

THE POWER OF



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Chairman's Message



“Our strategy is shaped by stakeholder expectations. In a year of unparalleled challenges, the Board has provided leadership to recalibrate the strategic priorities of the Bank in line with our long-term vision and purpose.”

It gives me pleasure to present the 2020 Corporate Governance Report on behalf of the HNB Board. It sets out the principles of good governance that we practice at the Bank and an overview of the key developments during the year. Collectively, the Board is aware of the need for sound corporate governance to maintain an appropriate balance between stakeholder interests while driving sustainable growth for HNB.

OUR APPROACH TO GOVERNANCE

The Bank is committed to the highest standards of governance, integrity and professionalism. The Board seeks to lead by example, setting the tone from the top. A long-term view drives integrated thinking at Board level as we deliberate strategy to ensure that we create value, both for the organisation and its key stakeholders, looking beyond the financial bottom line to embrace Environmental, Social and Governance (ESG) perspectives into our policy and strategy.

As the custodians of Corporate Governance, the Board has established world-class banking practices and robust policy frameworks that underpin the Bank's business. These are aligned to our core values and drive a culture of accountability, strong risk & performance management, transparency, effective and

ethical leadership. We regularly review practices, to adapt to evolving internal and external business environment and international best practice, ensuring we act in the best interests of the Bank and our stakeholders.

RESPONSIVE TO STAKEHOLDERS

Our strategy is shaped by stakeholder expectations. This is evident in our change in direction over the last two consecutive years, as we responded to two black swan events. Protecting jobs, zero wage cut and their health and safety were key aspects that enabled delivery of stakeholder expectations. Establishing the Rs. 5 Bn “COVID SME relief fund” to enable the working capital support for SME customers who did not qualify for assistance under the CBSL Saubagya scheme is another example of stakeholder responsiveness. Creating and deploying mobile ATMs to facilitate access to cash for communities, processing of moratoria in record time are other examples that come to mind.

Delivering value to stakeholders is clearly set out in the Annual Integrated Report for the 3rd consecutive year which has played a part in our journey to focus on stakeholder responsiveness.

BOARD'S ROLE AND RESPONSIBILITIES

In a year of unparalleled challenges, the Board has provided leadership to recalibrate the strategic priorities of the Bank in line with our long-term vision and purpose. Vigilance and oversight by the Board increased significantly as we dug deeper and constructively challenged forecasted scenarios and assessments to determine the socioeconomic impacts of the pandemic on our stakeholders. Risk management, recoveries, and internal control were key priorities, and the relevant Committees of the Board increased the rigour of their oversight on these matters, supporting probity by the Board.

BOARD CHANGES

Board composition and succession remains an area of focus as the Board ensures that its composition remains relevant enabling the effective execution of duties. I am pleased to welcome Mr Dilshan Rodrigo, the Chief Operating Officer and Mr Devaka Cooray (Non-Executive – Independent Director) to the Board. Their appointments add to the Board's expertise and collective experience. On behalf of the Board, I take this opportunity to thank Mr Palitha Pelpola, Mr Asoka Pieris and Dr Rohan Karunaratne for their invaluable contribution to the Bank.

The Board established a Digital Banking Committee to review the Digital Banking and IT strategies of the Bank with a mandate to accelerate implementation of the digital transformation strategy in January 2021. Under the purview of the Committee, the Bank successfully expedited the delivery of a host of innovative digital solutions to assist our customers during lockdown.

REFLECTIONS ON 2020

In hindsight, commencing the transformation of the Bank in 2019 was timely as the transformational initiatives supported the extraordinary challenges, we faced in 2020. The new branch operating model was key to manage both credit risk and workloads while the digitalisation of the Bank supported connectivity and workflow.

On a positive note, I believe that digitalisation of the entire banking sector accelerated during the year as customers sought to minimise face to face interactions and reached a significant critical mass which augurs well for the future. I am pleased to note that our products were as relevant to micro-entrepreneurs as to large corporates in line with the inclusive stakeholder approach underpinning long term strategy. Inevitably, the year also witnessed a surge in cyber threats globally necessitating increased investment in managing cyber risk to safeguard the Bank's information assets and operational systems. Both BIRMC and BAC increased its focus in these areas in response to Board concerns.

The Bank remained extra vigilant in managing risks and in compliance with statutory and regulatory requirements, as the environment continued to be uncertain and challenging. Our Risk Management Framework proved resilient and robust, while internal controls were sound and effective in managing risk. The Bank complied with all regulations and heightened reporting requirements following the tightening of surveillance by the Central Bank of Sri Lanka on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) activities and on sanctions, during the year.

In consultation with the Board's Strategy & Investment Review Committee, the Bank's business transformation strategy was re-calibrated. The Board is satisfied that the Bank is well positioned to successfully drive performance and growth in an increasingly volatile and competitive business landscape.

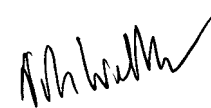
The Board Recoveries Committee continued to provide oversight to the monitoring, management and recovery of overdue loans driving intensity and focus in managing credit risk and improving asset quality. The revamping of the organization structure and the creation of a dedicated credit control vertical enhanced credit risk management in 2020. The Board is satisfied that all decisions taken are fair, ethical and underpinned by the Bank's values and are in the best interests of both the Bank and its stakeholders.

LOOKING AHEAD

The Board will continue to support good governance and the application of sound corporate governance principles based on effective and ethical leadership. We will remain vigilant over the evolving business landscape while continuing to support Management in the implementation of the Bank's strategic plan in building a future ready and sustainable Bank.

The report below enumerates the approach for maintaining highest standards in Corporate Governance and its compliance status with the Corporate Governance regulations made under the Banking Act Direction No. 11 of 2007 (and subsequent amendments thereto) for licensed Commercial Banks issued by the Central Bank of Sri Lanka. The report also covers Bank's level of compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017.

As required by the above Code, I hereby confirm that I am not aware of any material violations if any of the provisions embodied (i) in the Board Charter, by the Board of Directors of the Bank; or (ii) in the Bank's Codes of Conduct and Ethics, by any member of the Corporate Management team of Hatton National Bank PLC.



Dinesh Weerakkody
Chairman

Colombo, Sri Lanka
19th February 2021

Corporate Governance Report

THE BOARD

An appropriate mix of skills and experience ensures the Board as a collective, is well equipped to lead the Bank to become the undisputed leader in the industry.

CHAIRMAN

Dinesh Weerakkody
Independent Non-Executive Director



- » Appointed Chairman - May 2018
- » Appointed Director - June 2017
- » Expertise - HRM, Finance and Board Leadership



EXECUTIVE DIRECTORS

Jonathan Alles
Executive Director



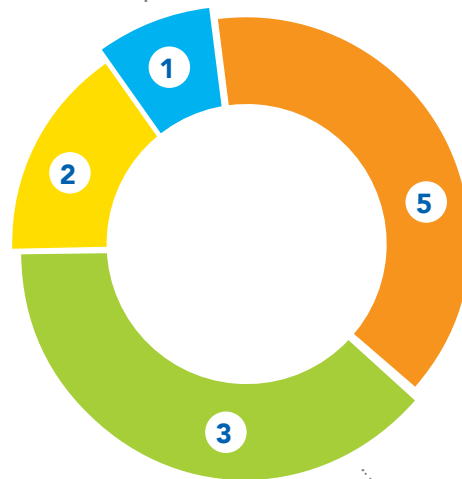
- » Appointed MD/CEO - July 2013
- » Appointed Director - May 2013
- » Expertise - Banking and Finance



Dilshan Rodrigo
Executive Director



- » Appointed - July 2020
- » Expertise - Banking and Finance



NON-EXECUTIVE DIRECTORS

Rusi Captain
Non-Executive Director



- » Appointed - April 2012
- » Expertise - Management



Amal Cabraal
Non-Executive Director



- » Appointed - April 2014
- » Expertise - Management and Marketing



Damien Fernando
Non-Executive Director



- » Appointed - October 2018
- » Expertise - Management and Finance



Prawira Saldin
Non-Executive Director



- » Appointed - July 2018
- » Expertise - Management and Finance
(Alternate Director to Rusi Captain)

Prasad Samarasinghe (Dr)
Non-Executive Director



- » Appointed - July 2019
- » Expertise - Information Technology/Telecommunication
(Alternate Director to Damien Fernando)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Duliksha Soosaipillai Independent Non-Executive Director



- » Appointed - April 2015
- » Expertise - Finance, Enterprise Risk, Corporate Governance



Nilanth De Silva Independent Non-Executive Director



- » Appointed - April 2015
- » Expertise - Banking



Madu Ratnayake Independent Non-Executive Director



- » Appointed - October 2018
- » Expertise - Information Technology



Harsha Cabral (Dr) Independent Non-Executive Director



- » Appointed - September 2019
- » Expertise - Legal



Devaka Cooray Independent Non-Executive Director



- » Appointed - July 2020
- » Expertise - Accounting and Finance



RETIREMENTS/ RESIGNATIONS

Palitha Pelpola Independent Non-Executive Director

- » Appointed - April 2015
- » Retired - February 2020
- » Expertise - Public Sector Leadership and Communication

Rohan Karunaratne (Dr) Independent Non-Executive Director

- » Appointed - October 2011
- » Retired - October 2020
- » Expertise - Engineering

Asoka Pieris Independent Non-Executive Director

- » Appointed - April 2019
- » Resigned - July 2020
- » Expertise - Accounting and Finance

COMPANY SECRETARY

Thushari Ranaweera (Ms)

- » Appointed - January 2012
- » Expertise - Legal

- BAC Board Audit Committee
- BIRMC Board Integrated Risk Management Committee
- NC Nomination Committee
- HRRC HR & Remuneration Committee
- RPTRC Related Party Transactions Review Committee
- BCC Board Credit Committee

- SIRC Strategy & Investment Review Committee
- PADC Procurement & Assets Disposal Committee
- BRC Board Recoveries Committee
- BDDB Board Digital Banking Committee
- C Chairman

Corporate Governance Report

BOARD DIVERSITY

INDEPENDENCE

Directors are independent

6 / 11

DIVERSITY OF EXPERTISE

Experienced Board with an appropriate balance of knowledge and skills in areas relevant to the Bank.

DIVERSITY OF NON-EXECUTIVE TENURE

Sound balance between continuity, new expertise and insights.

Tenure	Number of Directors
< 3 years	4
3-6 years	3
6-9 years	2

AGE DIVERSITY

Well represented, balancing experience and perspectives.

Average Age **58 Years**

Age Group	Percentage
less than 60 years	55%
more than 60 years	45%

GOVERNANCE HIGHLIGHTS 2020

- » Continue to regularly review the impact and risks to the Bank arising from the COVID-19 pandemic.
- » Reviewed the business transformation strategy under Project Everest, considering relevance to current business context and delivery of competitive value. Gave oversight to the on-going transformation project.
- » Established a Board Digital Banking Committee to review the Digital Banking and IT strategies of the Bank and accelerate implementation of the digital transformation strategy.
- » Segregated the role of CISO from CRO, given the growing critical importance of the role. Appointed a new CISO.
- » Continued to give oversight to the effective monitoring, management and recovery of overdue loans through the Board Recoveries Committee.
- » Retirement of Mr Palitha Pelpola (Independent Non-Executive Director) in February 2020 & Dr Rohan Karunaratne (Independent Non-Executive Director) in October 2020 and resignation of Mr Asoka Pieris (Independent Non-Executive Director) in July 2020.
- » Appointment of Mr Dilshan Rodrigo (Executive Director) and Mr Devaka Cooray (Independent Non-Executive Director) both in July 2020.

1 GOVERNANCE FRAMEWORK

The Board is responsible to set in place a robust Governance Framework that is fit for the purpose. In a year of unprecedented challenges, the Board has sought to strengthen the Governance Framework in building an agile and resilient Bank, fit for the future. Aligned to the Bank's business transformation strategy, robust structures and adequate, effective and appropriate systems and controls have been established to provide clear direction for quick and responsive decision-making and to promote responsible behaviour. The Governance Framework supports achievement of the Bank's strategic objectives in accordance with sound corporate governance principles while safeguarding its reputation, values and assets.

1.1 Driving Performance and Growth

Ensuring the Bank's competitiveness and ability to respond proactively to the fast-changing business and regulatory environment

- » A Robust Governance Structure
- » An Effective Board
- » Competent Corporate Management
- » Informed Decision Making
- » Innovation Governance
- » Digital & Technology Governance

1.2 Providing Effective Control

To avoid financial loss or reputational damage due to error, misconduct and unethical behaviour

- » Comprehensive Policy Framework
- » Segregation of Roles & Responsibilities
- » Risk Management
- » Internal Controls
- » Information Technology & Security Governance
- » Compliance Governance
- » Governance of Group Companies
- » Assurance

1.3 Ensuring Ethical Business Practices

Embedding the principle of doing the right business, the right way

- » Values and Culture
- » Code of Conduct & Ethics
- » Balance of Power
- » Independent Judgement
- » Avoiding Conflict of Interest
- » Whistle-blowing
- » Fair & Responsible Remuneration
- » Promoting Diversity & Gender Equality

1.4 Driving a Sustainable Business

As a responsible corporate citizen, safeguarding our resources and nurturing relationships for future growth

- » Embedding ESG Considerations
- » Stakeholder Engagement
- » Communication
- » Business Continuity Planning

Corporate Governance Report

1.1 DRIVING PERFORMANCE AND GROWTH

- » A Robust Governance Structure
- » An Effective Board
- » Competent Corporate Management
- » Informed Decision Making
- » Innovation Governance
- » Digital & Technology Governance

Operating in a volatile environment, HNB is cognizant of the need to remain agile in order to respond to market threats and capitalize on business opportunities. Timely, informed decisions are critical to initiate change and maintain a competitive edge. The HNB Governance structure seeks to drive efficacy in governance by facilitating decisions to be taken at the right level of business by the people best placed to take them.

The Board is well balanced and competent to discharge their statutory and fiduciary duties, objectively and effectively. A competent Corporate Management Team supports the Board. Their skills and experience underpin the Bank's ability to deliver on its strategy.

As a financial services organisation, the ability to innovate is critical to remaining relevant to clients and driving performance and growth. HNB continues to invest in and leverage on digital platforms to offer efficient, secure and personalized solutions in real time, to meet client needs.

A Robust Governance Structure

As the apex governance body, the Board holds ultimate responsibility for the performance and affairs of the Bank. The Board provides strategic direction and leadership and is supported by ten (10) Board Sub-Committees to whom functions warranting greater attention have been

delegated. Daily management of the Bank and implementation of the Bank's strategic plan has been delegated to the Corporate management lead by the MD/CEO.

Roles and responsibilities are clearly defined by mandates and job descriptions, by which means authority is delegated and accountability established. Regular reporting on key matters enables effective oversight by the Board.

Reshaping of the organisation structure and the centralization of key operations into dedicated verticals under the Project Everest business transformation programme, has facilitated specialization of roles enabling quick, timely and informed decisions by the people best placed to take them. Job descriptions have been fine-tuned and talent redeployed, upskilled and empowered, to lead business in their expert roles. The success of the revamped structure was reflected in the Bank's flexibility and speed of roll out of bespoke credit solutions, for different customer segments impacted by the COVID-19 pandemic.




BOARD DIVERSITY



MANDATORY BOARD SUB-COMMITTEES

- Nomination Committee
- HR & Remuneration Committee
- Related Party Transactions Review Committee
- Board Integrated Risk Management Committee
- Board Audit Committee •



-  Head of Compliance
-  Chief Risk Officer
-  Chief Internal Auditor



HNB BOARD



MD /CEO



CORPORATE MANAGEMENT



DISCRETIONARY BOARD SUB-COMMITTEES

- Strategy & Investment Review Committee
- Board Recoveries Committee
- Board Credit Committee
- Board Digital Banking Committee
- Procurement & Assets Disposal Committee

MANAGEMENT COMMITTEES



- Compliance Committee
- Strategic Business Committee
- Executive Risk Management & Credit Policy Committee
- Operational Risk Steering Committee
- Asset & Liability Management Committee
- IT Steering Committee

Corporate Governance Report

An Effective Board

HNB strives to build an engaged and diverse Board to lead the Bank.

BOARD'S KEY RESPONSIBILITIES

- » Provide Strategic Direction
- » Monitor implementation of strategy
- » Set corporate values and promote ethical behaviours
- » Determine Bank's risk appetite and establish systems of risk management, internal control and compliance
- » Be responsive to the needs of society with focus on environmental, social and ethical standards
- » Meet shareholders, employees and other stakeholder obligations, balancing their interests in a fair manner
- » Present a balanced and understandable assessment of the Bank's position and prospects
- » Safeguard assets and ensure legitimate use
- » Assess effectiveness of the Board and Sub-Committees through self- evaluation
- » Ensure succession planning and the continued ability of the Bank to operate without any disruption

(Summarised extract of the Board Charter)

The fundamental role of the Board is to provide entrepreneurial and coherent leadership within a framework of prudent and efficient controls which enables risk to be assessed and managed."

Board charter

Composition

The Board is diversified and well balanced to objectively and effectively fulfil its governance roles and responsibilities. Eighty-two percent (82%) of Directors are Non-Executive and over half the Board is Independent. Non-Executive Directors are eminent professionals in their respective fields, who bring varied perspectives to Board deliberations and constructively challenge management. The Board, through the Board Nomination Committee reviews the composition on an ongoing basis.

BOARD COMPOSITION

Chairman
(Independent Non-Executive)



Independent
Non-Executive
Directors

Non-Executive
Directors



Executive Directors

INDEPENDENCE

Directors are deemed independent based on the criteria specified in the Banking Act Direction No.11 of 2007. All Directors submit annual declarations to this effect which are evaluated to ensure compliance with the criteria. 67% of Non-Executive Directors are Independent.

