject to several conditions precedent, including regulatory Approval.

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.

	Corporate		Treasury & Other		SME		Retail		Other Groups		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Interest income	6,149,251	2,616,380	4,794,249	1,522,451	3,612,686	2,430,840	1,949,373	2,394,054	2,175,886	1,735,635	18,681,445	10,699,360
Inter-segment interest income	-	-	231,904	488,864	-	-	3,655,968	1,599,864	-	-	3,887,872	2,088,728
Total interest income	6,149,251	2,616,380	5,026,153	2,011,315	3,612,686	2,430,840	5,605,341	3,993,918	2,175,886	1,735,635	22,569,317	12,788,088
Interest expense	1,605,777	634,569	2,164,463	609,534	1,762,993	804,487	5,370,317	2,834,527	1,015,926	631,352	11,919,476	5,514,469
Inter-segment interest expense	3,153,449	1,304,182	-	-	734,423	784,546	-	-	-	-	3,887,872	2,088,728
Total interest expense	4,759,226	1,938,751	2,164,463	609,534	2,497,416	1,589,033	5,370,317	2,834,527	1,015,926	631,352	15,807,348	7,603,197
Net interest income	1,390,025	677,629	2,861,690	1,401,781	1,115,270	841,807	235,024	1,159,391	1,159,960	1,104,283	6,761,969	5,184,891
Total other income	351,444	218,098	794,400	725,495	247,986	161,475	541,723	501,261	147,935	196,994	2,083,488	1,803,323
Total net income	1,741,469	895,727	3,656,090	2,127,276	1,363,256	1,003,282	776,747	1,660,652	1,307,895	1,301,277	8,845,457	6,988,214
Less :												
Impairment	1,041,058	148,047	(501,922)	121,141	1,120,882	468,657	895,298	187,397	414,732	211,421	2,970,048	1,136,663
Depreciation & amortisation	112,110	103,921	90,190	83,700	204,261	191,560	320,924	291,472	59,797	66,397	787,282	737,050
Other expenses	331,675	266,273	256,903	240,864	888,639	762,113	2,064,843	1,732,780	555,556	443,658	4,097,615	3,445,688
Segmental results	256,626	377,486	3,810,919	1,681,571	(850,526)	(419,048)	(2,504,318)	(550,997)	277,810	579,801	990,512	1,668,813
Less: VAT on financial services & social security contribution levy											465,236	428,955
Less: Tax expense											102,337	389,676
Profit after tax											422,939	850,182
Additions to property, plant & equipments and right of use assets											511,729	951,479
Additions to intangible assets											382,689	236,656
Total additions to non current assets											894,418	1,188,135
Other information												
Segment assets	34,569,037	30,892,051	41,147,373	35,688,134	21,492,957	23,450,100	14,565,189	14,416,097	17,962,773	14,051,997	129,737,329	118,498,378
Unallocated assets											6,941,676	5,594,547
Consolidated total assets											136,679,005	124,092,925
Segment liabilities	14,705,915	15,557,019	13,650,890	13,587,141	17,051,851	15,236,503	58,670,837	51,158,559	10,325,838	7,844,971	114,405,330	103,384,194
Unallocated liabilities											3,257,926	2,687,879
Consolidated total liabilities											117,663,256	106,072,073
Cash flow from operating activities	3,019,649	(175,887)	6,339,537	(417,716)	2,363,839	(197,006)	1,346,853	(326,089)	1,525,642	(2,505,637)	14,595,519	(3,622,335)
Cash flow from investing activities	(112,332)	(410,801)	(4,252,710)	7,294,469	(87,936)	(460,128)	(50,103)	(761,613)	(898,120)	2,214,952	(5,401,201)	7,876,879
Cash flow from financing activities	-	-	(4,084,406)	(3,635,567)	-	-	-	-	(737,280)	(82,097)	(4,821,685)	(3,717,664)

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 assets at fair value through profit or loss

Financial assets 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 assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income, 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

	2022			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	2,626	-	2,626
- Currency SWAPs	-	12,168	-	12,168
Financial assets at fair value through profit or loss				
- Sri Lanka Government securities	1,648,699	-	-	1,648,699
Financial assets at fair value through other comprehensive income				
- Sri Lanka Government securities	5,283,523	-	-	5,283,523
- Unquoted equity securities	-	-	2,530	2,530
Total financial assets measured at fair value	6,932,222	14,794	2,530	6,949,546

BANK

As at 31 December

	2021			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	3,853	-	3,853
- Currency SWAPs	-	22,549	-	22,549
Financial assets at fair value through profit or loss				
- Sri Lanka Government securities	777,700	-	-	777,700
- Investment in units	1,797,916	-	-	1,797,916
Financial assets at fair value through other comprehensive income				
- Sri Lanka Government securities	18,247,331	-	-	18,247,331
- Unquoted equity securities	-	-	2,530	2,530
Total financial assets measured at fair value	20,822,947	26,402	2,530	20,851,879

Financial liabilities measured at fair value

Derivative financial instruments				
- Forward foreign exchange contracts	-	103	-	103
- Currency SWAPs	-	22,224	-	22,224
Total financial liabilities measured at fair value	-	22,327	-	22,327

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

GROUP

As at 31 December

As at 31 December	2022			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	2,626	-	2,626
- Currency SWAPs	-	12,168	-	12,168
Financial assets at fair value through profit or loss				
- Sri Lanka Government securities	2,166,142	-	-	2,166,142
- Investment in units	52,161	-	-	52,161
Financial assets at fair value through other comprehensive income				
- Sri Lanka Government securities	5,283,523	-	-	5,283,523
- Equity securities - Unquoted	-	-	24,264	24,264
Total financial assets measured at fair value	7,501,826	14,794	24,264	7,540,884

GROUP

As at 31 December

As at 31 December	2021			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	3,853	-	3,853
- Currency SWAPs	-	22,549	-	22,549
Financial assets at fair value through profit or loss				
- Sri Lanka Government securities	777,700	-	-	777,700
- Investment in units	1,806,611	-	-	1,806,611
Financial assets at fair value through other comprehensive income				
- Sri Lanka Government securities	18,247,331	-	-	18,247,331
- Equity securities - Quoted	11,272	-	-	11,272
- Equity securities - Unquoted	-	-	18,156	18,156
Total financial assets measured at fair value	20,842,914	26,402	18,156	20,887,472
Financial liabilities measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	103	-	103
- Currency SWAPs	-	22,224	-	22,224
Total financial liabilities measured at fair value	-	22,327	-	22,327

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 consist of debenture investments, Sri Lanka development bonds and fixed deposits 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.

Financial liabilities at amortised cost - 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 • Balances with Central Bank of Sri Lanka • Placements with banks • Reverse repurchased agreements • Other financial assets • Deep discounted bond • Fixed deposits • Sri Lanka development bonds • Debentures • Commercial paper	• Due to banks • Repurchased agreements • Savings and demand deposits in "Financial liabilities at amortised cost - Due to customers" • Other financial liabilities

Under the table the fair values may be different from the actual amounts that will be received / paid on the settlement or maturity of the asset or liability. These do not include the fair values of non-financial assets and non-financial liabilities.

BANK

As at 31 December

	2022				Carrying Value LKR '000
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total Value LKR '000	
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	68,992,132	-	68,992,132	72,810,492
Financial assets at amortised cost - debt and other instruments	25,562,270	-	-	25,562,270	28,955,609
Total	25,562,270	68,992,132	-	94,554,402	101,766,101
Financial liabilities					
Financial liabilities at amortised cost - Due to customers	-	69,816,327	-	69,816,327	70,868,257
Total	-	69,816,327	-	69,816,327	70,868,257

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)**BANK**

As at 31 December

As at 31 December	2021				Carrying Value LKR '000
	Fair Value				
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total Value LKR '000	
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	70,660,134	-	70,660,134	70,560,551
Financial assets at amortised cost - debt and other instruments	9,611,510	-	-	9,611,510	9,706,294
Total	9,611,510	70,660,134	-	80,271,644	80,266,845
Financial liabilities					
Financial liabilities at amortised cost - Due to customers	-	58,380,302	-	58,380,302	58,270,509
Total	-	58,380,302	-	58,380,302	58,270,509

GROUP

As at 31 December

As at 31 December	2022				Carrying Value LKR '000
	Fair Value				
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total Value LKR '000	
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	77,303,415	-	77,303,415	82,203,105
Financial assets at amortised cost - debt and other instruments	25,562,270	-	-	25,562,270	28,955,609
Total	25,562,270	77,303,415	-	102,865,685	111,158,714
Financial liabilities					
Financial liabilities at amortised cost - Due to customers	-	75,892,473	-	75,892,473	77,290,453
Financial liabilities at amortised cost - Other borrowed funds	-	305,897	-	305,897	331,516
Total	-	76,198,370	-	76,198,370	77,621,969

GROUP

As at 31 December

As at 31 December	2021				
	Fair Value				Carrying Value LKR '000
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total Value LKR '000	
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	79,493,663	-	79,493,663	78,722,989
Financial assets at amortised cost - debt and other instruments	9,611,510	-	-	9,611,510	9,706,294
Total	9,611,510	79,493,663	-	89,105,173	88,429,283
Financial liabilities					
Financial liabilities at amortised cost - Due to customers	-	62,606,697	-	62,606,697	62,481,293
Financial liabilities at amortised cost - Other borrowed funds	-	1,598,290	-	1,598,290	1,636,362
Total	-	64,204,987	-	64,204,987	64,117,655

52. MATURITY ANALYSIS OF ASSET AND LIABILITIES

52.1 BANK

As at 31 December	2022			2021		
	Within 12 months LKR '000	After 12 months LKR '000	Total LKR '000	Within 12 months LKR '000	After 12 months LKR '000	Total LKR '000
Assets						
Cash and cash equivalents	5,831,375	-	5,831,375	2,322,357	-	2,322,357
Balances with Central Bank of Sri Lanka	2,115,639	54,609	2,170,248	-	1,492,713	1,492,713
Placements with banks	1,659,589	-	1,659,589	118,969	-	118,969
Reverse repurchased agreements	375,582	-	375,582	1,000,505	-	1,000,505
Derivative financial instruments	14,794	-	14,794	26,402	-	26,402
Financial assets at fair value through profit or loss	1,648,699	-	1,648,699	2,172,655	402,961	2,575,616
Financial assets at amortised cost - loans and advances to customers	48,204,601	19,522,044	67,726,645	40,499,193	27,335,866	67,835,059
Financial assets at amortised cost - debt and other instruments	27,615,196	8,274,800	35,889,996	10,457,594	6,700,008	17,157,602
Financial assets at fair value through other comprehensive income	3,889,386	1,396,667	5,286,053	7,206,915	11,042,946	18,249,861
Investments in subsidiaries	-	2,761,747	2,761,747	-	2,905,051	2,905,051
Goodwill and intangible assets	-	1,459,304	1,459,304	-	1,318,660	1,318,660
Property, plant and equipment and Right of use assets	-	1,710,640	1,710,640	-	1,763,340	1,763,340
Deferred tax assets	-	483,966	483,966	-	351,256	351,256
Other assets	1,973,500	490,817	2,464,317	935,678	353,032	1,288,710
Total assets	93,328,359	36,154,594	129,482,953	64,740,268	53,665,833	118,406,101
Liabilities						
Due to banks	1,714,375	887,100	2,601,475	4,761,018	1,295,837	6,056,855
Derivative financial instruments	-	-	-	22,327	-	22,327
Repurchased agreements	12,551,812	-	12,551,812	8,662,744	-	8,662,744
Financial liabilities at amortised cost - Due to customers	90,665,238	1,926,307	92,591,545	79,385,840	4,030,279	83,416,119
Current tax liability	276,181	-	276,181	365,844	-	365,844
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	1,452,014	1,197,095	2,649,109	1,069,066	887,927	1,956,993
Total liabilities	106,659,620	4,010,502	110,670,122	94,266,839	6,214,043	100,480,882
Maturity gap	(13,331,261)	32,144,092	18,812,831	(29,526,571)	47,451,790	17,925,219
Cumulative gap	(13,331,261)	18,812,831		(29,526,571)	17,925,219	

52. MATURITY ANALYSIS OF ASSET AND LIABILITIES (CONTD.)

52.2 GROUP

As at 31 December	2022			2021		
	Within 12 months LKR '000	After 12 months LKR '000	Total LKR '000	Within 12 months LKR '000	After 12 months LKR '000	Total LKR '000
Assets						
Cash and cash equivalents	6,016,521	-	6,016,521	2,470,657	-	2,470,657
Balances with Central Bank of Sri Lanka	2,115,639	54,609	2,170,248	-	1,492,713	1,492,713
Placements with banks	1,659,589	-	1,659,589	118,969	-	118,969
Reverse repurchased agreements	375,582	-	375,582	1,144,628	-	1,144,628
Derivative financial instruments	14,794	-	14,794	26,402	-	26,402
Financial assets at fair value through profit or loss	2,218,303	-	2,218,303	2,172,655	411,657	2,584,312
Financial assets at amortised cost - loans and advances to customers	52,948,620	23,154,498	76,103,118	44,507,098	30,796,522	75,303,620
Financial assets at amortised cost - debt and other instruments	27,520,365	8,274,800	35,795,165	10,509,397	6,481,811	16,991,208
Financial assets at fair value through other comprehensive income	3,889,387	1,418,400	5,307,787	7,206,915	11,069,844	18,276,759
Investments in real estate	12,000	64,222	76,222	36,000	53,110	89,110
Goodwill and intangible assets	-	1,793,296	1,793,296	-	1,657,051	1,657,051
Property, plant and equipment and Right of use assets	-	1,913,671	1,913,671	-	1,948,758	1,948,758
Deferred tax assets	-	673,278	673,278	-	614,876	614,876
Other assets	2,047,442	513,989	2,561,431	962,981	410,881	1,373,862
Total assets	98,818,242	37,860,763	136,679,005	69,155,702	54,937,223	124,092,925
Liabilities						
Due to banks	1,792,212	887,100	2,679,312	4,528,733	1,295,837	5,824,570
Derivative financial instruments	-	-	-	22,327	-	22,327
Repurchased agreements	12,451,749	-	12,451,749	8,282,700	-	8,282,700
Financial liabilities at amortised cost - Due to customers	94,394,305	4,548,448	98,942,753	82,514,228	5,104,007	87,618,235
Financial liabilities at amortised cost - Other borrowed funds	331,516	-	331,516	1,437,866	198,496	1,636,362
Current tax liabilities	283,816	-	283,816	369,888	18,850	388,738
Deferred tax liabilities	-	-	-	193	-	193
Other liabilities	1,674,845	1,299,265	2,974,110	1,289,474	1,009,474	2,298,948
Total liabilities	110,928,443	6,734,813	117,663,256	98,445,409	7,626,664	106,072,073
Maturity gap	(12,110,201)	31,125,950	19,015,749	(29,289,707)	47,310,559	18,020,852
Cumulative gap	(12,110,201)	19,015,749		(29,289,707)	18,020,852	

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 current economic outlook on the business/operations and risk management of the Bank

The economic situation in the country remained uncertain during the year 2022. The IMF External Funding Facility did not materialise as expected by end 2022. The macro-economic environment deteriorated with increases in inflation, depreciation in LKR and increases in interest rates. Considering these changes in the macroeconomic situation in the country, the Bank continued to increase the impairment provision on loans and advances by way of increasing economic factor adjustment, moving stages of the identified customers in the risk elevated industries, etc.