POSSESS FINANCIAL ACUMEN

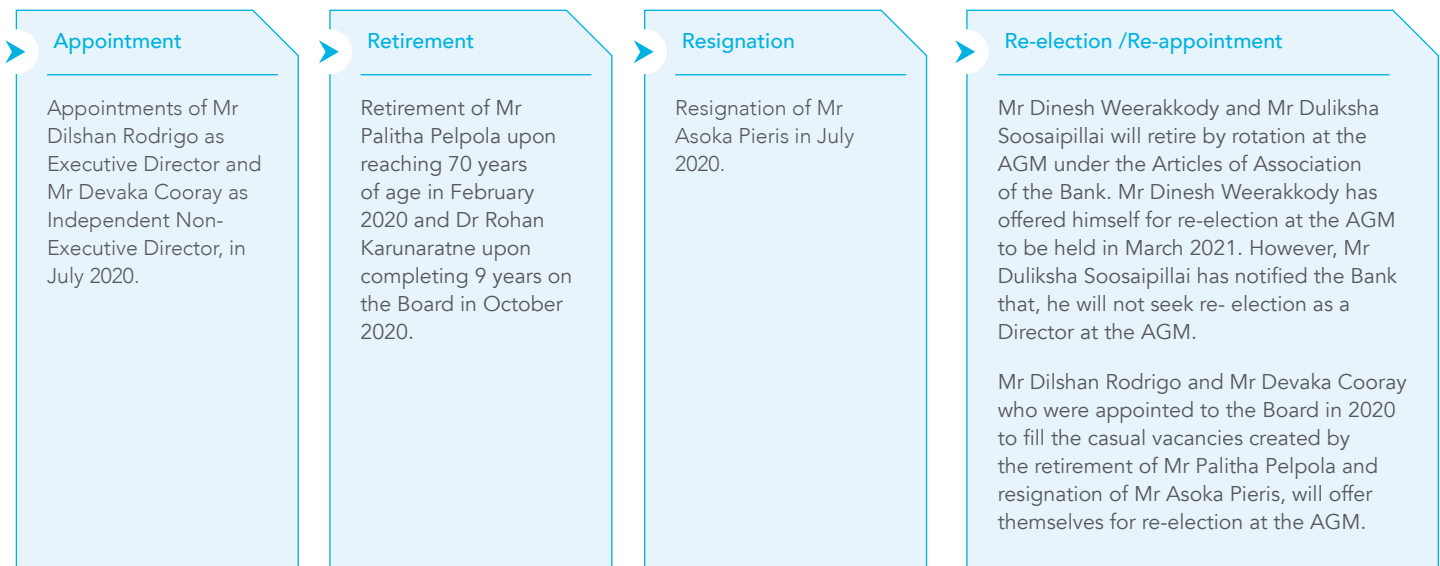
Directors possess financial acumen and knowledge gained through experience from leading large enterprises and professional backgrounds.

DIGITAL SAVVINESS

Directors Mr Madu Ratnayake and Mr Prasad Samarasinghe (Alternate Director to Mr Damien Fernando) are experts in ICT and Digital platforms and enhance the Board's skills and knowledge base in technology and information governance.

Board Invigoration

Board refreshment allows for the introduction of members with new skills, insights and perspectives, while retaining valuable industry knowledge and maintaining continuity. These members add to the Board's collective expertise, which enhances its ability to provide effective leadership, strategic guidance and attentive oversight. The Board is refreshed periodically through new appointments, retirement, resignation, and re-election /re-appointment of Directors.



APPOINTMENTS

- » The HNB Nomination Committee (NC) regularly reviews the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans and any gaps thereof.
- » Potential appointees with the required attributes are identified, short listed and subsequently recommended to the Board for approval by the Nomination Committee (NC), following a formal and transparent process. The candidate's other Directorships and commitments are also considered to ensure sufficient time to discharge their roles and responsibilities. On approval, names are referred to the Central Bank of Sri Lanka for approval as a "fit and proper" person, prior to appointment.
- » Appointments are communicated to the CSE and shareholders through press releases together with a brief resume of the Director disclosing relevant expertise, key appointments, shareholding and whether he is independent.

RE-ELECTION/RE-APPOINTMENT

- » The Articles of Association of the Bank require 1/3 of the Non-Executive Directors to retire from office and stand for re-election by the shareholders at the subsequent Annual General Meeting, subject to completing three (3) years in office from his/her last date of re-election.
- » The Nomination Committee (NC) assesses each Director for their interests, independence and active engagement, prior to recommendation to the Board for re-election. No Director has served on the Board for more than three (3) years from the date of his last appointment, without being subject to re-election/ re-appointment at an AGM of the Bank.

RETIREMENT/RESIGNATION & DIRECTOR TENURE

- » Director tenure is limited to a maximum term of nine (9) years and an age limit of up to seventy (70) years, whichever comes first in line with the provisions of the Banking Act Direction No.11 of 2007.
- » Resignations or removal of Directors if any, and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.

Corporate Governance Report

Board Meetings

The Board meets regularly. Meetings are held virtually, when required. The Board met fourteen (14) times during the year out of which 11 meetings were conducted with extended teleconferencing for participants unable to attend the meetings in person due to the prevailing pandemic situation. Board meetings are productive and valuable to the Bank, planned in advance and well chaired. Meeting agendas are relevant and well structured. Special Board Meetings are convened when necessary.

In the effective discharge of duties, Directors are provided accurate, relevant and timely information as explained under Informed Decision Making on CG & RR page 16, on which they base their decisions.

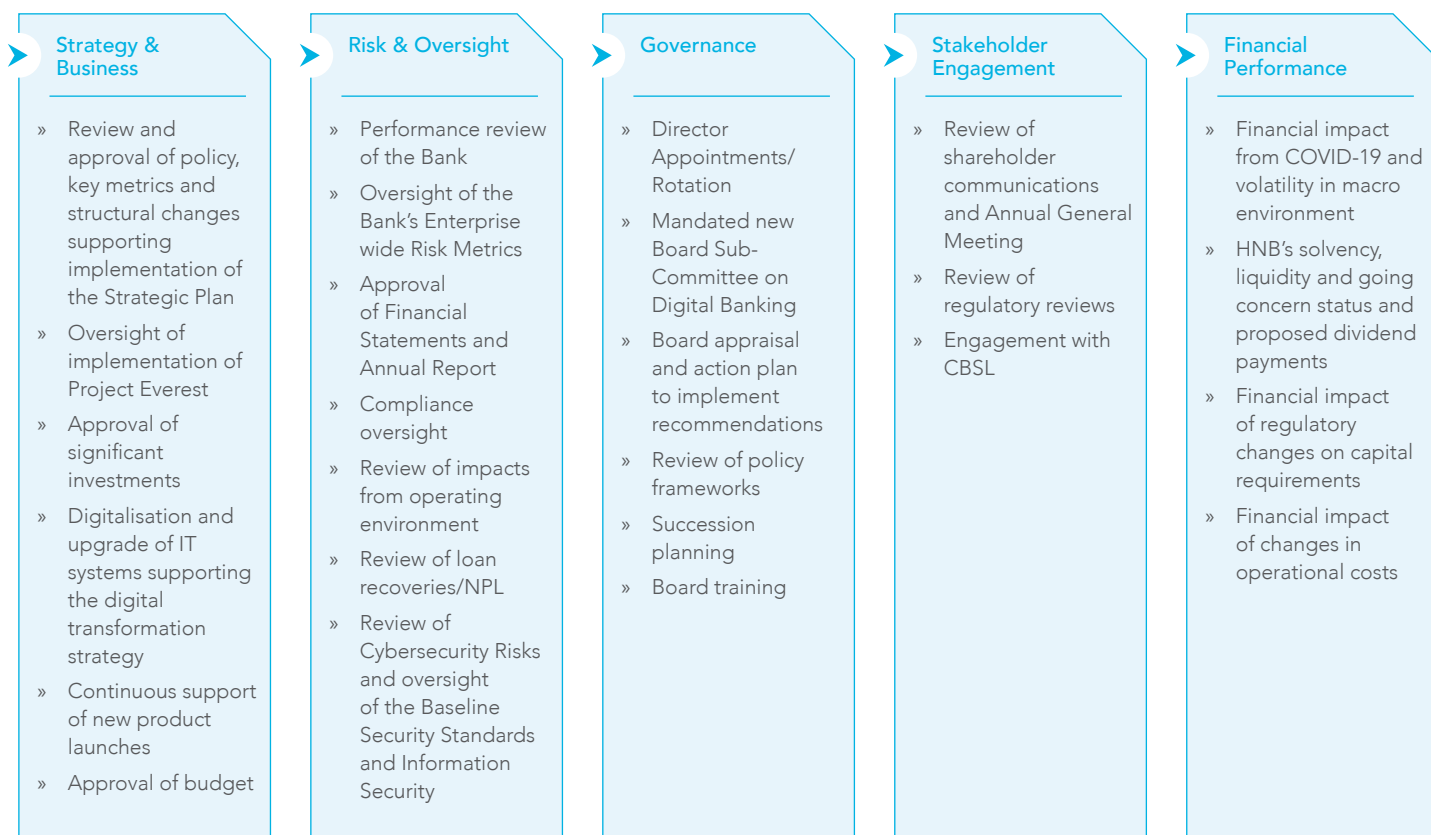
Board Member	Date of Appointment to the Board	Board	Board Audit Committee	HR & Remuneration Committee	Nomination Committee	Board Integrated Risk Management Committee	Related Party Transactions Review Committee	Strategy & Investment Review Committee	Procurement & Assets Disposal Committee	Board Credit Committee	Board Recoveries Committee	Board Digital Banking Committee
Total Meetings Held		14	10	6	6	11	4	8	12	6	10	38
Mr Dinesh Weerakkody	29th June 2017	©14/14		©6/6	©6/6							
Mr Jonathan Alles (MD/CEO)	01st May 2013	14/14	*9	*6	*1	6/11	**4/4	*6		*6		31/38
Mr Dilshan Rodrigo	01st July 2020	6/6	*4	*3		*4		*2	*4	*2	*5	*3
Dr Rohan Karunaratne (Retired w.e.f. 06th October 2020)	06th October 2011	11/11	8/8						9/9	4/5		
Mr Rusi Captain	02nd April 2012	**13/14	**9/10		**5/6	**10/11	**3/3					
Mr Amal Cabraal	01st April 2014	14/14		6/6				© 8/8		6/6	8/10	
Mr Palitha Pelpola (Retired w.e.f. 27th February 2020)	30th April 2015	1/2		1/1	1/1							
Mr Duliksha Soosaipillai	30th April 2015	14/14	*6	5/5		© 11/11		8/8	© 12/12		9/10	
Mr Nilanth de Silva	30th April 2015	14/14	10/10				© 4/4			© 6/6	8/10	
Mr Madu Ratnayake	25th October 2018	12/14	1/2			9/11		8/8	8/12			© 38/38
Mr Damien Fernando	25th October 2018	**14/14	**10/10			*3, **7/7		**8/8	** 12/12		**9/10	**37/38
Dr Harsha Cabral	26th September 2019	**14/14			4/4					6/6	© 10/10	
Mr Asoka Pieris (Resigned w.e.f. 02nd July 2020)	01st April 2019	8/8	6/6			*3				3/3	2/4	
Mr Devaka Cooray	03rd July 2020	6/6	© 4/4			*5			3/3	3/3		

* Meetings attended by invitation (after being appointed as a Director)

** Includes Meetings attended by an alternative Director

© Chairman as at 31st December 2020

Board Focus Areas 2020



Board Agenda

The Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO. The agenda is prioritized and timed to ensure all items are discussed. Agenda and Board Papers for Meetings are sent generally seven (7) days before the Meeting, allowing Members sufficient time to review the same. Urgent Board Papers are included on an exceptional basis.

Minutes

All proceedings of the Meetings, including Directors' concerns regarding matters which are not resolved unanimously, are minuted and the minute book is maintained with signed copies of the minutes.

Board minutes are circulated to Members within two (2) weeks of the Meeting being held, in compliance with code. Board decisions/prescribed actions are followed-up through an action tracker.

Meetings

During the year, the Board held fourteen (14) Meetings out of which 11 meetings were conducted with extended teleconferencing for participants unable to attend the meetings in person due to the prevailing pandemic situation. Attendance at Meetings is given below and Board focus areas on CG&RR page 12. The Non- Executive Directors' Forum met once during the year in June 2020, to engage in confidential discussion about matters that the Non- Executive Directors may not be comfortable to raise at Board Meetings. The Chairman provided feedback to the Board, at the next meeting.

Resolutions

Resolutions concerning business matters may be passed by circulation, within regulations. However, if a single Director deems it necessary that such resolution must be decided at a Board Meeting and not by circulation, the Chairman shall present the resolution to be decided at a Meeting.

Corporate Governance Report

Board Sub-Committees

The Board has delegated certain responsibilities requiring greater attention to ten (10) Board Sub-Committees with oversight responsibility for same. This enables the Board to allocate sufficient time for matters reserved for its decision making, particularly execution of strategy and forward-looking agenda items, while ensuring delegated matters receive in-depth focus. Committee Chairmen are accountable for the effective functioning of the Committees and report regularly to the Board on Committee activities. Committee mandates are reviewed regularly.

Reports of the five (5) Committees constituted under regulatory requirements are given on IR pages 111 to 123.

- » During the year, a new Board Sub-Committee, the "Digital Banking Committee" was mandated to monitor and provide oversight over the accelerated digitization of technology & operations support given the impact of the lockdown on physical channels. Consisting of both Board and Management, the Committee meets weekly given the intensity of roll out. Under the transformation programme, technology capabilities were enhanced, and customer centric, innovative digital solutions were delivered to assist clients during lockdown and thereafter.
- » Due to prolonged adverse market conditions, the Board Recoveries Sub-

Committee continued to provide oversight to the portfolio recoveries function of the Bank. Aggressive monitoring and oversight by the Committee supported containment of the Bank's NPA ratio. The Board satisfies itself that all decisions taken are fair, ethical, underpinned by the Bank's values and are in the best interests of both the Bank and its stakeholders.

- » The Strategy & Investment Review Sub-Committee continues to support management and provides Board oversight in the implementation of Project Everest – the Bank's business transformation strategy.

Board Sub-Committees & Areas of Oversight as at 31st December 2020

	Composition of Directors	Areas of Oversight	Report Reference
Mandatory Committees	Board Audit Committee (BAC)		
	» Mr Devaka Cooray - Chairman	» Integrity of financial reporting and disclosures	IR Pages 119 to 121
	» Mr Rusi Captain	» Internal controls and internal audit	
	» Mr Nilanth de Silva	» External audit	
	» Mr Damien Fernando	» Compliance	
	» Mr Madu Ratnayake		
	Board Integrated Risk Management Committee (BIRMC)		
	» Mr Duliksha Soosaipillai - Chairman	» Comprehensive Risk Management Framework	IR Pages 115 to 118
	» Mr Jonathan Alles	» Risk measurement, monitoring and management	
	» Mr Madu Ratnayake	» Compliance with regulatory and internal prudential requirements	
» Mr Rusi Captain	» Review Basel III implementation		
» Mr Damien Fernando			
Nomination Committee (NC)			
» Mr Dinesh Weerakkody - Chairman	» Selection and appointment of Directors, MD/CEO and Key Management Personnel	IR Pages 113 to 114	
» Mr Rusi Captain	» Expertise gaps, succession, and re-election		
» Dr Harsha Cabral	» Board Corporate Governance		
HR & Remuneration Committee (HRRC)			
» Mr Dinesh Weerakkody - Chairman	» HR Policies including remuneration	IR Pages 111 to 112	
» Mr Amal Cabraal	» Organisation values and Code of Conduct		
» Mr Duliksha Soosaipillai	» Compliance with labour laws		
	» HR Systems including performance evaluation, talent management, succession		
Related Party Transactions Review Committee (RPTRC)			
» Mr Nilanth de Silva - Chairman	» Related Party Transaction Policy	IR Pages 122 to 123	
» Mr Jonathan Alles	» Scrutiny of Related Party Transactions		
» Mr Rusi Captain	» Market disclosures on Related Party Transactions		
	» Quarterly and annual disclosures of Related Party Transactions		
	» Avoidance of conflict of interest		

	Composition of Directors	Areas of Oversight
Discretionary Committees	Board Credit Committee (BCC)	
	» Mr Nilanth de Silva - Chairman	» Credit Policy and Lending Guidelines
	» Mr Amal Cabraal	» Credit risk control measures including pricing of credit risk
	» Dr Harsha Cabral	» Performance of credit risk indicators
	» Mr Devaka Cooray	» Formulate and periodically review the credit policy
		» Authorise credit facilities over and above the delegated limits of specified categories
	Strategy & Investment Review Committee (SIRC)	
	» Mr Amal Cabraal - Chairman	» Review of economic climate, capital markets activity
	» Mr Duliksha Soosaipillai	» Economic and monetary policy direction emerging trends and their potential/impact
	» Mr Damien Fernando	» Investment policy
	» Mr Madu Ratnayake	» Review Bank's investment portfolios and their performance
	Procurement & Asset Disposal Committee (PADC)	
	» Mr Duliksha Soosaipillai - Chairman	» Procurement and Disposal Policy
	» Mr Damien Fernando	» Approve procurements and disposal in line with delegation
	» Mr Madu Ratnayake	
	» Mr Devaka Cooray	
	Board Recoveries Committee (BRC)	
	» Mr Harsha Cabral - Chairman	» Provide strategic direction for speedy recovery of defaulted facilities
	» Mr Damien Fernando	» Review effectiveness of recovery initiatives deployed
	» Mr Amal Cabraal	» Ensure engagement of relevant stakeholders in the recovery process
	» Mr Duliksha Soosaipillai	» Recommend credit and recovery capability requirements to ensure effective management of NPA and Recoveries
	» Mr Nilanth de Silva	
	Board Digital Banking Committee (BDBC)	
	» Mr Madu Ratnayake - Chairman	» Provide oversight to the timely and seamless implementation of Bank's proposed Digital Banking Platform/Layer including.
	» Mr Damien Fernando	» Oversight on related investment components and initiatives
	» Mr Jonathan Alles	» Creating a culture of prioritization of customer engagement
		» Escalation of issues to Board for urgent action

Board Appraisal

An annual appraisal of the Board is conducted to support continued improvement in performance and effectiveness. Overseen by the Chairman, Directors assess their collective performance against measures including the independence of Directors, in judgement and character. Collated results are made available to the Nomination Committee (NC) who make recommendations to the Board on areas for further development. The outcome of the 2019 appraisal indicated that the performance of the Board met expectations. There is alignment on strategy and the Board is seen as effective in discharging its role. Areas identified for improvement were communicated to the Board, including training needs, skills and knowledge gaps.