A detailed assessment was carried out for individually significant customers and recognised considerable impairment allowances for customers with the potential risk of default. Key underlying assumptions such as the period of security realisation etc. were revised to reflect the deteriorating economic condition.

The Bank revisited the weightages assigned for the multiple economic scenarios under Economic Factor Adjustment (EFA) and further increased the weightages assigned to the worst-case-scenario in the immediate next two years and assumed a gradual decrease thereafter considering the stress in the current macro-economic condition. Further, macro-economic variables such as GDP growth, inflation rate, interest rate, exchange rate etc. used in the EFA model were also revised to reflect the most recent economic data.

The Bank continued to consider Construction, Tourism and Financial Services as the Risk elevated industries and provide impairment allowances through a case-by-case analysis of such facilities.

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 Managers/ Branch Managers annually. Also Bank's borrower risk rating system forms an integral part of the evaluation of credit proposals and assists the approval authorities to assess the creditworthiness of the borrowers. Bank's systems for credit evaluation and decision making are independent from collateralisation albeit collateral helps to mitigate credit risk.

The Risk Management Department reviews credit facilities before and after sanctioning of facilities. Under pre-sanction evaluation, RMD independently reviews credit facilities and adds its recommendation where risk is considered acceptable. This independent review covers all new facilities or one-off / temporary facilities for existing lines over an approved threshold.

Further corporate and mid market clients are respectively operated from a pre-approved positive list/dynamic list of customers. In the event any customers are to be entertained outside this list, then those names would have to be cleared by risk. Similarly the SME clients are managed from a client segmentation framework. Its criteria are pre-approved and the risk is priced accordingly.

In the post sanctioning review of credit facilities, the Loans Review Manager (LRM) reviews among other things, the disbursements, perfection of collateral and repayments are in accordance with the terms of approval. A separate loan review policy approved by the Board of Directors is in place.

53. RISK MANAGEMENT (CONTD.)**53.2.1 Impairment assessment**

The methodology of the impairment assessment has explained in the Note 4.7 under summary of significant accounting policies.

53.2.1.1 Analysis of the total impairment for expected credit losses is as follows;**Bank**

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost								
Loans & advances	564,018	760,997	3,758,834	5,083,849	479,916	498,208	1,747,368	2,725,492
Debt & other Instruments	513	222,213	-	222,726	261,169	-	-	261,169
Contingent liabilities & commitments	177,946	81,315	9,243	268,504	83,270	21,597	4,153	109,020
Total	742,477	1,064,525	3,768,077	5,575,079	824,355	519,805	1,751,521	3,095,681

Group

As at 31 December	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost								
Loans & advances	684,488	924,066	4,491,433	6,099,987	581,112	537,284	2,300,973	3,419,369
Debt & other Instruments	513	222,213	-	222,726	261,169	-	-	261,169
Contingent liabilities & commitments	181,485	86,054	21,965	289,504	84,071	20,575	23,999	128,645
Total	866,486	1,232,333	4,513,398	6,612,217	926,352	557,859	2,324,972	3,809,183

53.2.1.2 Movement of the total allowance for expected credit losses during the period (This includes financial instruments at amortised cost & contingent liabilities & commitments).

For the year ended 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Opening balance as at 1 January	3,095,681	2,711,721	3,809,183	3,405,552
Net charge for the year	2,549,534	924,990	2,967,430	1,128,774
Write-offs during the year	(70,137)	(541,030)	(164,396)	(725,143)
Balance as at 31 December	5,575,078	3,095,681	6,612,217	3,809,183

53. RISK MANAGEMENT (CONTD.)

53.2.1.3 Sensitivity analysis: impact of staging of loans on collective impairment

As explained in Note 4.7.1, the Bank/Group categorises its loans into stage 1, stage 2 and stage 3 when determining the collective impairment provision under SLFRS 9. The sensitivity of collective impairment provision to staging of the loans is given below:

- If all loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Bank as at 31 December 2022 would have reduced by 21% (2021: 3.55%) for loans and advances.
- If all loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Bank as at 31 December 2022 would have increased by 109% (2021: 62.53%) for loans and advances.*

* Total Composition of Stage 1 exposure is 75% out of the total exposure. The management believes that a movement of the entire stage 1 exposure to stage 2 is highly unlikely.

53.2.1.4 Sensitivity analysis: Impact on collective impairment (loans & advances, credit related commitment & contingencies) due to changes in forward looking information

A further 1% change in the EFA for 2022 would have changed the collective impairment provision of the Bank as follows as at 31 December 2022.

Change in Economic Factor adjustment

	2022				Sensitivity effect on profit Increase / (Decrease) LKR '000
	Sensitivity effect on the Statement of Financial Position Increase / (Decrease) in Impairment Provision				
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	
Increase of 1%	4,219	3,545	-	7,764	(7,764)
Decrease of 1%	(4,219)	(3,545)	-	(7,764)	7,764

	2021				Sensitivity effect on profit Increase / (Decrease) LKR '000
	Sensitivity effect on the Statement of Financial Position Increase / (Decrease) in Impairment Provision				
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	
Increase of 1%	7,079	585	-	7,664	(7,664)
Decrease of 1%	(7,079)	(585)	-	(7,664)	7,664

53.2.1.5 Sensitivity analysis: Impact on collective impairment on other financial assets due to changes in loss rates

5% change in loss rates applied for Sri Lanka Development bonds would have changed the collective impairment provision of the Bank as follows as at 31 December 2022.

	2022				Sensitivity effect on profit Increase / (Decrease) LKR '000
	Sensitivity effect on the Statement of Financial Position Increase / (Decrease) in Impairment Provision				
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	
Increase of 5%	111,107	-	-	111,107	(111,107)
Decrease of 5%	(111,107)	-	-	(111,107)	111,107

53. RISK MANAGEMENT (CONTD.)**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.

The following table shows the risk concentration by industry for the components of the Statement of Financial Position;

BANK

As at 31 December

2022

	Financial Services LKR '000	Government LKR '000	Consumer LKR '000	Retail and Wholesale LKR '000	Construction LKR '000	Manufacturing LKR '000	Service LKR '000	Total LKR '000
Financial assets								
Cash and cash equivalents	5,831,375	-	-	-	-	-	-	5,831,375
Balances with Central Bank of Sri Lanka	-	2,170,248	-	-	-	-	-	2,170,248
Placements with banks	1,659,589	-	-	-	-	-	-	1,659,589
Reverse repurchased agreements	375,431	-	151	-	-	-	-	375,582
Derivative financial instruments	14,794	-	-	-	-	-	-	14,794
Financial assets at fair value through profit or loss	-	1,648,699	-	-	-	-	-	1,648,699
Financial assets at amortised cost - loans and advances to customers	2,217,623	-	11,715,372	12,404,138	7,456,498	12,767,729	21,165,283	67,726,643
Financial assets at amortised cost - debt and other instruments	3,380,858	32,509,138	-	-	-	-	-	35,889,996
Financial assets at fair value through other comprehensive income	2,530	5,283,523	-	-	-	-	-	5,286,053
Other financial assets	-	-	-	-	-	-	561,048	561,048
Subtotal	13,482,200	41,611,608	11,715,523	12,404,138	7,456,498	12,767,729	21,726,331	121,164,027
Undrawn loan commitments	295,797	-	3,433,700	3,083,111	712,965	8,033,333	2,393,216	17,952,122
Guarantees	95,874	-	324,129	3,078,141	885,320	545,877	1,739,069	6,668,410
Letters of credit	-	-	-	320,536	29,781	432,329	216,657	999,303
Acceptances	-	-	2,804,095	336,582	21,957	314,649	-	3,477,283
Other contingent items	1,824,290	-	2,377,586	144,699	-	103,689	11,087	4,461,351
Subtotal	2,215,961	-	8,939,510	6,963,069	1,650,023	9,429,877	4,360,029	33,558,468
Total	15,698,161	41,611,608	20,655,033	19,367,207	9,106,521	22,197,606	26,086,360	154,722,496

53. RISK MANAGEMENT (CONTD.)

BANK

As at 31 December

2021

	Financial Services LKR '000	Government LKR '000	Consumer LKR '000	Retail and Wholesale LKR '000	Construction LKR '000	Manufacturing LKR '000	Service LKR '000	Total LKR '000
Financial assets								
Cash and cash equivalents	2,322,357	-	-	-	-	-	-	2,322,357
Balances with Central Bank of Sri Lanka	-	1,492,713	-	-	-	-	-	1,492,713
Placements with banks	118,969	-	-	-	-	-	-	118,969
Reverse repurchased agreements	900,491	100,014	-	-	-	-	-	1,000,505
Derivative financial instruments	26,402	-	-	-	-	-	-	26,402
Financial assets at fair value through profit or loss	1,797,916	777,700	-	-	-	-	-	2,575,616
Financial assets at amortised cost - loans and advances to customers	2,527,087	-	14,579,962	12,373,235	6,367,280	11,845,019	20,142,474	67,835,059
Financial assets at amortised cost - debt and other instruments	3,502,650	13,554,836	-	100,116	-	-	-	17,157,602
Financial assets at fair value through other comprehensive income	2,530	18,247,331	-	-	-	-	-	18,249,861
Other financial assets	-	-	-	-	-	-	328,756	328,756
Subtotal	11,198,404	34,172,594	14,579,962	12,473,351	6,367,280	11,845,019	20,471,230	111,107,840
Undrawn loan commitments	473,186	-	3,480,490	3,041,042	1,296,229	3,335,165	1,795,728	13,421,840
Guarantees	998,798	-	2,438,638	2,520,715	1,359,968	345,360	965,610	8,629,089
Letters of credit	-	-	-	1,817,254	199,128	1,573,650	370,511	3,960,543
Acceptances	-	-	843,991	1,761,179	412,476	280,804	412,257	3,710,707
Other contingent items	4,688,208	-	862,948	142,114	-	79,466	11,087	5,783,823
Subtotal	6,160,192	-	7,626,067	9,282,304	3,267,801	5,614,445	3,555,193	35,506,002
Total	17,358,594	34,172,594	22,206,029	755,655	9,635,081	17,459,464	24,026,423	146,613,840

53. RISK MANAGEMENT (CONTD.)

GROUP

As at 31 December

2022

	Financial Services LKR '000	Government LKR '000	Consumer LKR '000	Retail and Wholesale LKR '000	Construction LKR '000	Manufacturing LKR '000	Service LKR '000	Total LKR '000
Financial assets								
Cash and cash equivalents	6,016,521	-	-	-	-	-	-	6,016,521
Balances with Central Bank of Sri Lanka	-	2,170,248	-	-	-	-	-	2,170,248
Placements with banks	1,659,589	-	-	-	-	-	-	1,659,589
Reverse repurchased agreements	375,431	-	151	-	-	-	-	375,582
Derivative financial instruments	14,794	-	-	-	-	-	-	14,794
Financial assets at fair value through profit or loss	569,604	1,648,699	-	-	-	-	-	2,218,303
Financial assets at amortised cost - loans and advances to customers	3,137,254	-	15,249,865	13,999,280	7,878,475	13,444,547	22,393,697	76,103,118
Financial assets at amortised cost - debt and other instruments	3,286,027	32,509,138	-	-	-	-	-	35,795,165
Financial assets at fair value through other comprehensive income	2,731	5,305,056	-	-	-	-	-	5,307,787
Other financial assets	5,590	-	-	-	-	-	575,424	581,014
Subtotal	15,067,541	41,633,141	15,250,016	13,999,280	7,878,475	13,444,547	22,969,121	130,242,121
Undrawn loan commitments	253,095	-	3,433,700	3,083,111	712,965	8,033,333	2,393,216	17,909,420
Guarantees	95,874	-	324,129	3,078,141	885,320	545,877	1,739,069	6,668,410
Letters of credit	-	-	-	320,536	29,781	432,329	216,657	999,303
Acceptances	-	-	2,804,095	336,582	21,957	314,649	-	3,477,283
Other contingent items	1,824,290	-	2,377,586	144,699	-	103,689	11,087	4,461,351
Subtotal	2,173,259	-	8,939,510	6,963,069	1,650,023	9,429,877	4,360,029	33,515,767
Total	17,240,800	41,633,141	24,189,526	20,962,349	9,528,498	22,874,424	27,329,150	163,757,888

53. RISK MANAGEMENT (CONTD.)

GROUP

As at 31 December

2021

	Financial Services LKR '000	Government LKR '000	Consumer LKR '000	Retail and Wholesale LKR '000	Construction LKR '000	Manufacturing LKR '000	Service LKR '000	Total LKR '000
Financial assets								
Cash and cash equivalents	2,470,657	-	-	-	-	-	-	2,470,657
Balances with Central Bank of Sri Lanka	-	1,492,713	-	-	-	-	-	1,492,713
Placements with banks	118,969	-	-	-	-	-	-	118,969
Reverse repurchased agreements	1,044,614	100,014	-	-	-	-	-	1,144,628
Derivative financial instruments	26,402	-	-	-	-	-	-	26,402
Financial assets at fair value through profit or loss	1,806,612	777,700	-	-	-	-	-	2,584,312
Financial assets at amortised cost - loans and advances to customers	3,256,239	-	16,731,803	14,025,108	6,805,380	12,529,078	21,956,012	75,303,620
Financial assets at amortised cost - debt and other instruments	3,336,256	13,554,836	-	100,116	-	-	-	16,991,208
Financial assets at fair value through other comprehensive income	6,349	18,247,331	-	-	-	-	23,079	18,276,759
Other financial assets	24,242	-	-	-	-	-	328,756	352,998
Subtotal	12,090,340	34,172,594	16,731,803	14,125,224	6,805,380	12,529,078	22,307,847	118,762,268
Undrawn loan commitments	356,748	-	3,480,572	3,106,194	1,304,047	3,340,592	1,812,480	13,400,632
Guarantees	998,798	-	2,438,638	2,520,715	1,359,968	345,360	965,610	8,629,090
Letters of credit	-	-	-	1,817,253	199,128	1,573,650	370,511	3,960,542
Acceptances	-	-	843,991	1,761,180	412,476	280,804	412,256	3,710,708
Other contingent items	4,688,208	-	862,948	142,114	-	79,466	11,087	5,783,823
Subtotal	6,043,754	-	7,626,149	9,347,457	3,275,619	5,619,872	3,571,944	35,484,795
Total	18,134,095	34,172,594	24,357,952	23,472,682	10,080,999	18,148,950	25,879,791	154,247,063

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 assets 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

2022

	BANK				GROUP			
	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000
By portfolio								
Placements with banks	1,659,589	-	-	1,659,589	1,659,589	-	-	1,659,589
Reverse repurchased agreements	375,582	-	-	375,582	375,582	-	-	375,582
Loans and advances	48,784,246	11,548,590	7,393,807	67,726,643	53,130,354	13,058,076	9,914,688	76,103,118
Term loans	24,717,104	8,504,918	6,497,323	39,719,345	26,994,659	8,882,251	7,777,781	43,654,691
Overdrafts	10,418,577	470,421	492,673	11,381,671	10,418,577	470,421	492,674	11,381,672
Trade finance	9,483,330	2,279,185	64,213	11,826,728	9,483,330	2,279,185	64,213	11,826,728
Lease and hire-purchase	2,143	5,663	115,817	123,623	1,091,754	992,716	1,190,700	3,275,170
Factoring	48,864	11,747	41,134	101,745	55,372	11,747	138,675	205,794
Pawning & gold loans	535,922	5,320	1,828	543,070	1,480,139	149,753	69,817	1,699,709
Credit cards	2,429,861	271,336	180,819	2,882,016	2,429,861	271,336	180,821	2,882,018
Staff loans	1,148,445	-	-	1,148,445	1,176,662	667	7	1,177,336
Financial assets at amortised cost								
- debt and other instruments	35,889,996	-	-	35,889,996	35,795,165	-	-	35,795,165
Financial assets at fair value through other comprehensive income	5,286,053	-	-	5,286,053	5,307,787	-	-	5,307,787
Other financial assets	561,048	-	-	561,048	581,014	-	-	581,014
Subtotal	92,556,514	11,548,590	7,393,807	111,498,911	96,849,491	13,058,076	9,914,688	119,822,255
Undrawn loan commitments	16,461,651	1,429,643	60,828	17,952,122	16,381,801	1,441,725	85,895	17,909,420
Guarantees	6,555,866	1,692	110,852	6,668,410	6,555,866	1,692	110,852	6,668,410
Letters of credit	999,303	-	-	999,303	999,303	-	-	999,303
Acceptances	3,427,021	36,080	14,182	3,477,283	3,427,021	36,080	14,182	3,477,283
Other contingent items	4,461,351	-	-	4,461,351	4,461,351	-	-	4,461,351
Subtotal	31,905,191	1,467,415	185,862	33,558,468	31,825,341	1,479,497	210,929	33,515,767
Total	124,461,705	13,016,005	7,579,669	145,057,379	128,674,832	14,537,573	10,125,617	153,338,022
By industry segment								
Construction	6,671,866	1,566,452	793,205	9,031,523	6,752,407	1,673,251	1,008,669	9,434,327
Consumer	17,085,806	1,549,363	2,019,743	20,654,912	18,907,175	2,285,636	2,834,022	24,026,833
Financial services	46,227,537	1,415,887	1,378	47,644,802	47,268,928	1,433,455	59,497	48,761,880
Manufacturing	19,764,143	587,867	1,843,345	22,195,355	19,973,243	701,199	2,176,102	22,850,544
Service	20,802,912	3,995,265	1,363,183	26,161,360	21,249,727	4,269,698	1,836,126	27,355,551
Wholesale & retail trade	13,909,441	3,901,171	1,558,815	19,369,427	14,523,352	4,174,334	2,211,201	20,908,887
Total	124,461,705	13,016,005	7,579,669	145,057,379	128,674,832	14,537,573	10,125,617	153,338,022
By province								
Central	1,081,355	497,504	288,144	1,867,003	1,081,356	497,503	288,142	1,867,001
Eastern	264,182	2,540	21,421	288,143	264,183	2,540	21,421	288,144
North Central	430,425	146,453	166,270	743,148	430,426	146,453	166,270	743,149
North Western	1,855,895	125,250	517,814	2,498,959	1,855,896	125,250	517,814	2,498,960
Northern	1,043,797	78,622	44,887	1,167,307	1,043,798	78,622	44,887	1,167,307
Sabaragamuwa	1,083,447	161,182	527,406	1,772,035	1,083,447	161,182	527,406	1,772,035
Southern	2,571,466	663,452	478,866	3,713,784	2,571,466	663,452	478,866	3,713,784
Uva	296,644	16,613	204,171	517,428	296,644	16,613	204,171	517,428
Western	115,834,494	11,324,389	5,330,690	132,489,573	120,047,616	12,845,958	7,876,640	140,770,214
Total	124,461,705	13,016,005	7,579,669	145,057,379	128,674,832	14,537,573	10,125,617	153,338,022

53. RISK MANAGEMENT (CONTD.)

As at 31 December

2021

	BANK				GROUP			
	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000
By portfolio								
Placements with banks	118,969	-	-	118,969	118,969	-	-	118,969
Reverse repurchased agreements	1,000,505	-	-	1,000,505	1,144,628	-	-	1,144,628
Loans and advances	55,421,761	8,672,232	3,741,066	67,835,059	60,820,748	9,211,161	5,271,711	75,303,620
Term loans	35,146,387	6,741,891	3,031,377	44,919,655	37,929,869	6,669,479	3,737,831	48,337,179
Overdrafts	7,929,737	845,356	474,065	9,249,158	7,929,737	842,907	474,066	9,246,710
Trade finance	8,543,362	908,022	15,300	9,466,684	8,543,361	908,022	15,300	9,466,683
Lease and hire-purchase	46,534	15,075	136,824	198,433	2,040,259	561,673	812,461	3,414,393
Factoring	48,182	13,434	50,065	111,681	64,930	13,975	165,554	244,459
Pawning & gold loans	276,892	-	3,459	280,351	864,150	64,576	36,523	965,249
Credit cards	2,173,692	148,454	29,976	2,352,122	2,173,692	148,454	29,976	2,352,122
Staff loans	1,256,975	-	-	1,256,975	1,274,749	2,075	-	1,276,824
Financial assets at amortised cost								
- debt and other instruments	17,157,602	-	-	17,157,602	16,991,208	-	-	16,991,208
Financial assets at fair value								
through other comprehensive								
income	18,249,861	-	-	18,249,861	18,276,759	-	-	18,276,759
Other financial assets	328,756	-	-	328,756	352,998	-	-	352,998
Subtotal	92,277,454	8,672,232	3,741,066	104,690,752	97,705,310	9,211,161	5,271,711	112,188,182
Undrawn loan commitments	11,830,143	1,586,681	5,016	13,421,840	11,911,229	1,465,957	23,446	13,400,632
Guarantees	8,625,622	3,467	-	8,629,089	8,625,623	3,467	-	8,629,090
Letters of credit	3,960,543	-	-	3,960,543	3,960,542	-	-	3,960,542
Acceptances	3,710,707	-	-	3,710,707	3,710,708	-	-	3,710,708
Other contingent items	5,783,823	-	-	5,783,823	5,783,823	-	-	5,783,823
Subtotal	33,910,838	1,590,148	5,016	35,506,002	33,991,925	1,469,424	23,446	35,484,795
Total	126,188,292	10,262,380	3,746,082	140,196,754	131,697,235	10,680,585	5,295,157	147,672,977
By industry segment								
Construction	6,848,546	2,705,430	81,104	9,635,080	7,054,191	2,772,961	246,030	10,073,182
Consumer	20,385,643	1,035,366	785,021	22,206,030	21,898,335	1,358,794	1,100,741	24,357,870
Financial services	43,790,737	1,411,205	12,273	45,214,215	44,856,239	1,019,610	75,180	45,951,029
Manufacturing	15,397,707	1,294,997	766,761	17,459,465	15,773,247	1,366,162	1,004,115	18,143,524
Service	20,731,986	2,161,446	1,132,990	24,026,422	21,840,254	2,393,575	1,606,131	25,839,960
Wholesale & retail trade	19,033,673	1,653,936	967,931	21,655,540	20,274,969	1,769,483	1,262,960	23,307,412
Total	126,188,292	10,262,380	3,746,082	140,196,754	131,697,235	10,680,585	5,295,157	147,672,977
By province								
Central	1,392,688	330,118	140,411	1,863,217	1,906,083	464,464	213,648	2,584,196
Eastern	196,852	1,613	25,445	223,910	370,965	46,619	43,250	460,834
North Central	509,828	20,994	112,110	642,932	778,024	113,675	207,277	1,098,976
North Western	1,621,709	143,845	326,424	2,091,978	1,855,177	180,324	428,845	2,464,346
Northern	865,095	44,025	48,012	957,132	865,095	44,025	48,012	957,132
Sabaragamuwa	1,039,675	199,428	336,915	1,576,018	1,301,604	273,638	403,758	1,979,000
Southern	3,232,094	186,055	321,325	3,739,474	4,026,373	387,975	548,303	4,962,651
Uva	354,713	23,894	164,839	543,446	354,713	23,894	164,838	543,445
Western	116,975,638	9,312,410	2,270,599	128,558,647	120,239,200	9,145,971	3,237,226	132,622,397
Total	126,188,292	10,262,380	3,746,082	140,196,754	131,697,235	10,680,585	5,295,157	147,672,977

53. RISK MANAGEMENT (CONTD.)

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.

53.2.5.1 Maximum and net exposure to credit risk by class of financial assets

BANK

As at 31 December

2022

	Value of collateral and credit enhancements held											Net Exposure LKR '000
	Maximum Exposure to Credit Risk LKR '000	Documentary Bills (Excluding Export Bills Purchased) LKR '000	Stocks, Bonds, Debentures, Life Policies LKR '000	Fixed, Savings and Other Deposits LKR '000	Foreign Currency Deposits LKR '000	Stock in Trade LKR '000	Immovable Property Plant and Machinery LKR '000	Leasing and Hire Purchase Agreements LKR '000	Movable Property LKR '000	Trust Certificates, Other Securities LKR '000	Gold LKR '000	
Placements with banks	1,659,589	-	-	-	-	-	-	-	-	-	-	1,659,589
Reverse repurchased agreements	375,582	-	-	-	-	-	-	-	-	375,582	-	-
Derivative financial instruments	14,794	-	-	-	-	-	-	-	-	-	-	14,794
Financial assets at fair value through profit or loss	1,648,699	-	-	-	-	-	-	-	-	-	-	1,648,699
Financial assets at amortised cost - loans and advances to customers	72,810,492	12,108,816	38,839	8,671,737	56,813	1,012,125	21,472,521	195,532	711,519	1,372,274	543,116	26,627,200
Financial assets at amortised cost - debt and other instruments	36,112,722	-	3,380,857	-	-	-	-	-	-	-	-	32,731,865
Financial assets at fair value through other comprehensive income	5,286,053	-	-	-	-	-	-	-	-	-	-	5,286,053
Other financial assets	561,048	-	-	-	-	-	-	-	-	-	-	561,048
Total financial assets	118,468,979	12,108,816	3,419,696	8,671,737	56,813	1,012,125	21,472,521	195,532	711,519	1,747,856	543,116	68,529,248