Similarly, a self-evaluation of each Board Sub-Committee is carried out annually by the respective Committee Chairman and circulated amongst the members of the Committee for necessary action. Summary of the results are submitted to the Board.

Company Secretary

The office of the Company Secretary is integral to the effective functioning of the Board. The Company Secretary guides the Board on discharging its duties and responsibilities, promoting best practices in Corporate Governance. Her responsibilities include;

- » Ensuring the conduct of Board and General Meetings in accordance with the Articles of Association and relevant legislation.

- » Maintaining statutory registers and the minutes of Board Meetings.
- » Prompt communication to regulators and shareholders.
- » Filing statutory returns and facilitating access to legal advice in consultation with the Board, where necessary.

All Directors have access to the services of the Company Secretary, Ms Thushari Ranaweera, Attorney-at-Law. Appointment and removal of the Company Secretary is a matter for the Board.

Corporate Governance Report

Competent Corporate Management

Lead by the MD/CEO and under delegated authority of the Board, Corporate Management develops and implements corporate strategy and operates the Bank's business. All functional departments are headed by competent individuals and are adequately resourced.

Delegation of Authority by the Board is reviewed periodically to ensure limits are aligned to the Bank's evolving business context. The Company Secretary monitors the implementation of delegated authority. The Board strives to create an effective balance between meeting the Board's oversight responsibilities and maintaining an entrepreneurial environment in which management can operate.

The Chief Internal Auditor reports directly to the BAC while the Chief Risk Officer and the Head of Compliance report directly to BIRMC ensuring independence of these key functions.

Appraisal of the MD/CEO

The Board assesses the performance of the MD/CEO annually using criteria aligned to the short, medium and long-term objectives of the Bank which are agreed with the MD/CEO at the beginning of the year.

Performance is reviewed at the end of the financial year against the backdrop of the operating environment. It is discussed by the Chairman with the MD/CEO and responses documented prior to approval by Board as a whole. HRRC assists in the evaluation process, recommending a revised remuneration based on performance.

Informed Decision Making

Good decision-making requires possessing the right knowledge. The Banks reporting and information systems ensures the Board receives relevant and objective information, in a timely manner.

"The Board would maintain a sound relationship with the executive management which would in turn assist the Board to develop structures, processes and practices that fit the Bank and its business needs."

Board charter

Supply of Information

The Board pack, generally circulated seven (7) days in advance of a Board Meeting, provides comprehensive qualitative and quantitative information on matters to be raised at the Board Meeting. This includes reports on the Bank's performance against strategic value drivers and reports on key focus areas such as progress in implementation of Project Everest, the Bank's technology and digitalisation plans, the quality of asset portfolio and loan recoveries, risk assessment and impact of COVID-19 on the Bank's operations.

Further, Corporate Management and external experts make regular presentations regarding the business environment, strategy and operations of the Bank. Deep-dive sessions are held regularly on each business unit's performance supporting strategy development.

Access to Information

Directors have unrestricted access to Bank Management, organisation information, and resources to facilitate discharge of their duties. Directors are entitled to seek independent professional advice, co-ordinated through the Company Secretary, at the Bank's expense. Copies of such advice obtained are circulated to Directors who request for it.



MD/CEO

The MD/CEO is accountable for the implementation of the Bank's strategy and performance and is supported by the Corporate Management Team.



Corporate Management Team

The Corporate Management Team consists largely of department heads and provides counsel to the MD/CEO, acting as a sound Board and ensuring overall coordination across the respective departments. The complementary skills and diverse experience of the Team members strengthen the Bank's ability to deliver strategy. Management is open and transparent with the Board and escalates concerns to its attention in the appropriate forums and in a timely manner.



Executive Committees

Several Committees have been established to facilitate co-operation across departments, healthy debate on matters considered critical to the Bank's operations and decentralisation of control under delegated authority to improve efficacy in business matters.

Knowledge Development

On appointment, Directors are provided with a folder containing relevant governance information, including the Bank's founding documents, mandates, legislation and policies. Directors are apprised of the Bank's business and given an opportunity to meet with KMP and visit key branches.

Directors are kept abreast of applicable legislation and regulation, relevant sector developments and changes in the risk and general business environment on an on-going basis. Directors undertake training and professional development as considered necessary, and whom requirements are coordinated through the Company Secretary. They are Members of the Sri Lanka Institute of Directors and attend sessions from time to time. Directors also undertake other Continuous Professional Development (CPD) programmes in their personal capacity to update their knowledge on relevant and emerging topics.

Innovation Governance

The Bank's ability to continually innovate is critical to remaining relevant to the changing needs of customers and other stakeholders. The Board is aware of its role in innovation governance and to this end, encourages a creative and flexible culture that promotes innovative thinking, while managing risk within the agreed appetite.

The pandemic accelerated the speed of innovation throughout the financial sector, as people adapted to the new normal. At HNB, a series of innovative digital banking solutions were rolled out to urgently assist clients during the lockdown and thereafter. This included the expanded rollout of HNB MOMO, SOLO and the proprietary AppiGo platform with additional features and functionalities.

Digital & Technology Governance

Digital disruption is the new normal. The Board is cognizant of the benefits of agility, scalability and innovation that digital platforms provide and ensures implementation of an effective and properly resourced digital technology strategy. The Bank's digital transformation programme seeks to develop digital capabilities and new platforms that deliver exceptional client and employee experiences, in a secure manner.

The Board ensures alignment of the IT strategy with the Bank's overall business strategy and monitors implementation against performance targets. The Board monitors and evaluates significant IT investment and expenditure. Technology and information risk is integrated within the Bank's risk management as discussed in Information Technology and Security Governance on CG & RR page 20.

In January 2020, a new Board Sub-Committee, the Board Digital Banking Committee was established to lead implementation of the Bank's digital transformation project and

ensure timely and seamless delivery of relevant and prioritized digital solutions.

The Committee consists of a combination of Board members and management who have requisite knowledge and experience in ICT and Digital platforms. Meeting weekly to drive attention and intensity, the Committee's responsibilities include governance functions pertaining to risk management, approval of investment spend and staff deployment and training. Review of project progress has been a regular item on the Board agenda.

Under the purview of the Committee, the Bank was able to accelerate the delivery of banking solutions to customers through online, mobile and digital channels during the pandemic. Product rollout was prioritized on a needs basis and customized to offer digital solutions for differing customer segments, ranging from retail to SME. The Bank is well positioned to compete and gain an increased share of customers' wallets from these digital channels.

Corporate Governance Report

1.2 PROVIDING EFFECTIVE CONTROL

- » Comprehensive Policy Framework
- » Separation of Roles & Responsibilities
- » Risk Management
- » Internal Controls
- » Information Technology & Security Governance
- » Compliance Governance
- » Governance of Group Companies
- » Assurance

HNB's governance framework is characterized by a robust 'backbone' of strong and effective controls and standardized systems, procedures and processes. The onset of COVID-19 pandemic has created unique and profound challenges exposing the Bank to heightened levels of risk including cybersecurity, fraud, theft and credit among others.

The establishment of an effective governance framework that sets in place process and systems to control risk and protect assets from external and internal threats is critical to retaining stakeholder confidence. HNB has understood this imperative and works towards strengthening its control framework.

Comprehensive Policy Framework

The Bank's comprehensive policy framework serves as a guide to behaviour and decision making at all levels of the organisation. The framework facilitates compliance with laws and regulations while managing stakeholder expectations and risk. Policy documents are typically modelled against international best practices, appropriate to the Bank's context.

During the year the Board reviewed the policy framework. Two new policies, Mobility Policy and Promotion Policy were introduced with the objective of improving business flexibility and delivering a positive employee experience. The Anti-corruption, Whistle-

blower and Sexual Harassment Policies are being fine-tuned and the Talent Acquisition Policy revamped to meet the evolving needs of the Bank.

Segregation of Roles and Responsibilities

Segregation of roles and responsibilities ensures a balance of power within the Board and accountability for actions.

The role of the Chairman is separate from that of the MD/CEO. There is a clear division of responsibilities. Care is taken to ensure that no single Director has unfettered powers in the decision-making process.

CHAIRMAN

Role

- » Leads the Board, preserving good Corporate Governance and ensuring that it works effectively, acting in the best interests of the Bank at all times.

Responsibilities

- » Leading the Board in providing strategic oversight and providing leadership to the Board;
- » Ensuring effective, regular communication with shareholders and their views are communicated to the Board;
- » Ensuring Board's effectiveness, setting its agenda and chairing its meetings;
- » Ensuring the provision of accurate, timely and clear information to Directors;
- » Ensuring that all Board members understand the information provided and discussed;
- » Ensuring implementation of Board decisions;
- » Ensuring effective communications with shareholders;
- » Facilitating coordination between Board Committees, especially between the Audit, Risk, Credit and Remuneration Committees;
- » Arranging regular evaluation of the performance of the Board, its Committees, and the individual Directors including the Chief Executive Officer;
- » Ensuring the Chief Risk Officer, the Head of Compliance and the Chief Internal Auditor have direct access to the Board;
- » Facilitating effective contribution of all Directors and ensuring constructive relations between Executive and Non-Executive Directors;
- » Addressing the development needs of individual Directors and the Board as a whole, in enhancing Boardroom capital

MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER

Role

- » Accountable to the Board for exercise of authorities delegated and for the performance of the Bank.

Responsibilities

- » Ensuring proper succession planning of the Corporate Team and assessment of their performance;
- » Developing the Bank's strategy for consideration and approval by the Board;
- » Developing and recommending budgets to the Board to support the Bank's strategy;
- » Monitoring the performance and compliance with regulatory and policy framework and reporting to the Board;
- » Establishing an appropriate organizational structure for the Bank;
- » 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 Board's stated risk appetite.

Risk Management

Risk management is fundamental to HNB's strategy and the business of banking. The Board has an oversight responsibility for risk management, and through the Board Integrated Risk Management Committee (BIRMC) regularly reviews and assesses the adequacy and effectiveness of the Risk Management Framework (RMF). The RMF includes identifying risks, developing risk strategy, formulating policies, setting procedures, establishing limits and managing exposures among others.

The Committee ensures that risk standards and policies which support the Bank's strategy are in place, are fit for purpose and effective operationally. The risk department supports the BIRMC in execution of responsibilities.

The Bank's risk universe expanded over the period under review, following increased volatility of the operating environment. In response, the Board and BIRMC increased the rigour of their oversight functions, to ensure all risks are adequately and timeously identified and mitigated. A detailed assessment of the RMF and key risks in 2020 together with mitigation strategies, are provided in the Risk & Capital Review, pages 41 to 87 of the CG&RR. The Board is satisfied that the stringent monitoring and management of risk has been effective in limiting impact on the Bank.

Internal Controls

Combined with risk management, the Board formulates and implements effective internal

control systems to safeguard shareholder interests and the assets of the Bank, in meeting strategic objectives. These systems cover all controls, including financial, operational, compliance, are monitored and reviewed regularly for effectiveness by the Board. The Board Audit Committee (BAC) assists in the discharge of its duties with regards to internal controls, supported by the Internal Audit Department. Details of the internal audit function and systems of internal control are explained in the BAC Report given on IR pages 119 to 121, of the IR. The Board is satisfied with the integrity of financial information and the robustness of the internal controls and systems of the Bank.

Corporate Governance Report

Information Technology & Security Governance

Technology progress presents as many challenges as it does opportunities. HNB is committed to protecting its customers and invests extensively in the security of our information and cyber risk management systems. These systems are monitored through the Information and Cyber risk vertical established within the Risk Management Department.

The vertical is headed by the CISO, who was appointed during the year. Until last year, the CRO performed the role of the CISO. Technology acceleration and greater digital adoption has required the separation of the growing critical role of CISO, from the CRO. The CISO is responsible for managing vulnerabilities in the Bank's IT on site and the cloud infrastructures, and reports directly to the COO.

Information technology and security governance are recurring items on the BIRMC and Board Meeting agendas. Maintaining stakeholder trust and confidence in the Bank and safeguarding its reputation, is of critical concern to the Board. Management of information and cyber risk is described in detail on CG&RR pages 66 to 67 of the Risk & Capital Review.

Compliance Governance

The Board is conscious of its duty to comply with laws, regulations and internal procedures and policies of the Bank. Controls have been placed to provide reasonable assurance of compliance, including establishment of a compliance function. The function is headed by a dedicated Compliance Officer who reports directly to the BIRMC. The Compliance Officer submits a report on mandatory banking and statutory requirements on a quarterly basis to the BAC and the BIRMC, while providing feedback on interaction with regulators.

During the year, the Central Bank of Sri Lanka intensified its surveillance on financial crime, particularly the financing of terrorism following the Easter Sunday attacks and Money Laundering to support the Government's stepped-up efforts to clamp down on the illicit drug trade. The Bank has complied regulations including the additional reports on Anti-Money Laundering and Countering the Financing

of Terrorism (AML/CFT) activities and on sanctions. Migration to an advanced AML monitoring system during the year improved efficacy in prevention, detection and reporting through real time detection, advanced analytics using Artificial Intelligence (AI) solutions, increased speed in handling high volumes of transactions and reduced cost.

Governance of Group Companies

The Board seeks to ensure adequate Corporate Governance across the Group and ensures there are strong governance policies and mechanisms appropriate to the structure, business and risks of the Bank and its entities. The Board is guided by the Board approved Charter for Management/Good Governance for Group Companies. Adherence to the charter is reinforced by the appointment of Directors and/or Corporate Management Members to the Boards of subsidiaries. Boards are well balanced and ensure business is carried out under the highest professional standards, integrity and ethics.

Assurance

The Board Audit Committee (BAC) on behalf of the Board ensures that assurance services and functions enable an effective control environment, and that they support the integrity of information for internal decision making and for the Bank's external reports.

The BAC adopts a combined assurance model and implements a coordinated approach to all assurance activities. It reviews the plans and work outputs of the external and internal auditors and reports on Compliance and Risk. The Committee concludes on their adequacy to address all significant financial risks facing the business which can impair the integrity of information used for decision making and external reporting.

Independence and Objectivity of the External Auditor

The shareholders appointed Messrs. KPMG as the External Auditor for 2020 at the last AGM, on recommendation of the Board and as per Bank's auditor rotation policy.

The Board Audit Committee (BAC) engages with the External Auditor for audit and non-audit services in line with professional & ethical standards, regulatory requirements and in

CYBERSECURITY AND INFORMATION ASSETS POLICY STATEMENT

It is the Policy of HNB that its information assets shall be protected from all cyber threats identified, whether internal or external, deliberate or accidental, such that the brand is protected; confidentiality of information is maintained; integrity of information can be relied upon; availability of information is ensured; and all legal, regulatory, statutory and contractual obligations are met.

compliance with Bank policy, as detailed in the BAC Report on IR pages 119 to 121. BAC remains satisfied with the independence, impartiality, competence, resources, service levels and objectivity of Messrs. KPMG in rendering their services. Messrs. KPMG have submitted their Annual Statement confirming independence in relation to the external audit as required by the Companies Act No. 07 of 2007. The Board has recommended Messrs. KPMG as the External Auditor of the Bank for the year 2021, subject to the approval of shareholders at the next AGM.

1.3 ENSURING ETHICAL BUSINESS PRACTICES

- » Values and Culture
- » Code of Conduct & Ethics
- » Balance of Power
- » Independent Judgement
- » Avoiding Conflict of Interest
- » Whistle-blowing
- » Fair & Responsible Remuneration
- » Promoting Diversity & Gender Equality

As Boards guide their organizations through uncharted waters, into the new normal, they are challenged by the complexity of problems and the decisions they need to take in the creation of value.

In navigating this crisis and rising above the challenges, HNB remains guided by its values. The Bank is committed to the highest standards of integrity and ethics and has nurtured a strong culture of compliance and good conduct through a legacy of advocating and incentivising employees for doing the right business, the right way.

Values and Culture

Good governance is supported by the tone at the top. The Board and Management lead by example, demonstrating responsibility, accountability, fairness and transparency in their decisions and actions.

The Corporate team continues to drive and enable the new leadership mindset under the business transformation strategy, where all employees are inspired to strive for, and thrive in high standards of performance in an agile, digital, innovative, fast paced, customer centric and competitive environment.

Code of Conduct & Ethics

The Bank's code of conduct is a key element of the Bank's ethical framework. It establishes the values of the organisation and the principles that underlie decision making. The Code sets the right culture, driving the desired behaviours that result in positive business outcome.

All employees are bound by the Bank's Code of Conduct & Ethics. The Code, available in all three (3) languages, is delivered in simple and direct language to ensure it is easily understood. Training sessions are conducted to instil ethical practices. Value and compliance are reinforced by incorporating criteria into the annual performance review objectives.

Directors also abide by a 'Standard of Conduct' embodied in the Board Charter.

The Board is not aware of any material violations of any of the provisions of the Code of Conduct and Ethics/Standard of Conduct by any Director or KMP of the Bank.