53. RISK MANAGEMENT (CONTD.)

BANK

As at 31 December

2021

	Maximum Exposure to Credit Risk LKR '000	Value of collateral and credit enhancements held										Net Exposure LKR '000
		Documentary Bills (Excluding Export Bills Purchased) LKR '000	Stocks, Bonds, Debentures, Life Policies LKR '000	Fixed, Savings and Other Deposits LKR '000	Foreign Currency Deposits LKR '000	Stock in Trade LKR '000	Immovable Property Plant and Machinery LKR '000	Leasing and Hire Purchase Agreements LKR '000	Movable Property LKR '000	Trust Certificates, Other Securities LKR '000	Gold LKR '000	
Placements with banks	118,969	-	-	-	-	-	-	-	-	-	-	118,969
Reverse repurchased agreements	1,000,505	-	-	-	-	-	-	-	-	1,000,505	-	-
Derivative financial instruments	26,402	-	-	-	-	-	-	-	-	-	-	26,402
Financial assets at fair value through profit or loss	2,575,616	-	-	-	-	-	-	-	-	-	-	2,575,616
Financial assets at amortised cost - loans and advances to customers	70,560,551	9,520,249	25,335	5,432,681	55,763	595,001	21,547,128	270,168	518,445	1,062,226	280,941	31,252,614
Financial assets at amortised cost - debt and other instruments	17,418,771	-	3,502,650	-	-	-	-	-	-	-	-	13,916,121
Financial assets at fair value through other comprehensive income	18,249,861	-	-	-	-	-	-	-	-	-	-	18,249,861
Other financial assets	328,756	-	-	-	-	-	-	-	-	-	-	328,756
Total financial assets	110,279,431	9,520,249	3,527,985	5,432,681	55,763	595,001	21,547,128	270,168	518,445	2,062,731	280,941	66,468,339

GROUP

As at 31 December

2022

	Maximum Exposure to Credit Risk LKR '000	Value of collateral and credit enhancements held										Net Exposure LKR '000
		Documentary Bills (Excluding Export Bills Purchased) LKR '000	Stocks, Bonds, Debentures, Life Policies LKR '000	Fixed, Savings and Other Deposits LKR '000	Foreign Currency Deposits LKR '000	Stock in Trade LKR '000	Immovable Property Plant and Machinery LKR '000	Leasing and Hire Purchase Agreements LKR '000	Movable Property LKR '000	Trust Certificates, Other Securities LKR '000	Gold LKR '000	
Placements with banks	1,659,589	-	-	-	-	-	-	-	-	-	-	1,659,589
Reverse repurchased agreements	375,582	-	-	-	-	-	-	-	-	375,582	-	-
Derivative financial instruments	14,794	-	-	-	-	-	-	-	-	-	-	14,794
Financial assets at fair value through profit or loss	2,218,303	-	-	-	-	52,161	-	-	-	-	-	2,166,142
Financial assets at amortised cost - loans and advances to customers	82,203,105	12,108,816	38,839	9,702,877	56,813	1,012,125	21,473,998	3,675,507	3,245,409	2,370,510	1,714,219	26,803,991
Financial assets at amortised cost - debt and other instruments	36,017,891	-	-	3,286,026	-	-	-	-	-	-	-	32,731,865
Financial assets at fair value through other comprehensive income	5,307,787	-	-	-	-	-	-	-	-	-	-	5,307,787
Other financial assets	581,014	-	-	-	-	-	-	-	-	-	-	581,014
Total financial assets	128,378,065	12,108,816	38,839	12,988,903	56,813	1,064,286	21,473,998	3,675,507	3,245,409	2,746,092	1,714,219	69,265,182

53. RISK MANAGEMENT (CONTD.)**GROUP**

As at 31 December

	Maximum Exposure to Credit Risk LKR '000	Documentary Bills (Excluding Export Bills Purchased) LKR '000	Stocks, Bonds, Debentures, Life Policies LKR '000	Fixed, Savings and Other Deposits LKR '000	Foreign Currency Deposits LKR '000	Stock in Trade LKR '000	Immovable Property Plant and Machinery LKR '000	Leasing and Hire Purchase Agreements LKR '000	Movable Property LKR '000	Trust Certificates, Other Securities LKR '000	Gold LKR '000	Net Exposure LKR '000
Placements with banks	118,969	-	-	-	-	-	-	-	-	-	-	118,969
Reverse repurchased agreements	1,144,628	-	-	-	-	-	-	-	-	1,144,628	-	-
Derivative financial instruments	26,402	-	-	-	-	-	-	-	-	-	-	26,402
Financial assets at fair value through profit or loss	2,584,312	-	-	-	-	8,695	-	-	-	-	-	2,575,617
Financial assets at amortised cost - loans and advances to customers	78,722,989	9,520,249	25,335	6,295,014	55,763	595,001	21,643,058	3,620,511	2,532,305	2,142,460	971,138	31,322,155
Financial assets at amortised cost - debt and other instruments	17,252,378	-	251,834	3,084,422	-	-	-	-	-	-	-	13,916,122
Financial assets at fair value through other comprehensive income	18,276,759	-	-	-	-	11,272	-	-	-	-	-	18,265,487
Other financial assets	352,998	-	-	-	-	-	-	-	-	-	-	352,998
Total financial assets	118,479,435	9,520,249	277,169	9,379,436	55,763	614,968	21,643,058	3,620,511	2,532,305	3,287,088	971,138	66,577,750

There are no changes to the collateral policies or quality of the collaterals held. Further the Bank does not provide impairment for loans secured by cashback collaterals, staff loans secured by terminal benefits and financial assets designated as fair value through other comprehensive income, where investments are made in Government securities.

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

	Gross Carrying Amount				Collateral				Net Exposure			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
BANK												
Term loans	24,991,627	9,042,720	8,958,820	42,993,167	12,575,301	4,961,432	6,771,842	24,308,575	12,416,326	4,081,288	2,186,978	18,684,592
Overdrafts	10,562,921	497,220	1,418,897	12,479,038	6,994,094	188,520	742,827	7,925,441	3,568,827	308,700	676,070	4,553,597
Trade finance	9,593,064	2,389,973	125,780	12,108,817	9,593,064	2,389,973	125,780	12,108,817	-	-	-	-
Lease and hire purchase	2,172	5,881	184,025	192,078	2,172	5,881	184,025	192,078	-	-	-	-
Factoring	52,107	11,955	124,588	188,650	36,019	11,955	60,041	108,015	16,088	-	64,547	80,635
Pawning	535,968	5,320	1,828	543,116	535,968	5,320	1,828	543,116	-	-	-	-
Credit cards	2,461,960	356,518	338,703	3,157,181	99,250	3,227	2,428	104,905	2,362,710	353,291	336,275	3,052,276
Staff loans	1,148,445	-	-	1,148,445	892,345	-	-	892,345	256,100	-	-	256,100
Grand total	49,348,264	12,309,587	11,152,641	72,810,492	30,728,213	7,566,308	7,888,771	46,183,292	18,620,051	4,743,279	3,263,870	26,627,200
GROUP												
Term loans	27,340,391	9,503,118	10,582,660	47,426,169	14,746,148	5,715,199	8,283,292	28,744,639	12,594,243	3,787,919	2,299,368	18,681,530
Overdrafts	10,562,921	497,220	1,418,897	12,479,038	6,994,095	188,520	742,827	7,925,442	3,568,826	308,700	676,070	4,553,596
Trade finance	9,593,064	2,389,973	125,780	12,108,817	9,593,064	2,389,973	125,780	12,108,817	-	-	-	-
Lease and hire purchase	1,132,929	1,066,312	1,510,718	3,709,959	1,132,929	1,066,312	1,474,290	3,673,531	-	-	36,428	36,428
Factoring	58,628	11,955	355,958	426,541	36,019	11,955	172,184	220,157	22,609	-	183,774	206,384
Pawning & gold loans	1,485,232	155,590	73,396	1,714,218	1,485,232	155,590	73,396	1,714,218	-	-	-	-
Credit cards	2,461,960	356,518	338,703	3,157,181	99,250	3,227	2,428	104,905	2,362,710	353,291	336,275	3,052,276
Staff loans	1,179,717	1,456	9	1,181,182	906,305	1,092	9	907,406	273,412	364	-	273,776
Grand total	53,814,842	13,982,142	14,406,121	82,203,105	34,993,042	9,531,869	10,874,205	55,399,114	18,821,800	4,450,273	3,531,916	26,803,991

53. RISK MANAGEMENT (CONTD.)

53.2.5.2 Collateral and other credit enhancements

As at 31 December

	2021				2021				2021			
	Gross Carrying Amount				Collateral				Net Exposure			
	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000	Stage 1 LKR'000	Stage 2 LKR'000	Stage 3 LKR'000	Total LKR'000
BANK												
Term loans	35,494,072	7,164,153	4,170,035	46,828,260	16,992,742	3,022,056	3,289,501	23,304,299	18,501,330	4,142,097	880,534	23,523,961
Overdrafts	8,010,129	880,114	917,410	9,807,653	3,870,214	489,030	394,534	4,753,777	4,139,915	391,085	522,876	5,053,876
Trade finance	8,569,663	916,490	39,096	9,525,249	8,564,663	916,490	39,096	9,520,249	5,000	-	-	5,000
Lease and hire purchase	47,179	15,501	204,770	267,450	47,179	15,501	204,770	267,450	-	-	-	-
Factoring	50,109	13,752	97,378	161,238	33,826	2,462	36,485	72,773	16,283	11,289	60,893	88,465
Pawning	277,482	-	3,459	280,941	277,482	-	3,459	280,941	-	-	-	-
Credit cards	2,196,066	180,430	56,288	2,432,784	82,177	3,121	46	85,344	2,113,889	177,309	56,242	2,347,440
Staff loans	1,256,975	-	-	1,256,975	1,023,103	-	-	1,023,103	233,872	-	-	233,872
Grand total	55,901,675	9,170,439	5,488,436	70,560,551	30,891,387	4,448,660	3,967,891	39,307,937	25,010,289	4,721,780	1,520,546	31,252,614
GROUP												
Term loans	38,315,189	7,101,357	5,162,729	50,579,274	19,686,536	3,253,471	4,198,716	27,138,723	18,628,653	3,847,886	964,013	23,440,551
Overdrafts	8,010,129	877,639	917,410	9,805,178	3,870,214	489,039	394,534	4,753,786	4,139,915	388,600	522,876	5,051,391
Trade finance	8,569,663	916,490	39,096	9,525,249	8,564,663	916,490	39,096	9,520,249	5,000	-	-	5,000
Lease and hire purchase	2,101,295	589,482	1,040,076	3,730,853	2,100,720	589,482	1,022,194	3,712,396	575	-	17,881	18,457
Factoring	67,518	14,778	319,392	401,689	33,826	2,462	148,594	184,882	33,692	12,316	170,798	216,807
Pawning & gold loans	867,251	66,194	37,693	971,138	867,251	66,194	37,693	971,138	-	-	-	-
Credit cards	2,196,066	180,430	56,288	2,432,784	82,177	3,121	46	85,344	2,113,889	177,309	56,242	2,347,440
Staff loans	1,274,749	2,075	-	1,276,824	1,033,637	678	-	1,034,314	241,113	1,397	-	242,510
Grand total	61,401,860	9,748,444	7,572,684	78,722,989	36,239,024	5,320,936	5,840,873	47,400,833	25,162,836	4,427,508	1,731,811	31,322,155

53.2.6 Concentration by location

Concentration by location for loans and advances is measured based on the location of the customer centre 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

	2022		2021	
	LKR '000	%	LKR '000	%
Central	1,643,742	2%	1,602,893	2%
Eastern	259,207	0%	203,468	0%
North Central	638,884	1%	592,168	1%
North Western	2,037,195	3%	1,827,519	3%
Northern	946,989	1%	828,236	1%
Sabaragamuwa	1,340,465	2%	1,378,620	2%
Southern	2,766,058	4%	2,893,724	4%
Uva	413,279	1%	461,846	1%
Western	57,680,824	85%	58,046,585	86%
Total	67,726,643	100%	67,835,059	100%

GROUP

As at 31 December

	2022		2021	
	LKR '000	%	LKR '000	%
Central	2,549,969	3%	2,323,871	3%
Eastern	606,899	1%	440,392	1%
North Central	1,105,449	1%	1,048,212	1%
North Western	2,546,926	3%	2,199,887	3%
Northern	946,989	1%	828,236	1%
Sabaragamuwa	1,855,257	2%	1,781,603	2%
Southern	4,222,219	6%	4,116,901	5%
Uva	413,279	1%	461,846	1%
Western	61,856,131	81%	62,102,672	83%
Total	76,103,118	100%	75,303,620	100%

53. RISK MANAGEMENT (CONTD.)**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 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 current economic outlook 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 liquidity ratios 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.

53.3.1 Liquidity risk management

Liquidity measurement is 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 Statement of Financial Position.

(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			
	2022 %	2021 %		
Liquid assets ratio				
Year end	28.45%	25.82%		
Maximum	28.45%	34.05%		
Minimum	25.14%	25.66%		
Average	26.48%	28.69%		
As at 31 December	BANK		GROUP	
	2022 %	2021 %	2022 %	2021 %
Advances to deposits ratio				
Year end	78.64%	84.59%	83.08%	89.85%
Maximum	85.99%	88.58%	90.74%	91.88%
Minimum	78.64%	84.59%	83.08%	88.83%
Average	82.51%	86.20%	86.99%	89.99%
Net loans to assets				
Year end	52.31%	57.29%	55.68%	60.68%
Maximum	58.12%	58.74%	61.31%	60.68%
Minimum	52.31%	57.29%	55.68%	59.23%
Average	55.54%	57.92%	58.75%	60.18%

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

	2022					
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Financial assets						
Cash and cash equivalents	5,831,375	-	-	-	-	5,831,375
Balances with the Central Bank of Sri Lanka	503,776	798,280	813,583	54,609	-	2,170,248
Placements with banks	-	1,659,589	-	-	-	1,659,589
Reverse repurchased agreements	-	375,801	-	-	-	375,801
Derivative Financial Instruments	-	14,794	-	-	-	14,794
Financial assets at fair value through profit or loss	-	777,019	1,607,784	-	-	2,384,803
Financial assets at amortised cost - loans and advances	12,886,333	23,701,599	10,218,029	19,994,015	2,970,487	69,770,463
Financial assets at amortised cost - debt and other instruments	-	11,329,287	19,823,195	9,150,621	296,344	40,599,447
Financial assets at fair value through other comprehensive income	-	2,035,800	3,199,120	1,896,389	173,193	7,304,502
Other Financial assets	-	545,748	2,454	12,583	263	561,048
Total undiscounted financial assets	19,221,484	41,237,917	35,664,165	31,108,217	3,440,287	130,672,070
Financial liabilities						
Due to banks	-	426,613	1,300,901	318,108	648,398	2,694,020
Repurchased agreements	-	12,584,620	2,611	-	-	12,587,231
Financial liabilities at amortised cost - Due to customers	25,739,307	30,639,555	38,738,208	2,995,101	-	98,112,171
Other financial liabilities	389,617	248,069	446,223	764,749	187,768	2,036,426
Total undiscounted financial liabilities	26,128,924	43,898,857	40,487,943	4,077,958	836,166	115,429,848

53. RISK MANAGEMENT (CONTD.)**BANK**

As at 31 December

	2021					Total LKR '000
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	
Financial assets						
Cash and cash equivalents	2,322,357	-	-	-	-	2,322,357
Balances with the Central Bank of Sri Lanka	-	-	-	-	1,492,713	1,492,713
Placements with banks	-	118,969	-	-	-	118,969
Reverse repurchased agreements	-	1,000,833	-	-	-	1,000,833
Derivative Financial Instruments	-	5,492	20,910	-	-	26,402
Financial assets at fair value through profit or loss	-	2,091,284	126,444	442,271	-	2,659,999
Financial assets at amortised cost - loans and advances	9,807,653	23,748,358	11,221,810	21,482,487	5,414,147	71,674,455
Financial assets at amortised cost - debt and other instruments	-	7,167,540	4,085,984	6,992,600	138,129	18,384,253
Financial assets at fair value through other comprehensive income	-	245,541	8,113,022	12,290,707	1,154,516	21,803,786
Other Financial assets	-	310,522	7,829	9,895	510	328,756
Total undiscounted financial assets	12,130,010	34,688,539	23,575,999	41,217,960	8,200,015	119,812,523
Financial liabilities						
Due to banks	-	3,930,763	854,221	1,289,080	-	6,074,064
Derivative financial instruments	-	945,942	403,600	-	-	1,349,542
Repurchased agreements	-	8,377,635	310,353	-	-	8,687,988
Financial liabilities at amortised cost - Due to customers	26,411,105	31,690,222	26,051,668	5,000,812	-	89,153,807
Other financial liabilities	-	452,586	163,681	891,925	63,235	1,571,427
Total undiscounted financial liabilities	26,411,105	45,397,148	27,783,523	7,181,817	63,235	106,836,828

GROUP

As at 31 December

	2022					Total LKR '000
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	
Financial assets						
Cash and cash equivalents	6,016,520	-	-	-	-	6,016,520
Balances with Central Bank of Sri Lanka	503,776	798,280	813,583	54,609	-	2,170,248
Placements with banks	-	1,659,589	-	-	-	1,659,589
Reverse repurchased agreements	-	475,864	-	-	-	475,864
Derivative financial instruments	-	14,794	-	-	-	14,794
Financial assets at fair value through profit or loss	-	1,162,601	1,791,806	-	-	2,954,407
Financial assets at amortised cost - loans and advances to customers	12,886,333	27,148,848	13,116,754	25,351,575	3,087,309	81,590,819
Financial assets at amortised cost - debt and other instruments	-	11,329,287	19,823,195	9,150,621	296,344	40,599,447
Financial assets at fair value through other comprehensive income	-	2,035,800	3,199,120	1,896,389	194,926	7,326,235
Other financial assets	-	561,298	3,341	14,551	1,823	581,013
Total undiscounted financial assets	19,406,629	45,186,361	38,747,799	36,467,745	3,580,402	143,388,936
Financial liabilities						
Due to banks	77,833	426,617	1,300,901	318,108	648,398	2,771,857
Repurchased agreements	-	12,584,620	2,611	-	-	12,587,231
Financial liabilities at amortised cost - Due to customers	25,668,319	31,229,587	42,648,948	6,426,894	-	105,973,748
Financial liabilities at amortised cost - Other borrowed funds	-	439,700	209,533	-	-	649,233
Other financial liabilities	389,617	318,128	502,023	785,850	187,768	2,183,386
Total undiscounted financial liabilities	26,135,769	44,998,652	44,664,016	7,530,852	836,166	124,165,455

53. RISK MANAGEMENT (CONTD.)
GROUP

As at 31 December

	2021					
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Financial assets						
Cash and cash equivalents	2,470,657	-	-	-	-	2,470,657
Balances with Central Bank of Sri Lanka	-	-	-	-	1,492,713	1,492,713
Placements with banks	-	219,606	-	-	-	219,606
Reverse repurchased agreements	-	1,525,000	-	-	-	1,525,000
Derivative financial instruments	-	5,492	20,910	-	-	26,402
Financial assets at fair value through profit or loss	8,695	2,091,285	126,444	442,271	-	2,668,695
Financial assets at amortised cost - loans and advances to customers	9,807,654	26,289,556	13,900,643	26,281,400	5,721,612	82,000,865
Financial assets at amortised cost - debt and other instruments	-	7,219,344	4,085,984	6,290,688	138,129	17,734,145
Financial assets at fair value through other comprehensive income	-	245,539	8,113,022	12,290,708	1,165,789	21,815,058
Other financial assets	-	329,274	10,989	12,225	510	352,998
Total undiscounted financial assets	12,287,006	37,925,096	26,257,992	45,317,292	8,518,753	130,306,139
Financial liabilities						
Due to banks	70,906	3,627,572	854,221	1,289,080	-	5,841,779
Derivative financial instruments	-	945,942	403,600	-	-	1,349,542
Repurchased agreements	-	8,377,636	310,352	-	-	8,687,988
Financial liabilities at amortised cost - Due to customers	26,296,602	32,817,685	28,255,821	6,372,716	-	93,742,824
Financial liabilities at amortised cost - Other borrowed funds	-	824,656	647,550	233,295	-	1,705,501
Other financial liabilities	-	554,775	230,164	964,606	63,236	1,812,781
Total undiscounted financial liabilities	26,367,508	47,148,266	30,701,708	8,859,697	63,236	113,140,415

53.3.3 Contractual maturities of contingent liabilities and commitments

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

	2022					
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Commitments						
Undrawn overdraft	5,125,107	-	-	-	-	5,125,107
Commitments for unutilised facilities	13,076,736	-	-	-	-	13,076,736
Total	18,201,843	-	-	-	-	18,201,843
Contingent Liabilities						
Acceptances	3,481,532	-	-	-	-	3,481,532
Guarantees	2,954,894	-	3,053,760	664,774	-	6,673,428
Documentary credit	217,039	633,215	158,563	-	-	1,008,817
Forward contracts	1,817,115	-	-	-	-	1,817,115
Spot contracts	7,175	-	-	-	-	7,175
Forward borrowing	-	-	-	-	-	-
Forward bonds	-	-	-	-	-	-
Other contingent items	1,798,659	692,398	146,004	-	-	2,637,061
Total	10,276,414	1,325,613	3,358,327	664,774	-	15,625,128
Total commitments and contingent liabilities	28,478,257	1,325,613	3,358,327	664,774	-	33,826,971

53. RISK MANAGEMENT (CONTD.)**BANK**

As at 31 December

As at 31 December	2021					
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Commitments						
Undrawn overdrafts	4,409,894	-	-	-	-	4,409,894
Commitments for other unutilised facilities	9,106,983	-	-	-	-	9,106,983
Total	13,516,877	-	-	-	-	13,516,877
Contingent Liabilities						
Acceptances	3,674,861	9,386	29,567	-	-	3,713,814
Guarantees	3,039,079	2,276,059	2,699,319	622,172	-	8,636,628
Documentary credit	290,885	3,139,562	533,433	-	-	3,963,880
Forward contracts	1,138,301	913,665	1,185,303	-	-	3,237,269
Spot contracts	756,119	-	-	-	-	756,119
Forward borrowing	600,000	-	-	-	-	600,000
Forward bonds	94,820	-	-	-	-	94,820
Other contingent items	1,043,899	-	51,716	-	-	1,095,615
Total	10,637,964	6,338,672	4,499,338	622,172	-	22,098,145
Total commitments and contingent liabilities	24,154,841	6,338,672	4,499,338	622,172	-	35,615,022

GROUP

As at 31 December

As at 31 December	2022					Total LKR '000
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	
Commitments						
Undrawn overdrafts	5,103,406	-	-	-	-	5,103,406
Commitments for other unutilised facilities	13,076,736	-	-	-	-	13,076,736
Total	18,180,142	-	-	-	-	18,180,142
Contingent liabilities						
Acceptances	3,481,532	-	-	-	-	3,481,532
Guarantees	2,954,894	-	3,053,760	664,774	-	6,673,428
Documentary credit	217,039	633,215	158,563	-	-	1,008,817
Forward contracts	1,817,115	-	-	-	-	1,817,115
Spot contracts	7,175	-	-	-	-	7,175
Forward borrowing	-	-	-	-	-	-
Forward bonds	-	-	-	-	-	-
Other contingent items	1,798,659	692,398	146,004	-	-	2,637,061
Total	10,276,414	1,325,613	3,358,327	664,774	-	15,625,128
Total commitments and contingent liabilities						
	28,456,556	1,325,613	3,358,327	664,774	-	33,805,270

53. RISK MANAGEMENT (CONTD.)

GROUP

As at 31 December

	2021					
	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Commitments						
Undrawn overdraft	4,408,312	-	-	-	-	4,408,312
Commitments for unutilised facilities	9,106,983	-	-	-	-	9,106,983
Total	13,515,295	-	-	-	-	13,515,295
Contingent liabilities						
Acceptances	3,674,861	9,386	29,567	-	-	3,713,814
Guarantees	3,039,079	2,276,059	2,699,319	622,172	-	8,636,628
Documentary credit	290,885	3,139,562	533,433	-	-	3,963,880
Forward contracts	1,138,301	913,665	1,185,303	-	-	3,237,269
Spot contracts	756,119	-	-	-	-	756,119
Forward borrowing	600,000	-	-	-	-	600,000
Forward bonds	94,820	-	-	-	-	94,820
Other contingent items	1,043,899	-	51,716	-	-	1,095,615
Total	10,637,964	6,338,672	4,499,338	622,172	-	22,098,145
Total commitments and contingent liabilities	24,153,259	6,338,672	4,499,338	622,172	-	35,613,440

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) which is independent from Treasury front office and reports to the Chief Risk Officer. Various Board approved limits pertaining to market risk are also monitored on a daily basis by the 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.

2022	Increase/(Decrease) in basis points	BANK Sensitivity of effect on Profit/(Loss) and equity - LKR	GROUP Sensitivity of effect on Profit/(Loss) and equity - LKR
Rate sensitive assets	100 / (100)	585 Mn / (585 Mn)	620 Mn/(620 Mn)
Rate sensitive liabilities	100 / (100)	(704Mn) / 704 Mn	(729 Mn) /729 Mn
Net effect		(119Mn) / 119 Mn	(109 Mn) /109 Mn

53. RISK MANAGEMENT (CONTD.)

2021		BANK	GROUP
	Increase/(Decrease) in basis points	Sensitivity of effect on Profit/(Loss) - LKR	Sensitivity of effect on Profit/(Loss) - LKR
Rate sensitive assets	100 / (100)	617 Mn/(617 Mn)	652 Mn/(652 Mn)
Rate sensitive liabilities	100 / (100)	(686 Mn)/686 Mn	(714 Mn)/714 Mn
Net effect		(69 Mn)/69 Mn	(62 Mn)/62 Mn

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

	2022					
	Interest Sensitive					Non Interest Sensitive
	Carrying Amount LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	
Financial assets						
Cash and cash equivalents	5,831,375	-	-	-	-	5,831,375
Balances with Central Bank of Sri Lanka	2,170,248	-	-	-	-	2,170,248
Placements with banks	1,659,589	1,659,589	-	-	-	-
Reverse repurchased agreements	375,582	375,582	-	-	-	-
Derivative financial instruments	14,794	-	-	-	-	14,794
Financial assets at fair value through profit or loss	1,648,699	677,959	970,740	-	-	-
Financial assets at amortised cost - loans and advances to customers	67,726,644	37,131,133	11,076,080	16,573,516	2,946,214	-
Financial assets at amortised cost - debt and other instruments	35,889,995	10,333,547	17,281,648	8,039,434	235,366	-
Financial assets at fair value through other comprehensive income	5,286,054	1,743,041	2,143,815	1,339,666	57,001	2,530
Other financial assets	561,048	-	-	-	-	561,048
Total	121,164,028	51,920,851	31,472,283	25,952,316	3,238,581	8,579,995
Financial liabilities						
Due to banks	2,601,475	170,422	1,484,563	294,550	592,550	59,391
Repurchased agreements	12,551,812	12,549,442	2,369	-	-	-
Financial liabilities at amortised cost - Due to customers	92,591,545	46,624,707	36,098,092	1,926,308	-	7,942,439
Other financial liabilities	1,661,709	-	-	-	-	1,661,709
Total	109,406,541	59,344,571	37,585,024	2,220,858	592,550	9,663,539
Interest rate sensitivity gap	11,757,487	(7,423,720)	(6,112,741)	23,731,458	2,646,031	