Balance of Power

Arrangements for delegation to Board Sub-Committees and a clear division of roles and responsibilities ensure that none of the Directors have unfettered powers in the Board decision-making process. Key roles of the Chairman and MD/CEO are separate as disclosed on CG&RR page 19, strengthening the Board's effectiveness and ensuring objective decision making in the discharge of duties.

Independent Judgement

Directors exercise independent judgement in the effective discharge of duties, engaging in constructive Board deliberations and objective evaluation of matters set before them.

Directors' demonstrated independence in judgment and character is assessed by the Board as a whole, in the annual Board appraisal and feedback provided.

HNB CODE OF CONDUCT & ETHICS

- » Act ethically, responsibly, honestly and with integrity, in the best interests of the Bank
- » Safeguard the Bank from fraud, corruption, collusion and coercion
- » Compliance with laws, rules and regulations
- » Avoidance of conflict of interest
- » Discrimination and harassment
- » Bribery and corruption
- » Confidentiality
- » Fair dealing
- » Entertainment and gifts
- » Accurate accounting and record keeping
- » Fair and transparent procurement practices
- » Protection and proper use of Bank assets including information assets
- » Encourage whistle-blowing
- » Corporate opportunities

Corporate Governance Report

Avoiding Conflict of Interest

A Director or KMP is prohibited from using his or her position, or confidential or price-sensitive information, for personal benefit or benefit of any third party, whether financially or otherwise. Directors notify the Board promptly of any conflicts of interest they may have in relation to particular items of business or other Directorships. Directors do not participate in and excuse themselves from the Meeting when the Board considers matters in which a conflict may arise.

Directors and KMP declare their business interests by appointment and quarterly

thereafter. A comprehensive register of individual Directors' interests are maintained by the Company Secretary and updated and signed by the Directors, with new updates noted by the Board at the next Meeting. The Board is aware of the other commitments of its Directors and is satisfied that all Directors allocate sufficient time and attention to enable them to discharge their responsibilities at HNB effectively.

The Related Party Transactions Review Committee (RPTRC) reviews and provides oversight over Related Party Transactions to ensure transactions are fair and in the best interests of HNB. The Committee is guided by

REMUNERATION POLICY

- Remuneration offered;
- » rewards value delivered and adjusts for risk assumed,
 - » is motivational
 - » is competitive in the marketplace for skill
 - » promotes and rewards teamwork

the Bank's Related Party Transactions Policy and applicable regulations.

Key appointments of the Directors are included in their profiles on IR pages 18 to 25 and Related Party Transactions are disclosed in note 60 of the Financial Statements on pages 317 to 324 in the IR. The total number of Board seats (excluding Directorship in HNB) held by each Director as of 31st December 2020 is given below.

Directorship in other Companies

Name of Director	Directorship Status	No. of Board Seats held in Listed Companies		No. of Board seats held in Unlisted Companies	
		Executive Capacity	Non-Executive Capacity	Executive Capacity	Non-Executive Capacity
Mr Dinesh Weerakkody (Chairman)	●	-	3	-	6
Mr Jonathan Alles (MD/CEO)	●	-	1	-	4
Mr Dilshan Rodrigo (Appointed w.e.f 01st July 2020)	●	-	1	-	4
Mr Rusi Captain	●	-	1	16	2
Mr Amal Cabraal	●	-	4	-	9
Mr Duliksha Soosaipillai	●	-	3	-	-
Mr Nilanth de Silva	●	-	1	-	2
Mr Madu Ratnayake	●	-	-	-	1
Mr Damien Fernando	●	-	1	-	3
Dr Harsha Cabral	●	-	4	-	9
Mr Devaka Cooray (Appointed w.e.f 03rd July 2020)	●	-	-	1	7
Mr Prawira Saldin (Alternate Director to Mr Rusi Captain)	●	-	2	1	6
Dr Prasad Samarasinghe (Alternate Director to Mr Damien Fernando)	●	-	2	3	1

- Independent Non-Executive Director
- Executive Director
- Non-Executive Director

Whistle-blowing

Mechanisms are also in place for employees and other stakeholders to seek advice or report concerns about unethical or unlawful behaviour. The Bank's Whistle-blower policy enables anonymous reporting of matters of concern regarding possible inappropriate financial reporting, internal controls or other issues that may require internal investigation. Mr Devaka Cooray, Independent Non-Executive Director, was appointed by the Board to handle whistle-blowing matters subsequent to the retirement of Dr Rohan Karunaratne in October 2020. Information on accessibility, anonymity, processes and the policy relating to the whistle-blowing service is communicated to all employees.

Fair and Responsible Remuneration

The Board strives to ensure that remuneration is fair, responsible and transparent.

Remuneration of executives is linked to sustainable value creation objectives in line with the Bank's strategy and is based on clear performance targets that have adequate stretch and are benchmarked to local market rates.

The Remuneration packages of Executive Directors are designed to attract eminent professionals as Directors with the requisite skills and experience. Remuneration is structured taking into consideration performance and risk factors entailed in the job and aligned to corporate and individual performance. Remuneration of Executive Directors are compliant with the provisions of Schedule E of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017 and comprises two components, fixed

remuneration and variable remuneration comprising of an annual performance bonus.

No special early termination clauses are included in the contract of employment of Executive Directors that would entitle them to extra compensation. However, such compensation, if any, would be determined by the Board of Directors.

The HRRC is responsible for making recommendations to the Board regarding remuneration of the Executive Director and KMP compliant with the provisions of Schedule E of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017 and remuneration policies of the Bank. MD/CEO participates at Meetings when deciding the remuneration of the Corporate Management team. All rights under the ESOP scheme have expired during 2018.

Independent professional advice is sought when required, by the Board/HRRC on HR related matters. The Board as a whole determines the remuneration of the NED's who receive a fee for being the Chairman or a Director of the Board and an additional fee for being a Member of a committee. Non-Executive Directors do not receive any performance related/incentive payments.

Refer IR page 221 for the total Directors' Remuneration.

Promoting Diversity and Gender equality

Diversity and Gender equality is an important priority for HNB. The Bank appreciates the positive impact on productivity and competitiveness in engaging a diverse workforce. The Board has in place policies that promote fair representation and equal

OUR POLICIES SEEK TO HARNESS THE FULL POTENTIAL OF ALL OUR EMPLOYEES BY PROVIDING EQUAL OPPORTUNITY AND A SAFE ENVIRONMENT IN THE WORKPLACE.

- » Equality and Diversity Policy
- » Employee Recognition and Rewards Policy
- » Anti-Harassment Policy
- » Grievance Handling Policy
- » Management and Resolution of Complaints Policy
- » Human Rights Policy
- » Health & Safety Policy
- » Code of Conduct & Ethics

opportunity. The Bank's family-friendly work place practices support female employees to fulfil their career aspirations. The success in forging gender parity is reflected in the composition of its workforce, which currently includes 43% female employees and 22% female senior management.

The Board appreciates the important contribution to varied perspectives that gender diversity offers. The Bank aims to have representation of women on the Board and will make appointments in line with this commitment as we continue the search for suitable Board candidates.

The Bank believes providing equal access to public and economic opportunities to both men and women to accomplish a more sustainable economy and improve national well-being.

Corporate Governance Report

1.4 DRIVING A SUSTAINABLE BUSINESS

- » Embedding ESG Considerations
- » Stakeholder Engagement
- » Communication
- » Business Continuity Planning

As a systematically important bank, HNB is committed to fulfilling its purpose as a catalyst for socioeconomic progress in the country. In a year which was deeply volatile, this sense of purpose has been critical to keeping the Bank

focused in navigating uncertainty, and creating sustainable value for all stakeholders.

The Bank is equally committed to transparency and communicating to stakeholders on how

the organizations is being managed. This has become even more important in the current context of the pandemic, in securing the trust and confidence of stakeholders.

Embedding ESG Considerations

HNB has always been committed to understanding and being responsive to the interests and expectations of stakeholders in creating a sustainable business. The Board satisfies itself that ESG value creation across the various capitals is integrated into the Bank's strategy. These initiatives are reported in a holistic manner from IR pages 45 to 73. Reporting is as follows;

Initiative	Report Reference	Page Reference
Economic Sustainability	Financial Capital	IR pages 45 to 54
Environment	Natural Capital	IR pages 70 to 73
Labour Practices	Human Capital	IR pages 64 to 67
Stakeholder Identification, Engagement and Effective Communication	Listening to Stakeholders	IR page 36
Governance	Corporate Governance and Risk Report	CG&RR pages 2 to 87
Society	Social and Relationship Capital	IR pages 58 to 63
Commitment to Sustainability Reporting	Our Strategy	IR page 37

These reports have been prepared in line with the Guiding Principles and Content Elements of the International <IR> Framework and referencing GRI standards, among other frameworks.

Stakeholder Engagement

Increased focus on Environmental, Social and Governance (ESG) considerations has led a shift away from shareholder primacy to a balanced commitment to all shareholders and stakeholders for a sustainable future. Through our stakeholder engagement processes detailed under Stakeholder Engagement - IR page 36, the Bank is committed to understanding and being responsive to the interests and expectations of stakeholders and to partnering with them to find solutions to sustainability challenges.

Investors

The Board and KMP hold regular structured meetings with equity analysts who provide research to large institutional investors. The Board believes that such communication leads

to mutual respect; accountability and trust ensuring sustainability of the Bank. Directors ensure the protection of share price sensitive information at these Meetings. Views of the shareholders are communicated to the Board by the Chairman

Shareholders

Shareholders are engaged through multiple channels of communication, including the Annual General Meeting (AGM), Annual Report, interim financial statements, a dedicated investor relations page on the Bank's website, press releases in three (3) languages in the main newspapers and notification of key events through announcements in the CSE. Shareholders may also direct questions or request for information from the Bank.

Annual Report and Interim Financials

HNB is committed to fair and transparent reporting with emphasis on integrity, timeliness and relevance of information disclosed. Such disclosure and reporting enables stakeholders to effectively assess performance and make informed decisions. All reporting and disclosures are in compliance with applicable laws and regulations.

The Annual Report is the key medium through which the Board presents a fair and balanced review of the of the Bank's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. External audit/ third-party assurance has been obtained where relevant, to enhance credibility. The Board of Directors review and approve the Annual Report, prior to publication while the Interim

Financials are reviewed and recommended by the Board Audit Committee and approved by the Board of Directors, prior to publication. The high standard of reporting maintained by the Bank is evidenced by the awards received over an extended period.

Shareholder Access to Corporate Information

Shareholders may at any time, request for publicly available information and provide comments and suggestions to Directors or Management of the Bank. The Company Secretary maintains a record of all correspondence received and delivers as soon as practicable such correspondence to the Board or individual Director/s as applicable, for a response.

The Annual General Meeting (AGM)

The AGM is the main mechanism for the Board to interact with shareholders and report the performance of the Bank. It provides opportunity for shareholders' views to be heard and be fully considered. The Board encourages informed participation by shareholders. Notice of the AGM, the Annual Report and Accounts, any resolution together with the corresponding information that may be set before the shareholders at the AGM, and which a summary of the procedures govern voting at the AGM are circulated to

shareholders a minimum fifteen (15) days prior to the AGM in compliance with statutory requirements. HNB proposes a separate resolution for each item of business, giving shareholders the opportunity to consider and vote on each issue, separately. Institutional investors are encouraged to give due weight to all relevant factors including Board composition and structure, when evaluating the Bank's Governance structures.

At the AGM, the Board provides an update to shareholders on the Bank's performance. Shareholders are then offered an opportunity to ask questions and vote on resolutions. It is the key forum for shareholders to engage in decision making matters reserved for the shareholders which typically include proposals to appointment of Directors and Auditors and other matters requiring special resolutions. The Chairman, Board Members including the Chairmen of the Sub-Committees and External Auditors are present and available to answer any queries raised.

Due to the prevailing situation in the country and social distancing rules observed the AGM 2020 was conducted for the first time as a hybrid meeting at a physical location as well as via an extended teleconference facility for shareholders unable/unwilling to attend the meeting in person, in line with the prevailing health and safety standards examined by the government authorities.

The shareholder representation recorded on the day of the AGM 2020 was as follows.

Mode of Participation	No of Shareholders	No of shares presented
In person - physically present	30	456,522
- via MS Teams	22	
By Proxy	50	269,658,895
Total represented		270,115,417

All Shareholders are encouraged to participate at the AGMs and exercise their voting rights. The Bank has a mechanism to record and count all proxy votes lodged for each resolution. The following information is made available at the AGM and posted on the Bank's website. (www.hnb.net)

- » Number of shares in respect of which proxy appointments have been validly made
- » Number of votes for and against the resolution

- » Number of shares in respect of which the vote was directed to be withheld
- » In the event there are a significant proportion of the votes cast against a resolution, the Board will take steps to understand the reasons behind the voting results and determine if any actions are required.

Communication

The Bank's Corporate Communication Policy provides guidelines to ensure all communications to key stakeholders are coherent and cohesive. Covering internal and external communication, the policy has been communicated to all staff members and sets out formal areas of responsibility.

Business Continuity Planning

The pandemic outbreak, changes in technology and increased terrorism concerns have focused greater attention on the need for effective business continuity planning.

HNB's Business Continuity Plan (BCP) addresses matters including employee availability, functionality of IT systems, cybersecurity, communication protocols and legal/regulatory compliance. It seeks to protect staff, minimise down time and losses, safeguard the Bank's reputation and sustain customer confidence. Given the unique nature of the COVID-19 pandemic, as part of its ongoing monitoring and oversight responsibility, the Board continues to discuss any implementation issues with Management and evaluates whether any modifications to the BCP are necessary to manage new issues as they arise.

Corporate Governance Report

APPENDIX I: COMPLIANCE WITH BANKING DIRECTION NO.11 OF 2007 ON CORPORATE GOVERNANCE

Section	Principle, Compliance & Implementation
3 (1)	Responsibilities of the Board
3 (1) (i)	<p>Strengthening the safety and soundness of the Bank</p> <p>The Board's responsibilities are set out in the Board Charter. The Board is accountable for the management of the affairs of the Bank and the safety and soundness of the Bank.</p> <p>a. Setting Strategic Objectives and Corporate Values - Complied <input checked="" type="checkbox"/></p> <p>The Bank's strategic objectives derived from the Vision and Mission Statements and its corporate values, have been determined and approved by the Board of Directors and communicated to all levels of staff. The corporate values are included in the Code of Conduct & Business Ethics which is provided in hard copy to all new employees is available on the intranet, explained at orientation programmes and reinforced at meetings.</p> <p>b. Approving Overall Business Strategy including Risk Policy and Management - Complied <input checked="" type="checkbox"/></p> <p>The business strategy (Corporate Strategic Plan) together with the projections covering 2021 - 2023 was approved by the Board in 2020. The strategy and execution thereof, is regularly reviewed by the Board. The Annual budget, derived from the business strategy is approved, and monitored periodically, by the Board.</p> <p>The Board also approved the overall risk strategy of the Bank, determining the Risk Appetite, Policies and Risk Management Framework & Mechanisms. The Corporate Strategic Plan is aligned to the overall risk strategy of the Bank, where Risk Appetite is considered in areas such as capital allocation and in the adoption of risk matrix to measure the risk levels. Governance and Compliance which are embedded in the Risk Management Policy Framework have also been included in the strategic plan. Further, the risk management procedures and mechanisms with time bound implementation milestones were approved and monitored by the Board Integrated Risk Management Committee (BIRMC) on a regular basis.</p> <p>c. Risk Management - Complied <input checked="" type="checkbox"/></p> <p>The Board takes overall responsibility for risk management of the Bank. The BIRMC, is tasked with assisting the Board in structuring the Bank's Risk Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks.</p> <p>The following reports provide further insights in this regard:</p> <ul style="list-style-type: none"> » Risk & Capital Review on CG&RR pages 41 to 87. » Board Integrated Risk Management Committee Report on IR pages 115 to 118. <p>d. Communication with all Stakeholders - Complied <input checked="" type="checkbox"/></p> <p>The Board has approved a Corporate Communication Policy to ensure effective and timely communication with all stakeholders including depositors, creditors, shareholders and borrowers. The Corporate Communication Policy, which was reformulated in 2016 (revised in 2017), is guided by the principles of efficiency, transparency, proactivity, clarity and feedback.</p> <p>The Bank has substantially implemented the provisions of Banking Act Directions No 8 of 2011 "Customer Charter of Licensed Banks", which became effective in 2012. The Charter seeks to improve the quality and content in dispensing of customer service by enhancing customer protection and instilling trust and confidence in the Bank while incorporating a set of customer obligations generated in the interests of Bank stability.</p> <p>e. Internal Control System and Management Information Systems - Complied <input checked="" type="checkbox"/></p> <p>The Board reviews the adequacy and the integrity of the Bank's Internal Control Systems and Management Information Systems and is satisfied with same. It is assisted in this regard by the Board Audit Committee (BAC). The BAC has reviewed reports from the Internal Audit Department in carrying out this function, together with the Management responses on the same. The findings have been reported to the Board.</p> <p>f. Key Management Personnel (KMP) - Complied <input checked="" type="checkbox"/></p> <p>Key Management Personnel comprise the Corporate Management (MD/ CEO, COO, DGMs and AGMs), Chief Technology & Digital Officer, Head of Custody & Trustee Services and Head of Human Capital Management as per the guideline on "Key Management Personnel in Banking Act Direction for Corporate Governance" issued by the Banking Supervision Department of CBSL. All appointments of Key Management Personnel are recommended by the Nomination Committee and approved by the Board.</p> <p>g. Define areas of authority and key responsibilities for Directors and Key Management Personnel - Complied <input checked="" type="checkbox"/></p> <p>Areas of authority and key responsibilities for the Board of Directors are set out in the Board Charter. Areas of authority and key responsibilities for Key Management Personnel are stated in their Job Descriptions as recommended by the Nomination Committee and approved by the Board. The delegated authority limits for Key Management Personnel have been approved by the Board.</p>