53. RISK MANAGEMENT (CONTD.)

BANK

As at 31 December

As at 31 December	2021					
	Interest Sensitive					Non Interest Sensitive
	Carrying Amount LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	
Financial assets						
Cash and cash equivalents	2,322,357	-	-	-	-	2,322,357
Balances with Central Bank of Sri Lanka	1,492,713	-	-	-	-	1,492,713
Placements with banks	118,969	118,969	-	-	-	-
Reverse repurchased agreements	1,000,505	1,000,505	-	-	-	-
Derivative financial instruments	26,402	-	-	-	-	26,402
Financial assets at fair value through profit or loss	2,575,616	286,669	88,070	402,961	-	1,797,916
Financial assets at amortised cost - loans and advances to customers	67,835,059	23,764,558	16,734,635	16,312,636	11,023,230	-
Financial assets at amortised cost - debt and other instruments	17,157,602	6,786,336	3,671,257	6,700,009	-	-
Financial assets at fair value through other comprehensive income	18,249,861	288,818	6,918,097	10,146,290	894,126	2,530
Other financial assets	328,756	-	-	-	-	328,756
Total	111,107,840	32,245,855	27,412,059	33,561,896	11,917,356	5,970,674
Financial liabilities						
Due to banks	6,056,855	3,906,827	854,191	1,295,837	-	-
Derivative financial instruments	22,327	-	-	-	-	22,327
Repurchased agreements	8,662,744	8,371,959	290,785	-	-	-
Financial liabilities at amortised cost - Due to customers	83,416,119	49,707,547	23,829,563	4,030,279	-	5,848,730
Other financial liabilities	1,230,021	-	-	-	-	1,230,021
Total	99,388,066	61,986,333	24,974,539	5,326,116	-	7,101,078
Interest rate sensitivity gap	11,719,774	(29,740,478)	2,437,520	28,235,780	11,917,356	

53. RISK MANAGEMENT (CONTD.)

GROUP

As at 31 December

	2022					
	Interest Sensitive					Non Interest Sensitive
	Carrying Amount LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	
Financial assets						
Cash and cash equivalents	6,016,521	-	-	-	-	6,016,521
Balances with Central Bank of Sri Lanka	2,170,248	-	-	-	-	2,170,248
Placements with banks	1,659,589	1,659,589	-	-	-	-
Reverse repurchased agreements	375,582	375,582	-	-	-	-
Derivative financial instruments	14,794	-	-	-	-	14,794
Financial assets at fair value through profit or loss	2,218,303	1,011,380	1,154,762	-	-	52,161
Financial assets at amortised cost - loans and advances to customers	76,103,118	39,874,280	13,076,952	20,171,654	2,980,231	-
Financial assets at amortised cost - debt and other instruments	35,795,165	10,333,547	17,186,817	8,039,434	235,366	-
Financial assets at fair value through other comprehensive income	5,307,787	1,743,041	2,143,815	1,339,666	57,001	24,264
Other financial assets	581,014	-	-	-	-	581,014
Total	130,242,121	54,997,419	33,562,346	29,550,754	3,272,598	8,859,002
Financial liabilities						
Due to banks	2,679,312	170,425	1,484,563	294,550	592,550	137,224
Repurchased agreements	12,451,749	12,449,379	2,369	-	-	-
Financial liabilities at amortised cost - Due to customers	98,942,753	47,392,468	39,350,453	4,281,504	-	7,918,328
Financial liabilities at amortised cost - Other borrowed funds	331,516	113,502	178,042	-	-	39,973
Other financial liabilities	1,870,432	-	3,347	16,045	-	1,851,040
Total	116,275,762	60,125,774	41,018,774	4,592,099	592,550	9,946,565
Interest rate sensitivity gap	13,966,359	(5,128,355)	(7,456,428)	24,958,655	2,680,048	

53. RISK MANAGEMENT (CONTD.)

GROUP

As at 31 December

	2021					
	Interest Sensitive					Non Interest Sensitive
	Carrying Amount LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	LKR '000
Financial assets						
Cash and cash equivalents	2,470,657	126,822	-	-	-	2,343,835
Balances with Central Bank of Sri Lanka	1,492,713	-	-	-	-	1,492,713
Placements with banks	118,969	118,969	-	-	-	-
Reverse repurchased agreements	1,144,628	1,144,628	-	-	-	-
Derivative financial instruments	26,402	-	-	-	-	26,402
Financial assets at fair value through profit or loss	2,584,312	286,669	88,070	402,961	-	1,806,612
Financial assets at amortised cost - loans and advances to customers	75,303,620	25,853,077	18,654,022	19,632,605	11,163,916	-
Financial assets at amortised cost - debt and other instruments	16,991,208	6,838,139	3,671,258	6,481,811	-	-
Financial assets at fair value through other comprehensive income	18,276,759	288,818	6,918,097	10,146,290	894,126	29,428
Other financial assets	352,998	-	-	-	-	352,998
Total	118,762,266	34,657,122	29,331,447	36,663,667	12,058,042	6,051,988
Financial liabilities						
Due to banks	5,824,570	3,674,542	854,191	1,295,837	-	-
Derivative financial instruments	22,327	-	-	-	-	22,327
Repurchased agreements	8,282,700	7,991,914	290,786	-	-	-
Financial liabilities at amortised cost - Due to customers	87,618,235	50,331,633	25,902,053	5,204,652	-	6,179,897
Financial liabilities at amortised cost - Other borrowed funds	1,636,362	786,637	577,807	198,497	-	73,421
Other financial liabilities	1,471,374	-	-	-	-	1,471,374
Total	104,855,568	62,784,726	27,624,837	6,698,986	-	7,747,019
Interest rate sensitivity gap	13,906,698	(28,127,604)	1,706,610	29,964,681	12,058,042	

53. RISK MANAGEMENT (CONTD.)**53.4.3 Interest Rate Benchmark Reform**

Fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (RFRs).

The following table reflects the Bank's IBOR exposure to non – derivative financial assets and financial liabilities as at 31 December 2022, subject to reform, that has yet to be transited to alternative benchmark rates. These exposures could remain outstanding until LIBOR ceases, as their contractual maturity falls after 30th June 2023.

As at 31 December 2022

	Capital Outstanding USD '000	Currency	Rate
Non-Derivative Financial Assets			
Financial assets at amortised cost - loans and advances to customers	2,094	USD	LIBOR
Financial assets at amortised cost - debt and other instruments	110	USD	LIBOR

Apart from the above, the Bank does not have any other derivative or hedging instruments that are indexed to IBORs that are subject to reform.

The Bank only has exposure to (London Inter Bank Offer Rate) LIBOR Rate Financial assets and LIBOR will be replaced by Alternative Reference Rates (ARRs) which will vary according to each country and currency. ARRs are based on actual market transactions. They are also known as Risk Free Rates (RFR). As a result, the LIBOR USD will be replaced by the Secured Overnight Financing Rate (SOFR) which is published by Federal Reserve Bank of New York (FRBNY).

53.4.4 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 2022 and 2021 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

	2022 Net Overall Long LKR '000	Net Overall Short LKR '000
Currency		
AED	11,787	-
AUD	5,423	-
CHF	5,342	-
EUR	-	(43,607)
GBP	-	(1,194)
JPY	33,262	-
NOK	1,130	-
NZD	1,003	-
OMR	3,566	-
SAR	1,053	-
SGD	6,532	-
USD	732,961	-
Main Currency Total	802,059	(44,801)
Other Currencies	3,385	-
Grand Total	805,444	(44,801)
Net Total		760,643

53. RISK MANAGEMENT (CONTD.)

BANK

As at 31 December

Foreign exchange position

	2021	
	Net Overall Long	Net Overall Short
	LKR '000	LKR '000
Currency		
AED	3,152	-
AUD	936	-
CHF	1,853	-
EUR	3,550	-
GBP	1,429	-
JPY	3,485	-
NOK	259	-
NZD	372	-
OMR	660	-
SAR	3,423	-
SGD	1,923	-
USD	-	(372,734)
Main Currency Total	21,042	(372,734)
Other Currencies	2,164	-
Grand Total	23,206	(372,734)
Net Total		(349,528)

BANK

	2022		2021	
Impact on Statement of Profit or Loss due to Exchange Rate Shocks	Net Open Position LKR '000	Impact on Statement of Profit or Loss for the year ended 31 December LKR '000	Net Open Position LKR '000	Impact on Statement of Profit or Loss for the year ended 31 December LKR '000
5%	798,675	38,032	(367,003)	(17,476)
10%	836,707	76,064	(384,480)	(34,953)
(5%)	722,611	(38,032)	(332,051)	17,476
(10%)	684,579	(76,064)	(314,574)	34,953

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. The exposure to equity price risk by the Group is immaterial.

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. RISK MANAGEMENT (CONTD.)**53.6.1 Geographical analysis****BANK & GROUP**

As at 31 December

	2022					Total LKR '000
	Asia LKR '000	Europe LKR '000	America LKR '000	Australia LKR '000	Middle East LKR '000	
Balances with foreign banks	28,400	1,443,588	871,503	247,585	2,665	2,593,741
Placements with banks	-	-	1,659,589	-	-	1,659,589
Total	28,400	1,443,588	2,531,092	247,585	2,665	4,253,330

BANK & GROUP

As at 31 December

	2021					Total LKR '000
	Asia LKR '000	Europe LKR '000	America LKR '000	Middle East LKR '000		
Balances with foreign banks		77,157	36,887	187,212	1,109	302,365
Placements with banks		-	-	118,969	-	118,969
Total		77,157	36,887	306,181	1,109	421,334

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 manages its equity capital in line with the regulatory requirements.

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 over and above the minimum regulatory requirements.
- 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.

54. CAPITAL (CONTD.)

BANK

As at 31 December

	2022		2021	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (LKR '000)	14,270,811	N/A	13,292,787	N/A
Tier 1 Capital (LKR '000)	14,270,811	N/A	13,292,787	N/A
Total Capital (LKR '000)	15,196,547	N/A	14,115,858	N/A
Risk Weighted Assets (LKR '000)	83,227,285	N/A	85,681,052	N/A
Common Equity Tier 1 Capital Ratio (%)	17.15%	7.00%	15.51%	6.50%
Tier 1 Capital Ratio (%)	17.15%	8.50%	15.51%	8.00%
Total Capital Ratio (%)	18.26%	12.50%	16.47%	12.00%

GROUP

As at 31 December

	2022		2021	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (LKR '000)	16,310,515	N/A	15,267,994	N/A
Tier 1 Capital (LKR '000)	16,310,515	N/A	15,267,994	N/A
Total Capital (LKR '000)	17,300,613	N/A	16,210,789	N/A
Risk Weighted Assets (LKR '000)	89,697,893	N/A	92,084,800	N/A
Common Equity Tier 1 Capital Ratio (%)	18.18%	7.00%	16.58%	6.50%
Tier 1 Capital Ratio (%)	18.18%	8.50%	16.58%	8.00%
Total Capital Ratio (%)	19.29%	12.50%	17.60%	12.00%

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	2022 LKR '000	2021 LKR '000	2020 LKR '000	2019 LKR '000
Operating Results				
Gross income	18,966,036	10,978,924	13,370,190	14,712,069
Interest income	16,728,096	9,146,880	11,179,991	12,956,243
Interest expense	10,914,005	4,889,654	7,310,035	8,477,329
Net interest income	5,814,091	4,257,226	3,869,956	4,478,914
Non interest income	1,935,554	1,637,914	2,020,293	1,541,680
Share of profit of equity accounted investees, net of tax	(136,361)	66,038	(28,945)	103,823
Operating expenses (Including impairment & VAT)	7,256,855	4,981,839	4,922,371	4,932,816
Profit/ (loss) before taxation	356,428	979,339	938,933	1,191,601
Income tax	42,240	214,420	362,397	481,254
Profit/ (loss) after income tax	314,188	764,919	576,536	710,347
Assets				
Cash & balances with Central Bank	8,001,623	3,815,070	3,127,818	5,033,057
Placement with banks	1,659,589	118,969	15,747	94,257
Reverse repurchased agreements	375,582	1,000,505	-	426,823
Derivative financial instruments	14,794	26,402	38,189	6,230
Financial investments at fair value through profit or loss	1,648,699	2,575,616	7,143,403	3,228,565
Financial investments - held for trading	-	-	-	-
Financial assets at amortised cost - loans and advances to customers	67,726,643	67,835,059	67,517,674	77,358,301
Financial assets at amortised cost - debt and other instruments	35,889,996	17,157,602	21,168,076	13,441,040
Other loans and receivables	-	-	-	-
Financial investments - held to maturity	-	-	-	-
Financial assets at fair value through other comprehensive income	5,286,053	18,249,861	19,385,038	17,503,245
Financial investments - available for sale	-	-	-	-
Current tax asset	-	-	-	1,148
Investments in subsidiaries	2,761,747	2,905,051	882,478	912,268
Goodwill and intangible assets	1,459,304	1,318,660	1,314,234	1,329,791
Property, plant and equipment and Right of use assets	1,710,640	1,763,340	1,317,789	1,482,366
Deferred tax asset	483,966	351,256	-	-
Other assets	2,464,317	1,288,710	1,032,828	936,568
Total	129,482,953	118,406,101	122,943,274	121,753,659
Liabilities				
Due to banks	2,601,475	6,056,855	9,980,590	11,475,176
Derivative financial instruments	-	22,327	8,313	4,515
Repurchase agreements	12,551,812	8,662,744	10,205,564	12,116,040
Due to customers	92,591,545	83,416,119	82,383,852	76,532,012
Other borrowed funds	-	-	-	1,242,450
Current tax liabilities	276,181	365,844	262,689	-
Deferred tax liabilities	-	-	53,841	62,299
Other liabilities	2,649,109	1,956,993	1,958,408	2,810,711
Total liabilities	110,670,122	100,480,882	104,853,257	104,243,203
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	2,412,565	1,524,953	1,689,751	1,110,190
Total equity	18,812,831	17,925,219	18,090,017	17,510,456
Total	129,482,953	118,406,101	122,943,274	121,753,659
Share information				
Earnings per share	0.29	0.71	0.53	0.65

2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000
13,910,425	11,937,763	8,545,874	5,005,441	4,546,418	4,792,752
12,142,268	10,498,284	7,223,212	4,155,484	3,972,062	4,129,391
8,490,006	7,452,377	4,716,433	2,133,782	2,209,487	2,973,676
3,652,262	3,045,907	2,506,779	2,021,702	1,762,575	1,155,715
1,632,999	1,329,731	1,230,599	788,737	530,797	622,908
34,614	55,801	76,696	43,069	-	-
4,542,481	3,897,321	3,378,139	2,618,262	2,232,569	1,674,656
777,394	534,118	435,935	235,246	60,803	103,967
304,846	73,500	(15,244)	13,296	3,715	(8,747)
472,548	460,618	451,179	221,950	57,088	112,714
7,137,798	8,483,417	4,994,490	2,811,325	2,408,572	2,134,479
3,265,425	716,147	2,819,628	284,078	73,995	314,545
417,146	1,795	2,137	1,513,425	10,543,106	1,349,743
34,274	2,760	15,412	13,481	4,150	1,458
2,863,121	-	-	-	-	-
-	5,949,023	1,346,932	8,463,807	2,584,471	989,206
73,749,208	70,577,923	55,438,415	40,095,332	25,944,570	23,461,925
16,567,940	-	-	-	-	-
-	9,609,639	7,747,231	5,721,549	2,470,115	2,375,111
-	2,546,553	140,231	140,529	140,027	1,736,728
17,735,959	-	-	-	-	-
-	16,453,207	16,520,365	8,356,130	1,647,686	139,556
336,167	436,279	268,456	208,404	149,448	94,515
835,373	1,262,612	940,027	883,378	892,364	892,364
1,202,532	1,220,999	1,151,033	1,118,200	951,750	53,951
789,158	888,359	897,371	913,814	754,548	1,025,088
115,596	-	82,534	-	-	-
870,457	858,695	644,247	475,910	430,319	442,293
125,920,154	119,007,408	93,008,509	70,999,362	48,995,121	35,010,962
9,348,209	17,208,641	12,160,244	6,945,249	2,090,588	163,448
71,750	4,867	3,976	2,860	-	-
17,585,912	10,381,193	10,256,670	8,242,551	1,116,489	129,450
79,251,073	70,325,594	51,841,372	37,652,508	27,808,891	28,339,687
1,234,220	1,224,812	-	-	-	-
-	-	-	-	-	-
-	144,922	-	30,089	25,284	23,964
1,801,642	1,859,682	1,663,030	1,212,916	1,203,585	897,128
109,292,806	101,149,711	75,925,292	54,086,173	32,244,837	29,553,677
16,334,782	16,334,782	16,334,782	16,334,782	16,334,782	4,979,791
65,484	65,484	65,484	65,484	65,484	-
227,082	1,457,431	682,951	512,923	350,018	477,494
16,627,348	17,857,697	17,083,217	16,913,189	16,750,284	5,457,285
125,920,154	119,007,408	93,008,509	70,999,362	48,995,121	35,010,962
0.43	0.42	0.41	0.20	0.10	0.30

Repurchase and Reverse Repurchase Transactions in Scripless Treasury Bonds and Scripless Treasury Bills

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Directive No. 1 of 2019, issued by the Central Bank of Sri Lanka, requires licensed banks/primary dealers to disclose following additional information on repurchase and reverse repurchase transactions in scripless treasury bonds and bills.

Carrying value of securities allocated for repurchase transactions

BANK As at 31 December	2022		2021	
	Amortised	Fair	Amortised	Fair
	Cost	Value	Cost	Value
	LKR '000	LKR '000	LKR '000	LKR '000
Repurchase agreements	12,551,812	13,875,404	8,662,744	9,656,981

Market value of securities received for reverse repurchase transactions

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 within "Reverse repurchase agreements".

BANK As at 31 December	2022		2021	
	Amortised	Fair	Amortised	Fair
	Cost	Value	Cost	Value
	LKR '000	LKR '000	LKR '000	LKR '000
Reverse repurchase agreements	375,582	414,346	1,000,505	1,006,995

Bank's policy on haircuts for repurchase and reverse repurchase transactions

According to the Bank's internal policies, minimum haircuts applicable for each maturity bucket as at 31 December 2022 is given below. The haircuts applied meet the minimum haircut requirements imposed by the Directive No. 1 of 2019.

Remaining term to maturity of the eligible security	Minimum Haircut (%)	
	Repurchase Transactions	Reverse Repurchase Transactions
Up to 1 year	10%	10%
More than 1 year and up to 3 years	10%	10%
More than 3 years and up to 5 years	10%	10%
More than 5 years and up to 8 years	10%	10%
More than 8 years	12%	12%

KEY REGULATORY RATIOS - CAPITAL AND LIQUIDITY

As at 31 December	BANK		GROUP	
	2022	2021	2022	2021
Regulatory Capital (LKR '000)				
Common Equity Tier 1	14,270,811	13,292,787	16,310,515	15,267,994
Tier 1 Capital	14,270,811	13,292,787	16,310,515	15,267,994
Total Capital	15,196,547	14,115,858	17,300,613	16,210,789
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement 2022 - 7%, 2021 - 6.5%)	17.15%	15.51%	18.18%	16.58%
Tier 1 Capital Ratio (Minimum Requirement 2022 - 8.5%, 2021 - 8%)	17.15%	15.51%	18.18%	16.58%
Total Capital Ratio (Minimum Requirement 2022 - 12.5%, 2021 - 12%)	18.26%	16.47%	19.29%	17.60%
Leverage Ratio (Minimum Requirement - 3%)	9.76%	9.94%	10.50%	10.81%
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	25,503,869	21,766,108		
Foreign Currency Banking Unit (USD'000)	10,624	20,715		
Statutory Liquid Assets Ratio %				
(Minimum Requirement-20%)				
Domestic Banking Unit (%)	28.05%	23.50%		
Foreign Currency Banking Unit (%)	27.18%	23.56%		
Liquidity Coverage Ratio (%)				
(Minimum Requirement - 90%)				
Rupee	486.70%	348.21%		
All Currency	413.12%	252.85%		
Net Stable Funding Ratio (%)				
(Minimum Requirement - 90%)	123.48%	124.56%		

BASEL III COMPUTATION OF CAPITAL RATIO

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Common Equity Tier I (CETI) Capital after adjustments	14,270,811	13,292,787	16,310,515	15,267,994
Total Common Equity Tier I (CET1) Capital	18,807,192	17,707,380	18,777,088	17,539,728
Equity capital or stated capital/assigned capital	16,334,782	16,334,782	16,334,782	16,334,782
Reserve fund	258,182	242,473	282,803	267,093
Published retained earnings/(Accumulated retained losses)	2,102,980	1,879,004	1,998,293	1,654,442
Published accumulated other comprehensive income (OCI)	8,459	(837,862)	15,800	(838,270)
General and other disclosed reserves	102,789	88,984	102,789	88,984
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	-	-	42,621	32,697
Total adjustments to CET1 Capital	4,536,381	4,414,593	2,466,573	2,271,734
Goodwill (net)	-	-	113,031	113,031
Other intangible assets (net)	1,459,306	1,318,660	1,680,264	1,544,020
Deferred tax assets (net)	483,966	351,256	673,278	614,683
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	2,593,108	2,744,676	-	-
Shortfall of capital in financial subsidiaries	-	-	-	-
Additional Tier 1 (AT1) Capital after adjustments	-	-	-	-
Total Additional Tier 1 (AT1) 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	925,736	823,071	990,098	942,795
Total Tier 2 Capital	925,736	823,071	990,098	942,795
Impairment provision	925,736	823,071	990,098	942,795
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to Tier 2 Capital	-	-	-	-
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	-	-	-	-
CET1 Capital	14,270,811	13,292,787	16,310,515	15,267,994
Total Tier 1 Capital	14,270,811	13,292,787	16,310,515	15,267,994
Total Capital	15,196,547	14,115,858	17,300,613	16,210,789

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Total Risk Weighted Assets (RWAs)	83,227,285	85,681,052	89,697,893	92,084,800
RWAs for Credit Risk	74,058,861	70,234,717	79,207,873	75,423,588
RWAs for Market Risk	1,412,867	8,254,337	1,517,189	8,290,515
RWAs for Operational Risk	7,755,557	7,191,998	8,972,831	8,370,697
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs)(%)	17.15%	15.51%	18.18%	16.58%
of which : Capital Conservation Buffer (%)	2.50%	2.00%	2.50%	2.00%
of which : Countercyclical Buffer (%)	-	-	-	-
of which : Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A
Total Tier 1 Capital Ratio (%)	17.15%	15.51%	18.18%	16.58%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs)(%)	18.26%	16.47%	19.29%	17.60%
of which : Capital Conservation Buffer (%)	2.50%	2.00%	2.50%	2.00%
of which : Countercyclical Buffer (%)	-	-	-	-
of which : Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A

BASEL III COMPUTATION OF LEVERAGE RATIO

As at 31 December	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Tier 1 Capital	14,270,811	13,292,787	16,310,515	15,267,994
Total Exposure	146,149,917	133,667,941	155,356,748	141,214,049
On-balance sheet items (excluding Derivatives and Securities Financing Transactions, but including collateral)	124,556,632	112,939,650	133,822,481	120,769,333
Derivative exposures	2,597,211	5,652,480	2,597,211	5,652,480
Securities Financing Transaction exposures	13,836,208	9,600,440	13,725,540	9,256,394
Other off-balance sheet exposures	5,159,866	5,475,370	5,211,516	5,535,842
Leverage Ratio, (%) (Tier 1 Capital /Total Exposure)	9.76%	9.94%	10.50%	10.81%

BASEL III COMPUTATION OF NET STABLE FUNDING RATIO

As at 31 December	BANK	
	2022 LKR '000	2021 LKR '000
Total available stable funding (ASF)	96,594,313	87,575,366
Total required stable funding (RSF)	78,225,351	70,309,363
Required stable funding - On balance sheet assets	77,954,247	70,047,019
Required stable funding - Off balance sheet items	271,104	262,344
Net Stable Funding Ratio, (%) (Total available stable funding / Total required stable funding)*100	123.48%	124.56%

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO - BANK

As at 31 December	2022		2021	
	Total Un-weighted Value LKR '000	Total Weighted Value LKR '000	Total Un-weighted Value LKR '000	Total Weighted Value LKR '000
Total stock of High-Quality Liquid Assets (HQLA)	23,044,518	21,718,794	21,602,553	20,704,820
Total Adjusted Level 1A Assets	23,044,518	23,044,518	21,602,553	21,602,553
Level 1 Assets	21,718,794	21,718,794	20,704,820	20,704,820
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	123,364,842	16,180,517	117,429,723	17,998,121
Deposits	71,023,918	6,067,623	63,973,047	5,605,951
Unsecured wholesale funding	20,293,400	9,070,552	21,725,813	11,370,253
Secured funding transaction	-	-	-	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	31,988,134	982,951	31,613,797	904,852
Additional requirements	59,391	59,391	117,066	117,066
Total Cash inflows	18,691,186	10,923,239	14,523,690	9,809,498
Maturing secured lending transactions backed by collateral	3,006,902	3,006,902	2,378,722	2,378,722
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 days	13,056,408	7,901,543	11,824,500	7,426,975
Operational deposits	2,613,082	-	316,667	-
Other cash inflows	14,794	14,794	3,802	3,802
Liquidity Coverage Ratio, (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days)*100		413.12%		252.85%

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

As at 31 December

	2022	
	BANK LKR '000	GROUP LKR '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 recognised in regulatory capital	15,196,547*	17,300,613*
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 other than equity have not been issued.

CURRENT AND FUTURE CAPITAL REQUIREMENT

Overview of Capital planning and assessment process	The capital management plan of the Bank is integrated with the Bank's rolling strategic plan and the Internal Capital Adequacy Assessment Process (ICAAP). In the planning process, the Bank is actively realigning portfolios to optimise capital utilisation.
Material risk exposures in line with strategic plan	The strategic plan is sensitive to the stability of external variables such as GDP, interest rates, exchange rates and also tax regulations.
Current and future capital needs, anticipated capital expenditure and desirable capital level.	As per the letter from the Governor of CBSL dated 23rd May 2022, the Bank is required to comply with the enhanced capital requirements of LKR 20 Bn. by the end of 2023. As per the said letter, the Bank is prohibited from distribution of dividends to preserve and build up capital. The Bank has made arrangements to meet the above requirements.
Internal and external capital sources	The primary source of capital is the internally generated reserves. If there is any shortfall in the capital, it will be met by the conversion of Warrants held by the major shareholder, Culture Finance Holding Ltd., To this effect, the expiry period of the Warrants has been extended till 31 March 2024, and shareholder's unanimous approval for the same has been obtained through the Extraordinary General Meeting held on 31 August 2022.
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.	The Bank monitors the capital adequacy ratios on a regular basis and ensures that it operates well above the regulatory minimum requirements. Any shortfall to meet the above said minimum capital requirement will be generated through the above mentioned sources.