Section	Principle, Compliance & Implementation
	<p>h. Oversight of affairs of the Bank by Key Management Personnel - Complied <input checked="" type="checkbox"/></p> <p>The MD/CEO and other Key Management Personnel are accountable to the Board for the Bank's operational and financial performance, in accordance with the policies set by the Board. The Board reviews the performance of the Bank against the strategic plan and receives reports from its Sub-Committees on matters delegated to them, through which the Board exercises oversight over the affairs of the Bank and the Key Management Personnel. Further, Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.</p>
	<p>i. Assess effectiveness of own Governance Practices - Complied <input checked="" type="checkbox"/></p> <p>The effectiveness of the Board's own governance practices, including the process for selection, nomination and election of Directors (which is explained in detail under Rule 3 (2) (ix)) and the process for management of conflict of interest (which is explained in detail under Rule 3 (1) (xii)) are reviewed by Board on a periodic basis. Implementation of changes required is discussed and determined by the Board at year-end following the submission of the summary of annual self-evaluations.</p>
	<p>j. Succession plan for Key Management Personnel - Complied <input checked="" type="checkbox"/></p> <p>The Bank has an appropriate succession plan for Key Management Personnel aligned to the Bank's strategic objectives and Talent Management Programme. The plan is guided by the policy on Succession Planning for Key Management Personnel and Directors, last reviewed in 2020. The Nomination Committee is responsible for the formulation, review and rollout of the plan.</p>
	<p>k. Regular meetings with Key Management Personnel - Complied <input checked="" type="checkbox"/></p> <p>The Board maintains a sound relationship with the Corporate/Senior Management led by the MD/CEO, who in turn assists the Board to formulate policies, strategies, processes and practices that fit the Bank and its business needs in achieving corporate objectives. The Management is open and transparent with the Board, bringing all significant matters to its attention. Key Management Personnel are regularly invited to attend Board and Sub-Committee Meetings for discussion on matters concerning their areas of responsibility or make presentations on key agenda items.</p>
	<p>l. Regulatory environment and maintaining an effective relationship with regulator - Complied <input checked="" type="checkbox"/></p> <p>On appointment, Directors are provided with a folder containing all relevant governance information, including regulatory laws, directions and guidelines. Directors are briefed about regulatory developments at Board and Sub-Committee Meetings by Key Management Personnel including the Heads of Internal Audit, Risk and Compliance and by attending Director Forums arranged by the Central Bank of Sri Lanka (CBSL). Further, Board Members regularly meet with CBSL officials to discuss strategic matters specific to the Bank, maintaining an effective relationship with the regulator.</p>
	<p>m. Hiring and oversight of External Auditors - Complied <input checked="" type="checkbox"/></p> <p>The External Auditor is appointed following the procedures set out in Article 53 (iv) of the Articles of Association. The Board Audit Committee makes recommendations to the Board for the appointment, re-appointment or removal of the External Auditor in-line with professional & ethical standards and regulatory requirements. A policy for Engagement of the External Auditor to provide Non-Audit Services is in place, as reviewed and recommended by the Board Audit Committee.</p> <p>On the recommendation of the Board, the shareholders approved the reappointment of Messrs. KPMG as the External Auditor of the Bank, at the last AGM. In compliance with Section 163 (3) of the Companies Act No. 07 of 2007, the External Auditors submit a statement annually confirming their independence in relation to the External Audit.</p>
3 (1) (ii)	<p>Appointment of Chairman and CEO and defining and approving their functions and responsibilities - Complied <input checked="" type="checkbox"/></p> <p>The Board has appointed the Chairman and the MD/CEO. Their roles and responsibilities are separate and set out clearly in the Board Charter, ensuring a balance of power and authority and preventing unfettered power being vested with an individual. These functions and responsibilities are in line with Direction 3(5) of the said Direction.</p>
3 (1) (iii)	<p>Regular Board Meetings - Complied <input checked="" type="checkbox"/></p> <p>Monthly Board Meetings are held regularly, and Special Meetings are scheduled based on need. Fourteen (14) Board Meetings were held in 2020 out of which 11 meetings were conducted with extended teleconferencing for participants unable to attend the meetings in person due to the prevailing pandemic situation. Directors actively participate in the Meetings deliberating on matters set before the Board. Attendance at Board Meetings is given in CG&RR page 12. Urgent Board Papers are approved via circular resolution only on an exceptional basis, where such resolutions are ratified by the Board at the next meeting. 9 resolutions and 468 credit papers were approved in 2020, via circulation.</p>
3 (1) (iv)	<p>Arrangements for Directors to include proposals in the agenda - Complied <input checked="" type="checkbox"/></p> <p>The Board Calendar with tentative dates for Board and Sub-Committee Meetings for the following year is sent to all members approximately one month before the end of the current year. The Chairman sets the Board Agenda assisted by the Company Secretary. Directors submit proposals for inclusion in the agenda up on discussion with the Chairman.</p>

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Section	Principle, Compliance & Implementation
3 (1) (v)	<p>Notice of Meetings - Complied <input checked="" type="checkbox"/></p> <p>Notice of Meetings, Agenda and Board Papers for the Meetings are sent generally seven (7) days before the Meeting, giving Members sufficient time to attend the Meeting and study the documents. Urgent Board Papers are included on an exceptional basis, with the consent from the Chairman.</p>
3 (1) (vi)	<p>Director's Attendance - Complied <input checked="" type="checkbox"/></p> <p>At appointment, all Directors are apprised of the regulations on attendance. Attendance at Board Meetings is given in CG&RR page 12. All Directors have attended at least two thirds (2/3) of Board Meetings held during 2020, the lowest attendance being ten (10) Directors at a Meeting (including attendance of an Alternate Director). No Director has been absent from three (3) consecutive Meetings during 2020.</p>
3 (1) (vii)	<p>Appointment and setting responsibilities of the Company Secretary - Complied <input checked="" type="checkbox"/></p> <p>The Board has appointed a Company Secretary, an Attorney at Law, who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988. The Company Secretary guides the Board on discharging its duties and responsibilities, facilitates adherence to best practices in Corporate Governance and apprises the Board of relevant legislative and regulatory changes.</p>
3 (1) (viii)	<p>Directors access to advice and services of Company Secretary - Complied <input checked="" type="checkbox"/></p> <p>All Board Members have full access, to the advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p>
3 (1) (ix)	<p>Maintenance of Board Minutes - Complied <input checked="" type="checkbox"/></p> <p>Company Secretary maintains the minutes of the Board Meetings. The Minutes are circulated to all Board Members and approved at the next Board Meeting upon incorporating any amendments proposed by other Directors. The minute book is maintained by the Company Secretary and open for inspection by any Director, at any time.</p>
3 (1) (x)	<p>Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities - Complied <input checked="" type="checkbox"/></p> <p>Minutes of Board Meetings are recorded in sufficient detail to reflect that the Board acted with due care and prudence in performing its duties and to serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at Board Meetings.</p>
3 (1) (xi)	<p>Directors ability to seek independent professional advice - Complied <input checked="" type="checkbox"/></p> <p>Procedures are in place to allow Directors to seek independent professional advice, as and when necessary and at the Bank's expense, in discharging their duties and responsibilities. This facility is coordinated through the Company Secretary.</p>
3 (1) (xii)	<p>Dealing with Conflicts of Interest - Complied <input checked="" type="checkbox"/></p> <p>Article 40 of Articles of Association addresses the provision with regard to this requirement. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to HNB and their other interests.</p> <p>The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board. Any Director with a material personal interests in a matter being considered by the Board declares his/her interests and unless the Board resolves otherwise, he/she does not participate in discussions or vote on that specific matter. The Directors declare their interests at appointment and thereafter on a quarterly basis.</p>
3 (1) (xiii)	<p>Formal schedule of matters for decision making - Complied <input checked="" type="checkbox"/></p> <p>The Board reserves for itself a formal schedule of matters on which it takes the ultimate decision.</p>
3 (1) (xiv)	<p>Inform Central Bank, if there are solvency issues - Complied <input checked="" type="checkbox"/></p> <p>The Bank is solvent.</p> <p>In the unlikely event, the Bank is about to become insolvent, a procedure is however in place to inform the Director of Banking Supervision of same, prior to taking any decision or action to suspend payments due to depositors and other creditors.</p>
3 (1) (xv)	<p>Capital Adequacy - Complied <input checked="" type="checkbox"/></p> <p>The Board monitors capital adequacy and other prudential measures to manage risk and to ensure compliance with regulatory requirements. The Bank is in compliance with the minimum capital requirements of the Monetary Board.</p>
3 (1) (xvi)	<p>Publish Corporate Governance Report in Annual Report - Complied <input checked="" type="checkbox"/></p> <p>This report forms part of the Corporate Governance Report of the Bank which is set out on pages 3 to 40 in CG&RR.</p>

Section	Principle, Compliance & Implementation
3 (1) (xvii)	<p>Self-Assessment of Directors - Complied <input checked="" type="checkbox"/></p> <p>Each Director undertakes annually, a self-assessment of the Board, to ensure responsibilities are satisfactorily discharged. The outcome of the appraisal for the financial year 2019 was tabled at the Board Meeting held in April 2020. The 2020 annual appraisal is currently in progress.</p>
3 (2)	The Board's Composition
3 (2) (i)	<p>Number of Directors - Complied <input checked="" type="checkbox"/></p> <p>The Board consists of eleven (11) Directors, compliant with CBSL direction which requires the number of Directors to be not less than seven (7) and not more than thirteen (13).</p>
3 (2) (ii)	<p>Period of service of a Director - Complied <input checked="" type="checkbox"/></p> <p>The total period of service of all Non-Executive Directors does not exceed nine (9) years as required by the CBSL Direction. Tenures of service of Directors are given in CG&RR page 6.</p>
3 (2) (iii)	<p>Director Appointment of an Employee as a Director - Complied <input checked="" type="checkbox"/></p> <p>Two Directors serve as Executive Directors. The Board balance is compliant with the CBSL Direction which limits the number of Executive Directors to 1/3 of the Board.</p>
3 (2) (iv)	<p>Independent Non-Executive Directors - Complied <input checked="" type="checkbox"/></p> <p>The Board comprises six (6) Independent Non-Executive Directors, in excess of the regulatory requirement. The Directors satisfy the criteria for determining independence, which is reviewed annually by the Board based on self-declaration forms submitted by the Directors.</p>
3 (2) (v)	<p>Alternate Independent Directors - Complied <input checked="" type="checkbox"/></p> <p>All alternate Directors appointed to represent Independent Non - Executive Directors were Independent.</p>
3 (2) (vi)	<p>Criteria for Non-Executive Directors - Complied <input checked="" type="checkbox"/></p> <p>All Non-Executive Directors are eminent professionals in their respective fields, with credible track records and necessary skills and experience. They contribute diverse perspective to matters set before the Board, bringing independent judgment to bear on issues of strategy, performance and resource.</p>
3 (2) (vii)	<p>More than half the quorum to comprise Non-Executive Directors - Complied <input checked="" type="checkbox"/></p> <p>Majority of the Board are Non-Executive Directors.</p>
3 (2) (viii)	<p>Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report - Complied <input checked="" type="checkbox"/></p> <p>The Independent Non-Executive Directors are expressly identified in all corporate communications that disclose the names of Directors of the Bank. Composition and details of the Board are given in CG&RR pages 4 to 5.</p>
3 (2) (ix)	<p>Formal and transparent procedure for appointments to the Board - Complied <input checked="" type="checkbox"/></p> <p>The Board has a formal and transparent process in place for the succession and appointment of Directors. The Nominations Committee processes and short-lists candidates and makes recommendations to the Board for approval. The attributes and experience required from potential appointees are identified and agreed prior to the search process considering the combined knowledge, experience and diversity of the Board in relation to the Bank's Strategic Plans and any gaps thereof. The candidate's other directorships and commitments are also considered to ensure sufficient time to discharge their role at HNB, effectively. Upon completion of this process, names are referred to the Director of the Bank Supervision Department of the Central Bank of Sri Lanka for approval as a "fit and proper" person, prior to the appointment.</p> <p>Mr Dilshan Rodrigo and Mr Devaka Cooray were appointed to the Board in 2020.</p>
3 (2) (x)	<p>Re-election of Directors filling casual vacancies - Complied <input checked="" type="checkbox"/></p> <p>All Directors appointed to the Board are subjected to re-election by shareholders at the first Annual General Meeting after their appointment.</p> <p>Mr Dilshan Rodrigo and Mr Devaka Cooray who were appointed to the Board in 2020 to fill the casual vacancies created by the retirement of Mr Palitha Pelpola and resignation of Mr Asoka Pieris, will offer themselves for re-election at the AGM to be held in March 2021.</p>
3 (2) (xi)	<p>Communication of reasons for removal or resignation of Director - Complied <input checked="" type="checkbox"/></p> <p>Resignations of Directors and the reasons thereof are promptly informed to the regulatory authorities and shareholders in compliance with the CSE regulations together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>

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Section	Principle, Compliance & Implementation
3 (2) (xii)	<p>Prohibition of Directors or employees of an appointment of Bank becoming a Director at another Bank - Complied <input checked="" type="checkbox"/></p> <p>None of the Directors are Directors or employees at any other Bank. This is a requirement when seeking appointment of Directors.</p>
3 (3)	Criteria to assess fitness and propriety of Directors
3 (3) (i)	<p>Age of Director should not exceed 70 years - Complied <input checked="" type="checkbox"/></p> <p>There are no Directors who are over seventy (70) years of age.</p>
3 (3) (ii)	<p>Directors should not be Directors of more than 20 companies and not more than 10 companies classified as Specified Business Entities - Complied <input checked="" type="checkbox"/></p> <p>The Directors do not hold directorships of more than twenty (20) companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank.</p>
3 (3) (iii)	<p>Cooling - off period when appointing Directors or CEO - Complied <input checked="" type="checkbox"/></p> <p>The Bank has complied with the directions when appointing Directors during the year.</p>
3 (4)	Management functions delegated by the Board
3 (4) (i)	Understand and study delegation arrangements - Complied <input checked="" type="checkbox"/>
3 (4) (ii)	Extent of delegation should not hinder Board ability to discharge its functions - Complied <input checked="" type="checkbox"/>
3 (4) (iii)	<p>Review delegation arrangements periodically to ensure relevance to operations of the Bank - Complied <input checked="" type="checkbox"/></p> <p>The Board has a clear understanding of the delegation arrangements, studying, reviewing and approving the extent of delegation annually to ensure it meets the business needs of the Bank whilst enabling the Board to effectively discharge their duties.</p>
3 (5)	The Chairman and Chief Executive Officer
3 (5) (i)	<p>Separation of roles - Complied <input checked="" type="checkbox"/></p> <p>There is a clear separation of roles of the Chairman and the CEO, ensuring a balance of power for decision-making.</p>
3 (5) (ii)	<p>Non-Executive Chairman and appointment of a Senior Independent Directors - Complied <input checked="" type="checkbox"/></p> <p>The Chairman is an Independent Non-Executive Director; as such there is no requirement to appoint a Senior Independent Director.</p>
3 (5) (iii)	<p>Disclosure of identity of Chairman and CEO and any relationships with the Board Members - Complied <input checked="" type="checkbox"/></p> <p>The profiles of the Chairman and CEO are disclosed in IR page 22.</p> <p>As declared by the Directors, no relationships including financial, business, family, or any other, prevail between the Chairman, MD/CEO or among other Board Members.</p>
3 (5) (iv)	<p>Chairman to provide leadership to the Board - Complied <input checked="" type="checkbox"/></p> <p>The Chairman leads the Board ensuring that it works effectively, and acts in the best interests of the Bank in a timely basis. The effectiveness of the Chairman in the discharge of the Board functions is assessed annually by Board and in his/her self-assessment.</p>
3 (5) (v)	<p>Responsibility for agenda lies with Chairman but may be delegated to Company Secretary - Complied <input checked="" type="checkbox"/></p> <p>The Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO.</p>
3 (5) (vi)	<p>Ensure that Directors are properly briefed and provided adequate information - Complied <input checked="" type="checkbox"/></p> <p>The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board.</p> <p>Board papers are circulated generally seven (7) days prior to Meeting, giving the Members adequate time to study the documents. Directors have access to Key Management Personnel to clarify matters and to external specialists for independent advice, when required.</p>
3 (5) (vii)	<p>Encourage active participation by all Directors and lead in acting in the interests of the Bank - Complied <input checked="" type="checkbox"/></p> <p>The Chairman has encouraged all Directors to actively contribute towards the best interests of the Bank.</p>
3 (5) (viii)	<p>Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors - Complied <input checked="" type="checkbox"/></p> <p>The Chairman has encouraged effective participation of all Directors and has encouraged constructive relations between the MD/CEO and the Non-Executive Directors. This function is assessed annually by the Board and by the Chairman in his self-assessment.</p>
3 (5) (ix)	<p>Refrain from direct supervision of Key Management Personnel and executive duties - Complied <input checked="" type="checkbox"/></p> <p>The Chairman does not get involved in the supervision of Key Management Personnel or any other executive duties.</p>