CREDIT RISK UNDER STANDARDISED APPROACH-CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

As at 31 December 2022

Asset Classes	BANK					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post (CCF) and CRM		RWA and RWA Density	
	On-Balance Sheet Amount LKR '000	Off-Balance Sheet Amount LKR '000	On-Balance Sheet Amount LKR '000	Off-Balance Sheet Amount LKR '000	RWA LKR '000	RWA Density %
Claims on Central Government and Central Bank of Sri Lanka	34,679,386	-	34,679,386	-	710,808	2%
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	4,272,672	145,812	4,272,672	145,798	1,015,043	23%
Claims on financial institutions	5,268,111	279,607	5,268,111	-	5,268,013	100%
Claims on corporates	26,604,405	14,415,842	26,604,405	1,589,643	28,194,048	100%
Retail claims	12,580,197	17,699,621	9,872,401	3,424,425	10,694,399	80%
Claims secured by residential property	7,715,265	-	7,715,265	-	6,728,037	87%
Claims secured by commercial real estate	6,190,178	-	6,190,178	-	6,190,178	100%
Non-Performing Assets (NPAs)	7,393,298	-	7,393,298	-	9,413,833	127%
Higher-items categories	168,639	-	168,639	-	421,598	250%
Cash items and other assets	14,461,602	284,796	7,410,572	284,796	5,422,903	70%
Total	119,333,753	32,825,676	109,574,927	5,444,662	74,058,861	68%

As at 31 December 2022

Asset Classes	GROUP					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post (CCF) and CRM		RWA and RWA Density	
	On-Balance Sheet Amount LKR '000	Off-Balance Sheet Amount LKR '000	On-Balance Sheet Amount LKR '000	Off-Balance Sheet Amount LKR '000	RWA LKR '000	RWA Density %
Claims on Central Government and Central Bank of Sri Lanka	35,196,829	-	35,196,829	-	710,808	2%
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	4,411,228	145,812	4,411,228	145,798	1,051,630	24%
Claims on financial institutions	4,973,982	279,607	4,973,982	-	4,973,885	100%
Claims on corporates	26,604,718	14,415,842	26,604,718	1,589,643	28,194,361	106%
Retail claims	18,066,538	17,802,920	15,358,741	3,476,075	14,020,161	91%
Claims secured by residential property	7,989,375	-	7,989,375	-	6,955,402	87%
Claims secured by commercial real estate	6,190,178	-	6,190,178	-	6,190,178	100%
Non-Performing Assets (NPAs)	9,243,669	-	9,243,669	-	11,286,582	122%
Higher-items categories	21,734	-	21,734	-	32,600	150%
Cash items and other assets	15,943,417	284,796	7,832,606	284,796	5,792,265	74%
Total	128,641,667	32,928,976	117,823,060	5,496,312	79,207,873	67%

Note :

(i) 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 2022

As at 31 December 2022		BANK							
		Post CCF & CRM							
Risk Weight		0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Claims on Central Government and Central Bank of Sri Lanka		31,125,345	3,554,041	-	-	-	-	-	34,679,386
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		-	4,141,196	180,941	-	96,334	-	-	4,418,470
Claims on financial institutions		-	-	194	-	5,267,916	-	-	5,268,111
Claims on corporates		-	-	-	-	28,194,048	-	-	28,194,048
Retail claims		401,491	139,797	-	8,349,369	4,406,169	-	-	13,296,826
Claims secured by residential property		-	-	1,518,812	-	6,196,453	-	-	7,715,265
Claims secured by commercial real estate		-	-	-	-	6,190,178	-	-	6,190,178
Non-Performing Assets (NPAs)		-	-	31,353	-	3,289,520	4,072,424	-	7,393,298
Higher-risk categories		-	-	-	-	-	-	168,639	168,639
Cash items and other assets		2,044,628	284,796	-	-	5,365,944	-	-	7,695,368
Total		33,571,464	8,119,829	1,731,300	8,349,369	59,006,562	4,072,424	168,639	115,019,589

As at 31 December 2022

As at 31 December 2022		GROUP							
		Post CCF & CRM							
Risk Weight		0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Claims on Central Government and Central Bank of Sri Lanka		31,642,788	3,554,041	-	-	-	-	-	35,196,829
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		-	4,250,166	210,527	-	96,334	-	-	4,557,027
Claims on financial institutions		-	-	194	-	4,973,787	-	-	4,973,982
Claims on corporates		-	-	-	-	28,194,361	-	-	28,194,361
Retail claims		1,499,009	171,623	-	12,706,365	4,457,819	-	-	18,834,816
Claims secured by residential property		-	-	1,590,727	-	6,398,648	-	-	7,989,375
Claims secured by commercial real estate		-	-	-	-	6,190,178	-	-	6,190,178
Non-Performing Assets (NPAs)		-	-	401,858	-	4,354,126	4,487,684	-	9,243,669
Higher-risk categories		-	-	-	-	-	21,734	-	21,734
Cash items and other assets		2,097,300	284,796	-	-	5,735,306	-	-	8,117,402
Total		35,239,097	8,260,626	2,203,307	12,706,365	60,400,559	4,509,418	-	123,319,372

MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

As at 31 December 2022

	Risk Weighted Assets	
	BANK LKR '000	GROUP LKR '000
(a) RWA for Interest Rate Risk	75,928	75,928
General Interest Rate Risk	75,928	75,928
(I) Net Long or Short Position	75,928	75,928
(II) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	-	13,040
(i) General Equity Risk	-	6,520
(ii) Specific Equity Risk	-	6,520
(c) RWA for Foreign Exchange & Gold	100,680	100,680
Capital Charge for Market Risk [(a)+(b)+ (c)] * CAR	1,412,867	1,517,189

Quarterly Performance of the Bank

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Quarterly Performance of the Bank	2022			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
For the Quarter ended (LKR'000)				
Net interest income	1,090,582	1,418,869	1,538,213	1,766,427
Non Interest Income	564,067	501,363	438,883	431,241
Less: Impairment for Loans and Other Losses	287,955	673,193	590,792	1,004,019
Less: Total Operating Expenses	983,392	1,075,531	1,088,588	1,121,640
Share of profit/(losses) of equity accounted investees, net of tax	56,680	(84,945)	(88,512)	(19,584)
Profit before value added tax (VAT) on financial services & social security contribution Levy	439,982	86,563	209,204	52,425
Less: Tax expenses	242,106	132,099	134,805	(35,024)
Profit After Tax	197,876	(45,536)	74,399	87,449
As at the Quarter ended (LKR'000)				
Total Assets	129,877,909	131,744,395	136,715,352	129,482,953
Financial assets at amortised cost - loans and advances to customers	75,478,947	74,796,483	75,147,974	67,726,643
Financial liabilities at amortised cost - Due to customers	91,225,631	96,647,581	93,876,066	92,591,545
Total equity attributable to equity holders of the Bank	17,326,662	18,689,281	18,763,326	18,812,831
Regulatory Capital Adequacy (%)				
Common Equity Tier 1 Capital Ratio	13.69%	15.45%	15.89%	17.15%
Tier 1 Capital Ratio	13.69%	15.45%	15.89%	17.15%
Total Capital Ratio	14.45%	16.34%	17.02%	18.26%
Leverage Ratio	8.09%	9.19%	8.64%	9.76%
Regulatory Liquidity (%)				
Statutory Liquid Assets Ratio (%)				
Domestic Banking Unit	24.14%	27.54%	23.95%	28.05%
Foreign Currency Banking Unit	32.54%	25.64%	24.41%	27.18%
Net Stable Funding Ratio (%)	115.39%	120.59%	112.04%	123.48%
Liquidity Coverage Ratio (%) - All Currency	167.37%	162.05%	226.39%	413.12%
Asset Quality (%)				
Impaired Loans (Stage 3) Ratio (%)	4.82%	6.89%	7.29%	8.19%
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	32.73%	29.19%	28.99%	33.57%
Profitability (Annualised) (%)				
Interest Margin, (%)	3.51%	4.01%	4.23%	4.69%
Return on Assets (Before Tax), (%)	1.02%	0.49%	0.41%	0.29%
Return on Equity (After Tax), (%)	4.49%	1.66%	1.65%	1.71%
Ordinary share information (LKR)				
Market Value - Closing price	7.50	5.50	8.70	6.60
High	13.30	8.00	9.60	9.00
Low	7.40	4.30	5.00	6.50

Direct Economic Value Generated & Distributed

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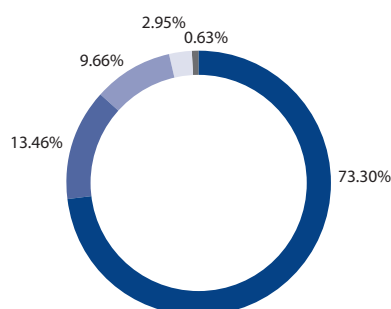
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Disclosure 201-1

For the year ended 31 December

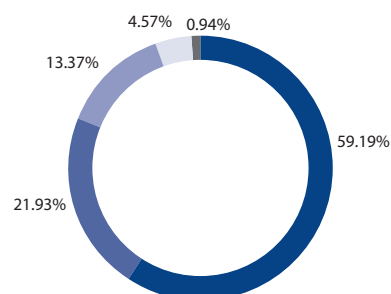
	2022 LKR '000	2021 LKR '000
Direct Economic Value Generated		
Interest Income	16,728,096	9,146,880
Net Fee Commission Income	1,142,510	860,055
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	39,097	233,567
Net gains/(losses) from financial investments	3,906	205,235
Other Operating Income	750,041	339,057
	18,663,649	10,784,794
Economic Value Distributed		
To Depositors & Lenders as an interest	10,914,005	4,889,654
To Employees as Emoluments		
- Salary, bonus & contribution plans	1,636,016	1,487,141
- Benefits	367,336	324,661
To providers of Suppliers & Services	1,437,463	1,104,584
	14,354,819	7,806,040
To Government as Taxation		
Corporate Tax	436,948	413,907
VAT on Financial Services	419,737	368,745
Social Security Contribution Levy	12,009	-
Crop Insurance Levy	4,641	6,989
Stamp duty & other local taxes	2,874	1,850
To Central Bank of Sri Lanka as Deposit Insurance premium	93,338	77,315
	969,546	868,806
Economic Value Retained	3,339,284	2,109,948

Economic Value Distributed - 2022



- To Depositors & Lenders 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 - 2021



- To Depositors & Lenders 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 or 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 derecognised during the period, then the amount (if any) presented in OCI that was realised at derecognition; (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 derecognition; and (c) the cumulative gain or loss on disposal.	Note 29

1.3.4 Reclassifications of financial assets	
(i) For all reclassifications of financial assets in the current or previous reporting period: - date of reclassification; - detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements; and - the amount reclassified into and out of each category. (ii) For reclassifications from FVTPL to amortised cost or FVOCI: - the effective interest rate (EIR) determined on the date of reclassification; and - the interest revenue recognised. (iii) For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: - the fair value of the financial assets at the reporting date; and - the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Note 28
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	Note 53 - 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 27 and Note 28 Note 4.7 - Impairment of Financial Assets and 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 27 and Note 28 Note 4.7 - Impairment of Financial Assets and 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 27 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.	Note 53.2
(h) Written-off assets - Contractual amount outstanding of financial assets written off during the reporting period that are still subject to enforcement activity.	
(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 305
(ii) Liquidity Risk (a) A maturity analysis of financial assets and liabilities. (b) Description of approach to risk management. (c) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 53.3 – Risk Management Note 53.3 – Risk Management Market disclosures – page 305

(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 305
(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	
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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 of 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.



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



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.

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.

Dealing Securities

These are marketable securities acquired and held with the intention to resale over a short period of time.

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.

Derecognition

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.



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 or 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.



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 earned 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.



Gearing

Long term borrowings divided by the total funds available for shareholders.

Global Reporting Initiative (GRI)

The GRI is an international independent standards organisation that helps businesses, governments, and other organisations understand and communicate their impacts on issues such as climate change, human rights, and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Group

A group is a parent and all its subsidiaries and associates.

Guarantees

A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.



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.



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 uncollectable.

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.



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.



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.

Leverage Ratio

The leverage ratio measures how leveraged a bank capital is in relation to its consolidated assets, derivatives exposures and off-balance sheet items. The leverage ratio constrains the degree to which the bank can leverage its capital and improve the extent to which it can sustain negative shocks to its balance sheet.

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.



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.



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.

Net Stable Funding Ratio (NSFR)

NSFR measures the amount of longer term stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

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).



Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.



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.



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.



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.

**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.

**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.

**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.

**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.

**Yield to Maturity**

Discount rate at which the security's present value of future payments would equal the security's current price.

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	Lifetime Expected Credit Loss
NC	Nomination Committee
NII	Net Interest Income
NIM	Net Interest Margin
NOP	Net Open Position
NPA	Non Performing Assets
NSFR	Net Stable Funding Ratio
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
SPPI	Solely Payments of Principal and Interest
SSCL	Social Security Contribution Levy
VaR	Value at Risk
VAT	Value Added Tax
VATFS	Value Added Tax on Financial Services
YoY	Year on Year
12mECL	12 months Expected Credit Loss

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, Barnes Rathwattha 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, Bazaar 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

UNION BANK OF COLOMBO PLC

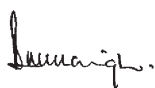
(PB 676 PQ)

NOTICE IS HEREBY GIVEN THAT the 28th 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 03 on 31st March 2023 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 31st December 2022 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. Trevine Fernandopulle who retires at this Annual General Meeting in terms of Articles 88 (i) read together with Article 89 of the Articles of Association of the Bank.
3. 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.
4. 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.

5. To authorise the Directors to determine donations for the year ending 31st December 2023 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.



Christine Munasinghe
Company Secretary

Date: 28 February 2023

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.

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. 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
Mr. Sarath Wikramanayake	of No. of No.8, Swarna Place, Nawala or failing him
Ms. Dilshani Wijayawardana	of No. 40/15, Park Road, Colombo 05 or failing her
Dr. (Mrs.) Roshan Anne Perera	of No.144/2A, Sri Vipulasena Mawatha, Colombo 10 or failing her
Mr. Ahamed Sabry Ibrahim	of No.5, Park Avenue, Borella, Colomobo 08

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 03 on 31 March 2023 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 2022 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. Trevine Fernandopulle who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank.	☐	☐
3. 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.	☐	☐
4. 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.	☐	☐
5. To authorise the Directors to determine donations for the year ending 31st December 2023 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 Three.

.....
Signature

Notes:

- Instructions as to completion appear overleaf.
- 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.

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 performance. Please complete the following and return this page to:

Chief Financial Officer

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

Trevine Sylvester Anthony Fernandopulle - Deputy Chairman

Indrajit Asela Wickramasinghe - Executive Director/Chief Executive Officer

Puneet Bhatia

Michael J O' Hanlon

Dilshani Gayathri Wijayawardana

Sarath Wikramanayake

Ahamed Sabry Ibrahim

Roshan Anne Perera

Alternate Directors

Sanjeev Mehra

Company Secretary

Christine Munasinghe



Union Bank of Colombo PLC
Head office: 64, Galle Road, Colombo 03, Sri Lanka.
📞 +94 11 2374100 | www.unionb.com