Section	Principle, Compliance & Implementation
3 (5) (x)	<p>Ensure effective communication with Shareholders - Complied <input checked="" type="checkbox"/></p> <p>The Annual General Meeting (AGM) is the main mechanism for shareholders' views to be heard and where the Board interacts with and clarifies matter for the shareholders. The Board has formulated a formal policy to handle shareholders' complaints.</p>
3 (5) (xi)	<p>CEO functions as the apex executive in charge of the day to day operations and business - Complied <input checked="" type="checkbox"/></p> <p>As set out in the Board Charter, the responsibility for the day to day operations and business of the Bank has been delegated to the MD/CEO in his capacity as the apex executive-in-charge.</p>
3 (6)	Board appointed Committees
3 (6) (i)	<p>Establishing Board Committees, their functions and reporting - Complied <input checked="" type="checkbox"/></p> <p>The Board has appointed ten (10) Sub-Committees to ensure its oversight and control over the affairs of the Bank. The details of Board Sub-Committees are disclosed on CG&RR pages 14 to 15.</p> <p>Each Sub-Committee is governed by its own Terms of Reference and has a Secretary who arranges the Meetings and maintains minutes and records under the supervision of the Chairman of the Sub-Committee. The Sub-Committee Chairmen are accountable for the effective functioning of the Committees and reports on a periodic basis to the Board on the activities of their respective Sub-Committees, highlighting matters for Board attention. Committee mandates are reviewed regularly.</p>
3 (6) (ii)	Board Audit Committee
	<p>a. Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit - Complied <input checked="" type="checkbox"/></p> <p>Mr Asoka Pieris resigned from the BAC w.e.f. 02nd July 2020. Mr Devaka Cooray has been appointed as the Chairman of the BAC with effect from 03rd July 2020.</p> <p>Mr Devaka Cooray is an Independent Non-Executive Director, a member of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants(UK). He has worked with Messrs. Ernst & Young for over 40 years of which 30 years was as a Senior Assurance and Talent Partner. He functioned as the Deputy Managing Partner from 2016 until his retirement in 2019. Mr Cooray has spearheaded many initiatives during his tenure at Messrs. Ernst & Young.</p>
	<p>b. Committee to comprise solely of Non-Executive Directors - Complied <input checked="" type="checkbox"/></p> <p>All members are Non-Executive Directors.</p>
	<p>c. Board Audit Committee functions - Complied <input checked="" type="checkbox"/></p> <p>In terms of its mandate, the Board Audit Committee is responsible for the following key recommendations:</p> <ol style="list-style-type: none"> I. The appointment of the External Auditor for audit services in line with professional and ethical standards and in compliance with regulatory requirements. The Board Audit Committee/Board have recommended Messrs. KPMG as the External Auditor of the Bank for the year 2021, subject to the approval of shareholders at the next AGM; II. The service period, audit fee and any resignation or dismissal of the auditor. The Board Audit Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term. In addition, the Bank has adopted a policy on rotation of Audit firm every 5 years on a voluntary basis; III. The implementation of the Central Bank guidelines issued to auditors from time to time and IV. Monitoring and review of the adequacy and effectiveness of accounting policies and the application of relevant accounting.
	<p>d. Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes - Complied <input checked="" type="checkbox"/></p> <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements.</p>
	<p>e. Provision of Non-Audit services by External Auditor - Complied <input checked="" type="checkbox"/></p> <p>The BAC is guided by the Board approved policy for Engagement of the External Auditor to provide Non-Audit Services.</p> <p>In assignment of non-audit services to External Auditors by the Bank, the Board/Board Audit Committee ensures that the External Auditor has the necessary skills and experience for the assignment and ascertains that independence and/or objectivity of the External Auditor in carrying out his duties and responsibilities will not be impaired. Assigning such Non-Audit Services to External Auditors is discussed at BAC Meetings and prior approval obtained. Please refer Board Audit Committee Report on IR pages 119 to 121 for further details.</p>

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Section	Principle, Compliance & Implementation
	<p>f. Determines scope of Audit - Complied <input checked="" type="checkbox"/></p> <p>The previous External Auditor Messrs. Ernst & Young attended three (3) meetings and Messrs. KPMG attended six (6) during the year. The External Auditor presented to the Committee the audit approach and procedures, including nature & scope of the audit and auditor's independence.</p>
	<p>g. Review financial information of the Bank - Complied <input checked="" type="checkbox"/></p> <p>The Committee reviews the financial information of the Bank, in order to monitor the integrity of the Bank's Financial Statements, Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses particularly on the following:</p> <ol style="list-style-type: none"> I. Major judgemental areas, II. Any changes in accounting policies and practices, III. Significant adjustments arising from the audit, IV. The going concern assumption, V. Compliance with relevant accounting standards and other legal requirements.
	<p>h. Discussions with External Auditor on interim and final audits - Complied <input checked="" type="checkbox"/></p> <p>The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the External Auditor.</p>
	<p>i. Review of Management Letter and Bank's response - Complied <input checked="" type="checkbox"/></p> <p>The Board Audit Committee reviewed the External Auditor's management letter for the 2019 Audit and the Management's response thereto during 2020.</p>
	<p>j. Review of Internal Audit Function - Complied <input checked="" type="checkbox"/></p> <p>During the year, the Board Audit Committee reviewed the independence, objectivity and performance of the Internal Audit Function, ensuring the function acts with impartiality, proficiency and due professional care.</p> <p>It reviewed the adequacy of coverage of the internal audit plan and approved the same. It also assessed the Department's resource requirements including succession planning, and is satisfied that the Internal Audit Department has the necessary authority to carry out its work.</p> <p>The Committee reviewed internal audit findings and management responses thereto. The Internal Audit Department's evaluation of the Bank's internal controls were reviewed by the Board Audit Committee. Results of the follow up action taken on the recommendations of the Internal Audit Department were also reviewed.</p> <p>The Committee reviewed the performance appraisal of the Chief Internal Auditor and other senior staff members of the Internal Audit Department. The Committee is kept apprised of resignations of senior staff of the Internal Audit Department together with the reasons for resigning.</p> <p>The Chief Internal Auditor directly reports to the Board Audit Committee thus ensuring the independence of the Internal Audit Department.</p>
	<p>k. Internal Investigations - Complied <input checked="" type="checkbox"/></p> <p>Major findings of internal investigations and Management's responses thereto are reviewed by the Board Audit Committee and recommendations implemented.</p>
	<p>l. Attendees at Board Audit Committee Meetings - Complied <input checked="" type="checkbox"/></p> <p>Chairman of BIRMC, MD/CEO, COO, Chief Risk Officer, Chief Financial Officer/Head of Finance, Chief Internal Auditor, Head of Compliance, Chief Technology & Digital Officer, DGM Operations and a representative of the External Auditor are typically invited to attend Meetings. Other Board Members may also attend Meetings upon invitation. The Committee met the External Auditor on two (2) occasions in 2020, in the absence of the Executive Directors and KMP (Key Management Personnel).</p>
	<p>m. Explicit authority, resources and access to information - Complied <input checked="" type="checkbox"/></p> <p>The Board Audit Committee is guided by the Committee Charter which sets out authority and responsibility of the said Committee. The Charter was last reviewed in 2019. The Board Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend as and when necessary. The Committee also has full access to information in order to investigate into matters relating its Terms of Reference.</p>

Section	Principle, Compliance & Implementation
	<p>n. Regular Meetings - Complied <input checked="" type="checkbox"/></p> <p>The Board Audit Committee met ten (10) times during the year. Conclusions in discharging its duties and responsibilities are recorded in the minutes of the Meetings.</p> <p>p. Maintain Minutes of Meetings - Complied <input checked="" type="checkbox"/></p> <p>Minutes of Board Audit Committee Meetings are recorded and maintained by the Secretary to the Committee. The Chief Internal Auditor serves as the Secretary to the Committee.</p> <p>q. Whistle-blowing policy and relationship with External Auditor - Complied <input checked="" type="checkbox"/></p> <p>A Board approved whistle-blowing policy is in place. The whistle-blowing policy and the mechanism had been communicated to all staff members.</p> <p>The Board Audit Committee reviews issues relating to breach of ethics if any and the arrangements by which the staff of the Bank may in confidence raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place. The independent Director handling whistle-blowing complaints provides regular updates on the investigation results to the BAC.</p> <p>The Board Charter addresses the Board's responsibility to encourage any communication regarding non-compliances and unethical behaviour within the Bank.</p>
3 (6) (iii)	Human Resources & Remuneration Committee
	<p>a. Remuneration Policy - Complied <input checked="" type="checkbox"/></p> <p>The Committee reviews all significant human resource policies and initiatives, salary structures, promotions and terms and conditions relating to staff at Senior Management Level with information and recommendations from the MD/CEO and the Chief Human Resource Officer.</p> <p>Separate Remuneration Policies for the Board of Directors, MD/CEO and all employees of the Bank including Key Management Personnel (KMP) are in place.</p> <p>b. Goals and Targets - Complied <input checked="" type="checkbox"/></p> <p>The goals and targets of the Board of Directors have been clearly set out and evaluated at the end of the year. The goals and targets for the MD/CEO and the senior leadership team are documented under the Balance Score Card system. Further, the goals and targets for 2020 for the MD/CEO and the senior leadership team was approved at a Board Meeting.</p> <p>c. Performance Evaluation- Complied <input checked="" type="checkbox"/></p> <p>The Directors are evaluated at the end of the year based on the goals and targets set out.</p> <p>The Committee deliberates upon and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the MD/CEO, COO, members of the Corporate Management and Senior Management staff, having evaluated their performance against the set goals and targets.</p> <p>d. Meetings - Complied <input checked="" type="checkbox"/></p> <p>The HRRC Committee met six (6) times during the year.</p> <p>The MD/CEO attends Human Resources & Remuneration Committee by invitation. The MD/CEO is not present at the time his performance is being discussed.</p>
3 (6) (iv)	Nomination Committee
	<p>a. Appointment of Directors, CEO and Key Management Personnel - Complied <input checked="" type="checkbox"/></p> <p>A formal procedure is in place to appoint new Directors, MD/CEO and Key Management Personnel. This procedure was further reviewed during 2019.</p> <p>b. Re-election of Directors - Complied <input checked="" type="checkbox"/></p> <p>The Committee considers and recommends the re-election of the Directors to the Board. The Committee also set criteria of the succession of the MD/CEO.</p> <p>c. Eligibility criteria for appointments to key managerial positions including CEO - Complied <input checked="" type="checkbox"/></p> <p>The Committee sets the eligibility criteria, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the MD/CEO.</p> <p>A Board approved procedure to appoint Directors, MD/CEO and Key Management Personnel is in place.</p>

Corporate Governance Report

Section	Principle, Compliance & Implementation
	<p>d. Fit & proper persons - Complied <input checked="" type="checkbox"/></p> <p>Each Director including the MD/CEO carries out an assessment of “fitness and propriety” to serve as a Director of the Bank. These declarations are reviewed by the Nomination Committee prior to submission to the Director Bank Supervision of the Central Bank of Sri Lanka.</p>
	<p>e. Succession plan and new expertise - Complied <input checked="" type="checkbox"/></p> <p>A Succession Planning Policy is in place for KMP and Directors. Each year, the Nomination Committee reviews the additional/ new expertise requirements and succession arrangements for Directors and KMP of the Bank, in line with the Strategic Plan.</p>
	<p>f. Composition of Nomination Committee - Complied <input checked="" type="checkbox"/></p> <p>The following Non-Executive Directors served on the Nomination Committee during 2020.</p> <p>Mr Dinesh Weerakkody - Independent Non-Executive Director (Chairman)</p> <p>Mr Rusi Captain - Non-Executive Director</p> <p>Mr Palitha Pelpola - Independent Non-Executive Director (Retired w.e.f. 27th February 2020)</p> <p>Dr Harsha Cabral - Independent Non-Executive Director (Appointed w.e.f. 23rd April 2020)</p>
3 (6) (v)	Board Integrated Risk Management Committee
	<p>a. Composition of Risk Management Committee - Complied <input checked="" type="checkbox"/></p> <p>The following personnel served on the Board Integrated Risk Management Committee during 2020.</p> <p>Mr Duliksha Soosaipillai - Independent Non-Executive Director (Chairman)</p> <p>Mr Jonathan Alles - Managing Director/CEO</p> <p>Mr Madu Ratnayake - Independent Non-Executive Director</p> <p>Mr Rusi Captain - Non-Executive Director</p> <p>Mr Damien Fernando - Non Executive Director (Appointed w.e.f. 23rd April 2020)</p> <p>Mr Ruwan Manatunga - CRO/DGM Risk</p> <p>Mr Janath Ilangantileke - AGM-Compliance</p> <p>Chairman of BAC, Chief Operating Officer, Chief Financial Officer/Head of Finance, Chief Technology & Digital Officer and Chief Internal Auditor attend Meetings on invitation. The Committee makes decisions on behalf of the Board within the framework of the authority and responsibility assigned.</p> <p>Terms of Reference of the Committee is described in the Committee Report, pages 115 to 118 of the IR.</p>
	<p>b. Risk Assessment - Complied <input checked="" type="checkbox"/></p> <p>Policies on Credit Risk Management, Market Risk Management and Operational Risk Management have been approved by the Committee, providing a framework for management and assessment of risks. In discharging its responsibilities further as per the mandate, periodic reports on pre-established risk indicators prepared by the Risk Department is submitted to the Committee for review. The risk management process followed by the subsidiary companies has also been reviewed by the BIRMC during 2020.</p>
	<p>c. Review of management level committees on risk - Complied <input checked="" type="checkbox"/></p> <p>The Committee reviews the reports of the Management Committees including the Asset and Liability Committee (ALCO) and the Executive Risk Management & Credit Policy Committee to assess their adequacy and effectiveness in addressing specific risks and managing the same within the quantitative and qualitative risk limits set in the Risk Appetite Statement approved by the Board.</p>
	<p>d. Corrective action to mitigate risks exceeding prudential levels - Complied <input checked="" type="checkbox"/></p> <p>The Risk Dashboards, prepared on a periodic basis, reflects the actual exposure levels under each risk category against the tolerance levels, decided by the Committee on the basis of the Bank’s policies and regulatory and supervisory requirements. The Committee has taken prompt corrective actions to mitigate the effects of risk indicators which have gone beyond the tolerance levels.</p>
	<p>e. Frequency of meetings - Complied <input checked="" type="checkbox"/></p> <p>The Committee has met eleven (11) times during the year. The agenda covers matters assessing all aspects of risk management including the updated business continuity plans.</p>
	<p>f. Actions against officers responsible for failure to identify specific risks or implement corrective action - Complied <input checked="" type="checkbox"/></p> <p>Such matters, if any, are referred to the Human Resources Division for necessary action.</p>

Section	Principle, Compliance & Implementation
	<p>g. Risk assessment report to Board - Complied <input checked="" type="checkbox"/></p> <p>Detailed reports of the BIRMC Meetings are submitted to the Board at the subsequent Board Meeting.</p>
	<p>h. Compliance Function - Complied <input checked="" type="checkbox"/></p> <p>The Bank has established a compliance function to assess and ensure the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations, headed by a dedicated Compliance Officer who reports to the BIRMC.</p>
3 (7)	Related Party Transactions
3 (7) (i)	<p>Avoid conflict of interest - Complied <input checked="" type="checkbox"/></p> <p>A Board approved policy to enhance the transparency of Related Party Transactions is in place.</p> <p>Steps have been taken by the Board to avoid any conflicts of interest, that may arise, in transacting with related parties as per the definition of this Direction. The Directors provide declarations to the Board of their outside business interests at appointment and quarterly thereafter. The Directors do not participate in, and excuse themselves from, the Meeting when the Board considers any matters in which lending to related entities are discussed and where a conflict in interest may arise.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in note 60 to the Financial Statements on 'Related Party Disclosures' on IR pages 317 to 324. Directors' interests in contracts which do not fall into the definition of Related Party Transactions as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements. The net accommodation granted to each category of related parties as a percentage of the Bank's regulatory capital is given under Rule 3 (8) (ii) (e).</p>
3 (7) (ii)	<p>Related Party Transactions covered by direction - Complied <input checked="" type="checkbox"/></p> <p>The Related Party Transactions Policy approved by the Board covers the following transactions:</p> <ol style="list-style-type: none"> The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation, The creation of any liabilities of the Bank in the form of deposits, borrowings and investments, The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank and 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.
3 (7) (iii)	<p>Prohibited transactions - Complied <input checked="" type="checkbox"/></p> <p>The Bank's Related Party Transactions Policy prohibits transactions which would grant related parties more favourable treatment than that accorded to other customers. These include the following:</p> <ol style="list-style-type: none"> Granting of "Total Net Accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital. Refer Rule 3 (8) (ii) (e) in CG&RR page 36. Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty. Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties. Providing services to or receiving services from a related-party without an evaluation procedure and Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.
3 (7) (iv)	<p>Granting accommodation Director or close relation to a Director - Complied <input checked="" type="checkbox"/></p> <p>A formal procedure is in place for granting accommodation to Directors or to close relatives of Directors. Such accommodation must be sanctioned at Board Meetings, by not less than 2/3 of the number of Directors excluding Director concerned, voting in favour of such accommodation or through circulation of papers which requires approval by all. The terms and conditions of the facility include a provision that it will be secured by such security as may from time to time be determined by the Monetary Board.</p>
3 (7) (v)	<p>Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank - Complied <input checked="" type="checkbox"/></p> <p>During the year, two (2) new Directors were appointed to the Board. The accommodation extended to one Director had been secured with approved security as at the Balance sheet date. The other Director has been informed of the requirements under the Banking Act for providing approved security to secure such accommodation. As at balance sheet date, accommodations extended to the said Director was within the exemption period of one year specified by CBSL.</p>

Corporate Governance Report

Section	Principle, Compliance & Implementation																		
3 (7) (vi)	<p>Favourable treatment or accommodation to Bank employees or their close relations - Complied <input checked="" type="checkbox"/></p> <p>No favourable treatment or accommodation is provided to Bank employees or their relatives, other than staff benefits.</p>																		
3 (7) (vii)	<p>Remittance of accommodations subject to Monetary Board approval - Complied <input checked="" type="checkbox"/></p> <p>No such situation has arisen during the year.</p>																		
3 (8)	Disclosures																		
3 (8) (i)	<p>Publish annual and quarterly Financial Statements - Complied <input checked="" type="checkbox"/></p> <p>Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards and have been published in the newspapers in all three (3) languages.</p>																		
3 (8) (ii)	<p>Disclosures in Annual Report</p> <p>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 - Complied <input checked="" type="checkbox"/></p> <p>Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the 'Statement of Directors' Responsibility for Financial Reporting' in IR page 144, 'Chief Executive Officer's and Chief Financial Officer's Statement of Responsibility' in IR page 143 and note 2.1.1 Statement of Compliance to the Financial Statements in IR page 159.</p> <p>b. Report by the Board on the Bank's internal control mechanism - Complied <input checked="" type="checkbox"/></p> <p>A confirmation by the Directors on the effectiveness of the internal control system over financial reporting is given under the Directors' Statement on Internal Control over Financial Reporting on pages 124 to 125 in IR.</p> <p>c. External Auditor's certification on the effectiveness of the internal control mechanism - Complied <input checked="" type="checkbox"/></p> <p>The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on "SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Controls" issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is given in IR page 126. The recommendations made by the Auditors where relevant, will be dealt with in 2020.</p> <p>d. Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank - Complied <input checked="" type="checkbox"/></p> <p>Profiles of Directors are given on pages 20 to 25 in IR.</p> <p>Directors' transactions with the Bank are disclosed in note 60 to the Financial Statements on pages 317 to 324 in IR.</p> <p>Remuneration paid by the Bank to the Board of Directors (which includes the remuneration of the Executive Director) is disclosed in note 18 to the Financial Statements in IR page 221.</p> <p>e. Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital - Complied <input checked="" type="checkbox"/></p> <p>The net accommodation granted to each category of related parties is given below as a percentage of the Bank's regulatory capital.</p> <table border="1"> <thead> <tr> <th>Category of Related Party Transactions</th> <th>Rs Mn</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Non-Executive Directors and their close family members</td> <td>4.1</td> <td>0.003</td> </tr> <tr> <td>Key Management Personnel* and their close family members</td> <td>228.9</td> <td>0.160</td> </tr> <tr> <td>Subsidiaries</td> <td>1,900.1</td> <td>1.327</td> </tr> <tr> <td>Joint Venture</td> <td>4,184.8</td> <td>2.923</td> </tr> <tr> <td>Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka</td> <td>49,406.3</td> <td>34.508</td> </tr> </tbody> </table> <p>* includes the Executive Directors</p>	Category of Related Party Transactions	Rs Mn	%	Non-Executive Directors and their close family members	4.1	0.003	Key Management Personnel* and their close family members	228.9	0.160	Subsidiaries	1,900.1	1.327	Joint Venture	4,184.8	2.923	Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	49,406.3	34.508
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Section	Principle, Compliance & Implementation										
	<p>f. Aggregate values of remuneration to, and transactions with Key Management Personnel - Complied <input checked="" type="checkbox"/></p> <p>The aggregate amount of remuneration paid during 2020 to Key Management Personnel and the transactions with Key Management Personnel are given below</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Remuneration and transactions with the Key Management Personnel</th> <th style="text-align: right;">%</th> </tr> </thead> <tbody> <tr> <td>Remuneration paid</td> <td style="text-align: right;">379.8</td> </tr> <tr> <td>Loans and Advances</td> <td style="text-align: right;">429.6</td> </tr> <tr> <td>Deposits</td> <td style="text-align: right;">864.2</td> </tr> <tr> <td>Investments</td> <td style="text-align: right;">86.1</td> </tr> </tbody> </table>	Remuneration and transactions with the Key Management Personnel	%	Remuneration paid	379.8	Loans and Advances	429.6	Deposits	864.2	Investments	86.1
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	<p>g. External Auditor's certification of compliance - Complied <input checked="" type="checkbox"/></p> <p>The External Auditors have performed procedures set out in Sri Lanka Standards on Related Service 4400 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4400), to meet the compliance requirement of the Corporate Governance Directive. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board. The recommendations made by the Auditors where relevant will be dealt with in 2021.</p>										
	<p>h. Report confirming compliance with prudential requirements, regulations, laws and internal controls - Complied <input checked="" type="checkbox"/></p> <p>There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.</p>										
	<p>i. Non-compliance Report - Complied <input checked="" type="checkbox"/></p> <p>There were no supervisory concern lapses in the Bank's Risk Management Systems or non-compliance with the said Direction that have been pointed out by the Director of the Banks Supervision Department of the CBSL, which has been directed to be disclosed to the public. Hence, there are no disclosures in this regard.</p>										
3 (9)	<p>Transitional and Other General Provisions</p> <p>Transitional and other general provisions - Complied <input checked="" type="checkbox"/></p> <p>Transitional provisions have been complied with.</p>										

Corporate Governance Report

APPENDIX II: COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA IN 2017

This table summarises compliance with the Code, providing details where it has not been explained in the Corporate Governance Report or Appendix I: Compliance with Banking Direction No.11 of 2007 on Corporate Governance.

Code Ref.	Requirement	Reference	Complied	Page Ref
A	Directors			
A.1	The Board	The Board A Robust Governance Structure An Effective Board	☑	CG&RR 4 CG&RR 8 CG&RR 10
A.1.1	Board Meetings	Board Meetings	☑	CG&RR 12
A.1.2	Roles & Responsibilities of the Board	An Effective Board - Board's Key Responsibilities	☑	CG&RR 10
A.1.3	Compliance Independent Professional Advice	Compliance Governance Access to Information	☑	CG&RR 20 CG&RR 16
A.1.4	Access to advice and services of Company Secretary Insurance Cover	Company Secretary The Bank has obtained adequate insurance cover for the Board, Directors and KMP in accordance with the recommendations of the Nominations Committee. The Directors and Officers Liability Policy is renewed annually.	☑	CG&RR 15
A.1.5	Independent Judgement	Independent Judgement	☑	CG&RR 21
A.1.6	Dedicate Adequate Time and Effort Board Pack	Board Sub-Committees Board Meetings	☑	CG&RR 14 CG&RR 12
A.1.7	Calls for Resolutions	Board Meetings - Resolutions	☑	CG&RR 13
A.1.8	Board Induction and Training Annual Assessment of Training Needs	Informed Decision Making - Knowledge Development Board Appraisal	☑	CG&RR 17 CG&RR 15
A.2	Chairman & Chief Executive Officer	Segregation of Roles and Responsibilities Balance of Power	☑	CG&RR 18 CG&RR 21
A.3.	Chairman's Role in Preserving Good Corporate Governance	Segregation of Roles and Responsibilities	☑	CG&RR 18
A.4	Availability of Financial Acumen	An Effective Board - Possess Financial Acumen	☑	CG&RR 10
A.5	Board Balance	An Effective Board Board Meetings - Meetings, Minutes Alternate Directors are not executives of the Bank.	☑	CG&RR 10 CG&RR 13
A.6.	Provision of Appropriate and Timely Information	Informed Decision Making - Supply of Information Board Meetings - Board Agenda, Minutes	☑	CG&RR 16 CG&RR 13
A.7	Appointments to the Board	Board Invigoration Nomination Committee Report	☑	CG&RR 11 IR 113-114
A.8	Re-election of Directors	Board Invigoration	☑	CG&RR 11
A.9	Appraisal of Board & Sub-Committees -Review at Re-Election	Board Appraisal Board Invigoration	☑	CG&RR 15 CG&RR 11
A.10	Annual Report to Disclose Specified Information Regarding Directors	Profiles Directorships in Other Companies Board Sub-Committees Attendance at Meetings	☑	IR 20-25 CG&RR 22 CG&RR 14 CG&RR 12

Code Ref.	Requirement	Reference	Complied	Page Ref
A.11	Annual appraisal of the CEO	Corporate Management	<input checked="" type="checkbox"/>	CG&RR 16
B.	Directors' Remuneration			
B.1	Directors' & Executive Remuneration – HRRC	Fair and Responsible Remuneration Board Sub-Committees	<input checked="" type="checkbox"/>	CG&RR 23 CG&RR 14
B.2	Level & Make up of Remuneration	Fair and Responsible Remuneration	<input checked="" type="checkbox"/>	CG&RR 23
B.3	Disclosures related to Remuneration in Annual Report	Financial Statements HRRC report	<input checked="" type="checkbox"/>	IR 149-330 IR 111-112
C.	Relations with Shareholders			
C.1	Constructive use of the AGM & Other General Meetings	The Annual General Meeting (AGM)	<input checked="" type="checkbox"/>	CG&RR 25
C.2	Communication with shareholders	Stakeholder Engagement - Shareholders, Communication Company Secretary	<input checked="" type="checkbox"/>	CG&RR 24 CG&RR 15
C.3	Disclosure of Major and Material Transactions	There were no such major or material transactions during the year.	<input checked="" type="checkbox"/>	
D.	Accountability & Audit			
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects	Key Board Responsibilities Annual Report and Interim Financials Chief Executive Officer's and Chief Financial Officer's Responsibility Statement Annual report of the Board of Directors on the affairs of the Bank Directors Responsibility for Financial Reporting Directors' Statement on Internal Control over Financial Reporting Management Discussion and Analysis Statement of going concern of the Bank on note 2.1.5, to the Financial Statements Related Party Transactions (i) Note 60 in the Financial Statements (ii) Report of the RPTRC In the unlikely event of the net assets of the Bank falling below 50% of Shareholders Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.	<input checked="" type="checkbox"/>	CG&RR 10 CG&RR 24 IR 143 IR 102-110 IR 144 IR 124-125 IR 45-101 IR 160 IR 317-324 IR 122-123
D.2	Process of Risk Management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	Risk Management Internal Controls Risk & Capital Review Directors' Statement on Internal Control over Financial Reporting	<input checked="" type="checkbox"/>	CG&RR 19 CG&RR 19 CG&RR 41-87 IR 124-125
D.3	Audit Committee	Board Audit Committee Report	<input checked="" type="checkbox"/>	IR 119-121
D.4	Related Party Transactions Review Committee	Board Related Party Transactions Review Committee report	<input checked="" type="checkbox"/>	IR 122-123

Corporate Governance Report

Code Ref.	Requirement	Reference	Complied	Page Ref
D.5	Code of Conduct and Ethics	Conflict of Interest	☑	CG&RR 22
		Code of Conduct and Ethics		CG&RR 21
		Chairman's Message		CG&RR 2-3
		Business Continuity Planning		CG&RR 25
D.6	Corporate Governance Disclosures	Corporate Governance Report	☑	CG&RR 2-40
E/F	Institutional and other Investors			
	Encourage voting at AGM – institutional and other investors	Investors	☑	CG&RR 24
		The Annual General Meeting		CG&RR 25
G.	Internet of Things & Cybersecurity			
G.1	Identify connectivity and related cyber risks	Information Technology & Security Governance	☑	CG&RR 20
G.2	Appoint a CISO and allocate budget to implement a cybersecurity policy	Information Technology & Security Governance	☑	CG&RR 20
G.3	Include cybersecurity on Board agenda	Information Technology & Security Governance	☑	CG&RR 20
		Information Technology & Security Governance	☑	CG&RR 20
G.5	Disclosures in Annual Report	Information Technology & Security Governance	☑	CG&RR 20
H.	Environment, Society & Governance			
H.1	ESG Reporting	Embedding Environment, Social and Governance (ESG) considerations	☑	CG&RR 24

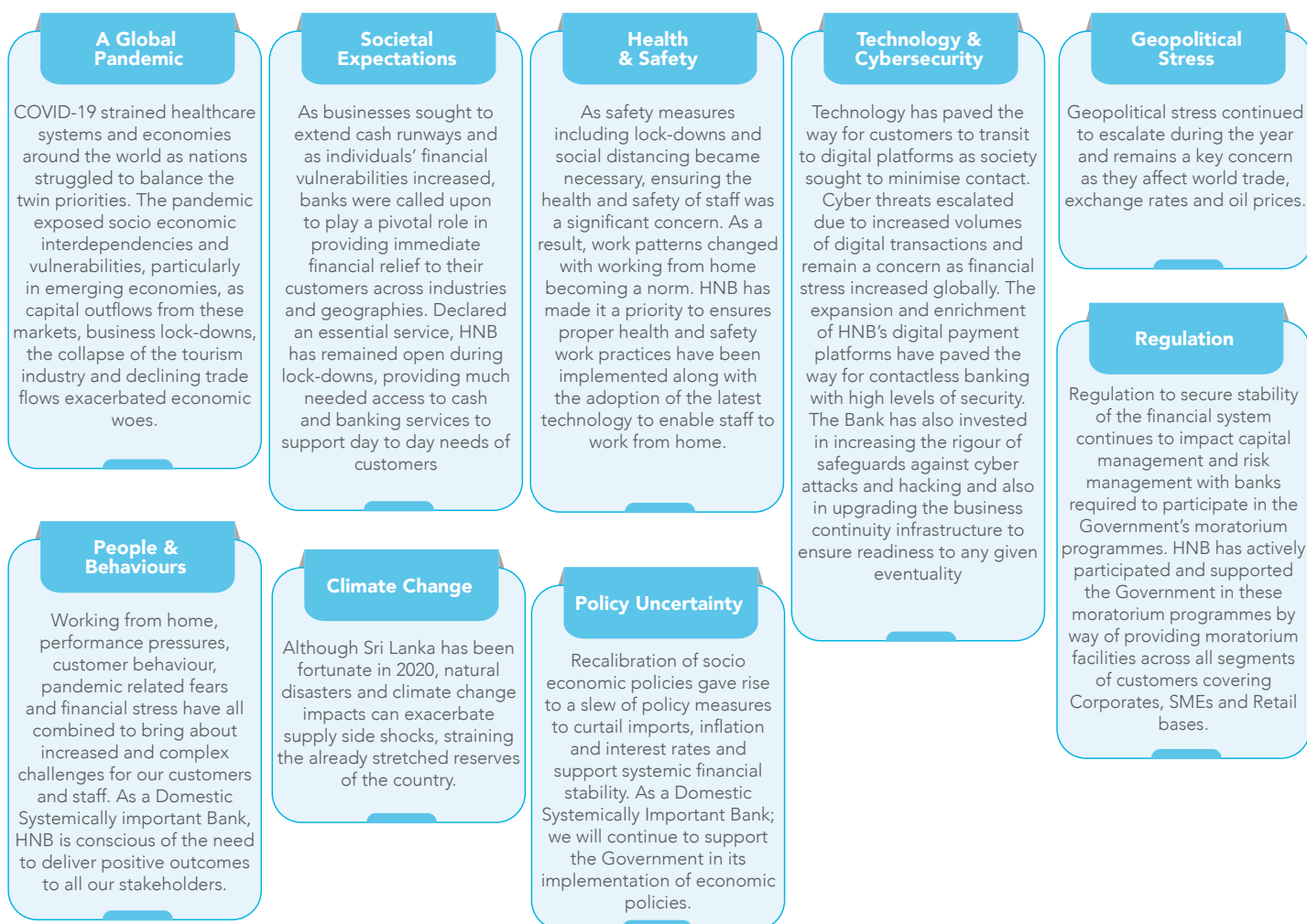
Risk & Capital Review

Since the outbreak of the COVID-19 global pandemic in early 2020, the risk landscape has changed dramatically as a result of extreme measures necessitated to minimise the spread of the virus. Border closures, lockdowns, isolations and quarantine measures gave rise to unprecedented levels of business disruption, changing how we live, learn, work and transact. It also exposed the cracks and vulnerabilities of enterprises across industry sectors and sizes, resulting in loss of livelihoods and bankruptcies as trade flows, capital flows and cash flow dynamics changed well established business cycles and patterns. Globally, Governments stepped in to minimise the impact resulting from the economic, health and potential humanitarian crises that continue to beleaguer people, businesses and nations. Record breaking progress on vaccines and therapies are expected to ease the conditions in 2021 although socio economic recovery to pre COVID-19 levels is expected to take two to four years or more.

Geopolitical stress continues to be on risk radars along with technological disruptions and social stress factors. Credit risk was exacerbated by the pandemic in 2020 resulting in a record number of re-scheduling of facilities as businesses experienced extreme cash flow constraints. Operational risk factors have heightened due to staff health and safety concerns including changes in the work environment. Cyber risks also remain elevated due to increased dependency on digital networks. Market risk factors too remain highly volatile as sovereign risks, trade imbalances and geopolitical dynamics escalated during the year. The Bank's Risk Management structures, policy frameworks and operational processes and work culture have been aligned to respond to all of the above challenges and this report seeks to provide an overview of measures taken by the Bank to safeguard and support its business operations and all stakeholders.

TOP RISKS 2020

The Bank's top and emerging risks are those factors that shape the risk profile of the financial industry and the Bank itself. Many of these factors are linked and impact each other reflecting the complexities of interdependencies and potential vulnerabilities.










Risk & Capital Review

OUR MATERIAL RISKS

Our material risks are summarised below in Figure 1: Material Risks, and have been signposted to the respective sections for the purpose of providing greater information and analysis.

Figure 1: Material Risks

	 Credit Risk	 Operational Risk	 Information & Cyber Risk
Definition	The risk of losses due to one or more counterparties failing to meet all or part of their contractual obligations towards the Bank in accordance with agreed terms.	The risk of loss due to inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.	Risk of financial loss, disruption or damage to the reputation of the Bank from any sort of compromise of information to unintended parties and unauthorised access to our systems or data/information. It also arises from failure of the Bank's information technology systems.
Drivers	Arises from concentration of portfolio by product, business sector, geography etc., deterioration of economic conditions, rigour of credit evaluation and monitoring processes, Bank's credit risk appetite, internal risk goals and tolerance level, expectation on government concessions to postpone repayment.	Arises from day-to-day operations and external events.	Arises from the integration of information technology into all aspects of banking operations which facilitate convenience, scalability and capability but also makes the Bank vulnerable to unauthorised access to systems and information assets.
Measured	Based on credit exposure, Probability of Default (PD), Expected Losses, Loss Given Default (LGD) and recovery rates, NPA ratios, stress testing on concentration, large borrower default, increase in provision etc. Additional capital under Pillar 2 is assessed by ICAAP as per Basel III.	Measured using operational losses, loss events/near misses, key risk indicators, overall risk grid matrix, risk ranking and prioritising and risk heat map. Capital is allocated under CAR as per Basel III.	Reference to cyber risk loss limits and cyber risk matrix, hacking attempts for a month.
Monitored	By Credit Risk Vertical using the Credit Risk dashboard which provides metrics on several parameters including analysis of arrears, collateral, concentration etc. submitted to BIRMC, BCC and executive committees.	By Operational Risk management vertical under the guidance of ORSC with input from business units through Risk and Control Self Assessments. Operational Risk monthly dashboards are submitted to ERM, BIRMC and Board.	By Information and cybersecurity risk vertical through a cyber risk dashboard presented to BIRMC and ERMCP monthly, Monitoring of Privileged User Activities on a periodic basis and reported to BIRMC.
Managed	In accordance with Credit Risk management policy suite supported by dedicated resources for monitoring of arrears, strong documentation, and a proactive approach to resolving issues. Directions issued by CBSL for extending moratoria were used as the basis for rescheduling of facilities.	Managed through a sound Operational Risk Management Framework by the ORSC with the participation of all business/support units, availability of comprehensive Business Continuity Plan (BCP) covering all mission critical units and BCP drills conducted periodically.	Through the Bank's action plan for digital resilience, awareness programmes for staff, business continuity plans, use of physical controls, technical and logical access and administrative controls.
Key Information	Assessment: High Trend:  Page 56	Assessment: High Trend:  Page 63	Assessment: High Trend:  Page 66

 Liquidity Risk	 Market Risk	 Strategic Risk	 Reputation Risk
<p>The risk that the Bank is unable to meet its debt obligations associated due to lack of funds or having to meet these obligations at excessive cost.</p>	<p>The risk that movements in market factors could reduce our income or value of portfolios.</p>	<p>Refers to uncertainties and untapped opportunities embedded in our strategic intent and how well they are executed.</p>	<p>The loss resulting from damages to a firm's reputation, in lost revenue, increased operating, capital or regulatory costs or destruction of shareholder value.</p>
<p>Arises from mismatches in cash flow due to potential short-term cash demands placed upon the Bank, by depositors, borrowers, the Bank's own borrowing activity, trading activities and counterparty interactions.</p>	<p>Arises from movement in market factors such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices.</p>	<p>Arises from external developments in technology, products and business models.</p>	<p>Arises from events that could adversely impact public perception of the Bank as a responsible corporate citizen.</p>
<p>Measured using a range of metrics including regulatory limits such as the LCR, internal models and balance sheet based measures and stress testing on interest rate sensitivity, probabilistic analysis and NII analysis.</p>	<p>Measured using Value at Risk, Sensitivity analysis and stress testing on open positions, mark to market on daily basis to identify the trading book position. Capital is allocated under CAR as per Basel III.</p>	<p>Measured using a scorecard approach to quantify strategic risk under the Basel III Pillar 2 calculation.</p>	<p>Measured using a scorecard approach by assessing underlying risk drivers of reputational risk due to qualitative nature of the risk.</p>
<p>Monitored by ALCO and Treasury Middle Office (TMO) using a matrix of regulatory and prudential limits and gaps using both stock and flow approaches, dashboards submitted to ALCO and BIRMC and Board.</p>	<p>Monitored by ALCO using Market Risk dashboards supported by an independent Treasury Middle Office (TMO) which reports to CRO. Internal and regulatory limits and exceptions are immediately reported to ALCO</p>	<p>Monitored by the Integrated Risk Management unit through a scorecard and evaluated for any additional capital requirement through the ICAAP submission to Board annually.</p>	<p>Monitored by the Integrated Risk Management unit through a scorecard and evaluated for any additional capital requirement through the ICAAP submission to Board annually.</p>
<p>Managed through a strong liquidity risk management Framework which includes contingency plans with both contracted and un-contracted liquidity positions with liquidity buffers and liquidity ladders.</p>	<p>Managed by Treasury within a robust market risk management framework, market risk limits, through diversification and hedging strategies.</p>	<p>Managed at corporate management and Board level with reference to market developments and potential disruptions to current business model assessments.</p>	<p>Managed by setting the tone at the top and reinforcing its core values and purpose. A Reputation Risk Task Force was established as a sub-committee of ORSC to manage risk in case of trigger events.</p>
<p>Assessment: Moderate Trend: → Page 75</p>	<p>Assessment: Moderate Trend: ↑ Page 69</p>	<p>Assessment: Moderate Trend: → Page 79</p>	<p>Assessment: Moderate Trend: → Page 79</p>

Risk & Capital Review

ENTERPRISE RISK GOVERNANCE

The Bank's risk governance structure ensures that, roles and responsibilities for risk management are clearly defined and gives due attention to key aspects of risk management, facilitating high levels of specialisation in these identified areas. The Board has the ultimate responsibility for managing risk and is assisted by the Board Integrated Risk Management Committee (BIRMC) who has oversight responsibility

for risk management while the executive functions are responsible for the effective implementation of the risk management framework. Executive committees serve to draw on the collective experience and wisdom of corporate and senior management teams and play a key role in the delegation of authority as well.

The Bank's risk governance structure is based on the Three Lines of Defence model in line with best practice.

Three Lines of Defence



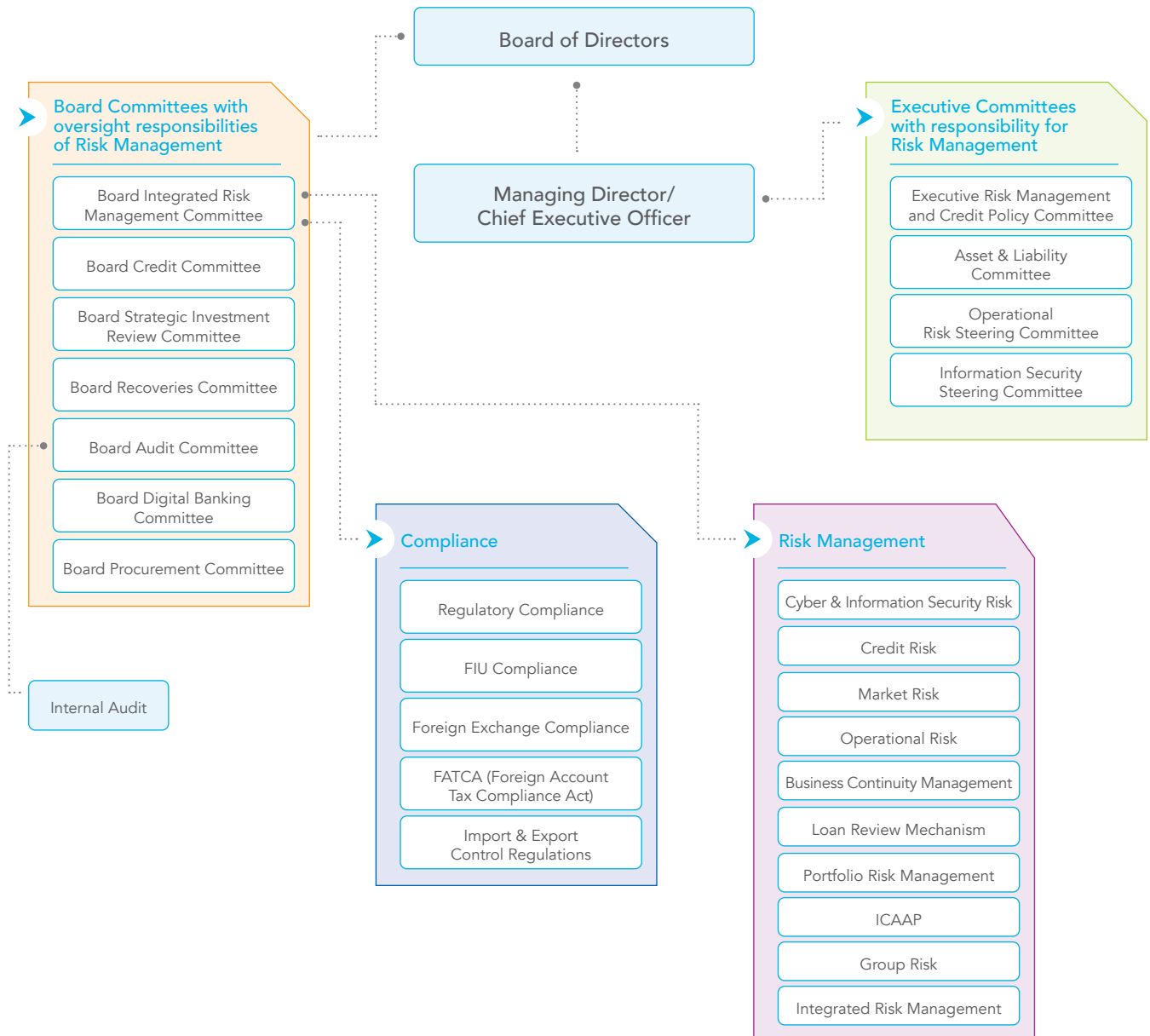
During the year, a number of initiatives were rolled out to expand the supervision of Group subsidiary Risk Management Framework and work practises. Additionally, the appointment of a separate Chief Information Security Officer further strengthened the Information Security

governance as well as the overall Information Security framework of the Bank.

Additionally, the refinement of the Branch Operating Model (BOM) initially implemented in 2019 has further reinforced the first line of defence with clear segregation of relationship

management and operational processing at branches with higher levels of specialisation throughout the Branch workflow processes.

Figure 2: Risk Governance Structure of the Bank



Risk & Capital Review

Figure 3: Roles & Responsibilities of Committees in Relation to Risk Management

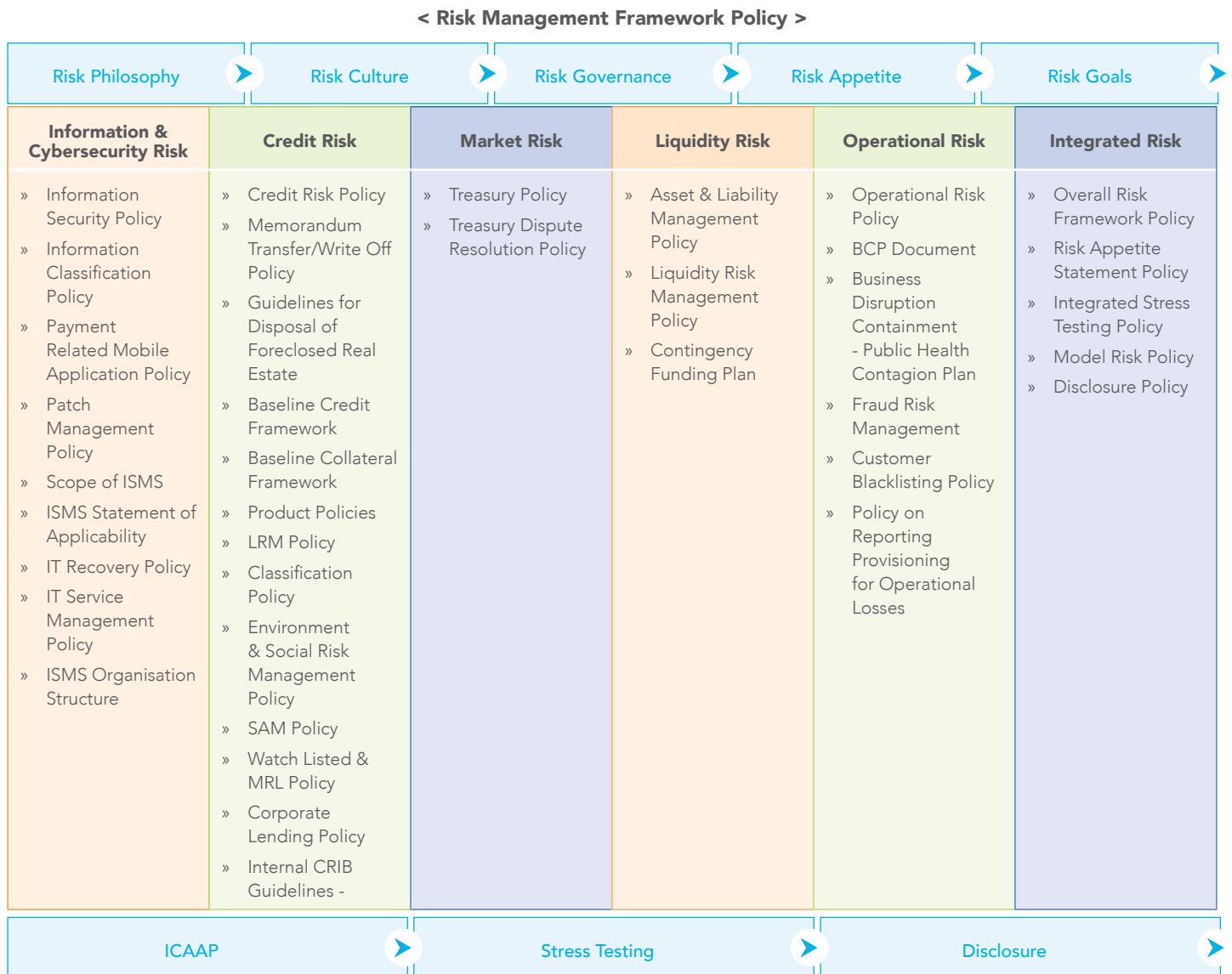
Board Committees	Role of Committee in Relation to Risk Management
Board Integrated Risk Management Committee (BIRMC)	This Committee has oversight responsibility for Risk Management and makes recommendations to the Board on developing and implementing Risk Management Policies, setting the Bank's Risk Appetite and monitoring material risks of the Bank through risk dashboards. The Chief Risk Officer and Chief Compliance Officer have a direct technical reporting line to the BIRMC.
Board Credit Committee (BCC)	BCC has oversight responsibility for the management of Credit and approves credit granted above a specified exposure threshold. BCC reviews the Credit Risk dashboards and makes recommendations on areas including credit limits, sector-wise exposure, sector risks, or any other related areas concerning Credit Risk Management policies and processes.
Board Recoveries Committee (BRC)	This Committee of the Board is set up to strengthen the delinquent loan recovery function of the Bank. BRC has oversight responsibility for recoveries of advances and provides strategic directions to ensure speedy recovery of defaulting and stressed facilities.
Board Audit Committee (BAC)	BAC has responsibility for financial reporting risk and the effective operation of internal controls. The Bank's Chief Internal Auditor has a direct technical reporting line to the BAC. This Committee plays a key role in the implementation of the Bank's risk management and compliance policy by the monitoring of key controls.
Board Strategic Investment Review Committee (BSIRC)	This Committee sets the overall business strategy of the Bank and ensures there is a congruence in the Bank's strategic direction, goals and KPIs and the Board's Risk Appetite.
Board Digital Banking Committee (BDBC)	This Committee has oversight responsibilities mainly in relation to the Bank's implementation of its proposed Digital Banking Platform and Products. The Committee reviews key technology risks and associated strategies including overall risk profile of the Bank's digital proposition and is responsible for identifying and monitoring of key risks arising from the Digital area and refers such risks to the Risk Department and Compliance Department for advice and action.
Board Procurement & Asset Disposal Committee	This Committee is primarily responsible for assessing proposals submitted by the management for procurement of assets or disposal of assets/ disposal properties of the Bank and ensures transparency in procurement/disposal processes and good practices.

Executive Committees	Role of Committee in Relation to Risk Management
Executive Risk Management and Credit Policy Committee (ERMPCPC)	ERMPCPC is the apex executive committee for risk management and supports BIRMC and BCC in effective implementation of the policy framework in monitoring and managing risk. This key committee is chaired by MD/CEO and comprises heads of key business lines and operating units of the Bank.
Asset & Liability Committee (ALCO)	ALCO plays a key role in managing liquidity risk and financial stability of the Bank. It reviews liquidity forecasts to manage gaps, adequacy of contingency funding plans and stress testing results in achieving its objectives. The Committee also determines the ideal structure of the Bank's balance sheet to provide the optimal profitability while minimising potential risks.
Operational Risk Steering Committee (ORSC)	The key activity of this Committee is to critically assess operational processes and internal controls with a view to ensuring operational losses are minimised and that a compliance and adherence culture is instilled amongst the Bank staff. This Committee is chaired by COO and comprises of DGM-Risk/CRO, Heads of Operations, Audit, Compliance, IT, HR and Network Management.
Information Security Steering Committee	ISSC is responsible for assessing and making recommendations on Bank Wide Information Security and Cybersecurity initiative to manage relevant risk exposures. The Committee is chaired by MD/CEO and comprises of representatives from corporate business, IT, Audit, Compliance and Support Functions.

RISK MANAGEMENT POLICY FRAMEWORK

The Bank's underlying premise for managing risks is to ensure sustainable growth in economic value for the Bank and all of its stakeholders. Stakeholders include shareholders, customers, suppliers, employees, investors, the general public and the CBSL. HNB being a "Systemically Important Bank" (SIB) in Sri Lanka, it is imperative it manages risks with comprehensiveness to ensure that the Bank creates value to the economy and eco systems that it operates in. The Bank's risk management framework aims to establish a process to effectively identify, measure, manage, monitor and control risks faced by the Bank and to determine its Risk Appetite in line with the overall business strategy of the Bank. The Board approved risk management policies provide guidance to the management on implementing processes within the Bank.

Figure 4: Risk Management Policy Framework



New policies introduced during 2020 for risk management were as follows:

- | | | |
|---------------------------------|--------------------------------|--|
| » Baseline Credit Framework | » Microfinance Policy | » Policy on Reporting Provisioning for Operational Losses |
| » Baseline Collateral Framework | » Educational Loan Policy | » Business Disruption Containment - Public Health Contagion Plan |
| » Internal CRIB Guidelines | » Fraud Risk Management Policy | |
| » Corporate Lending Policy | » Customer Blacklisting Policy | |

Risk & Capital Review

RISK CULTURE

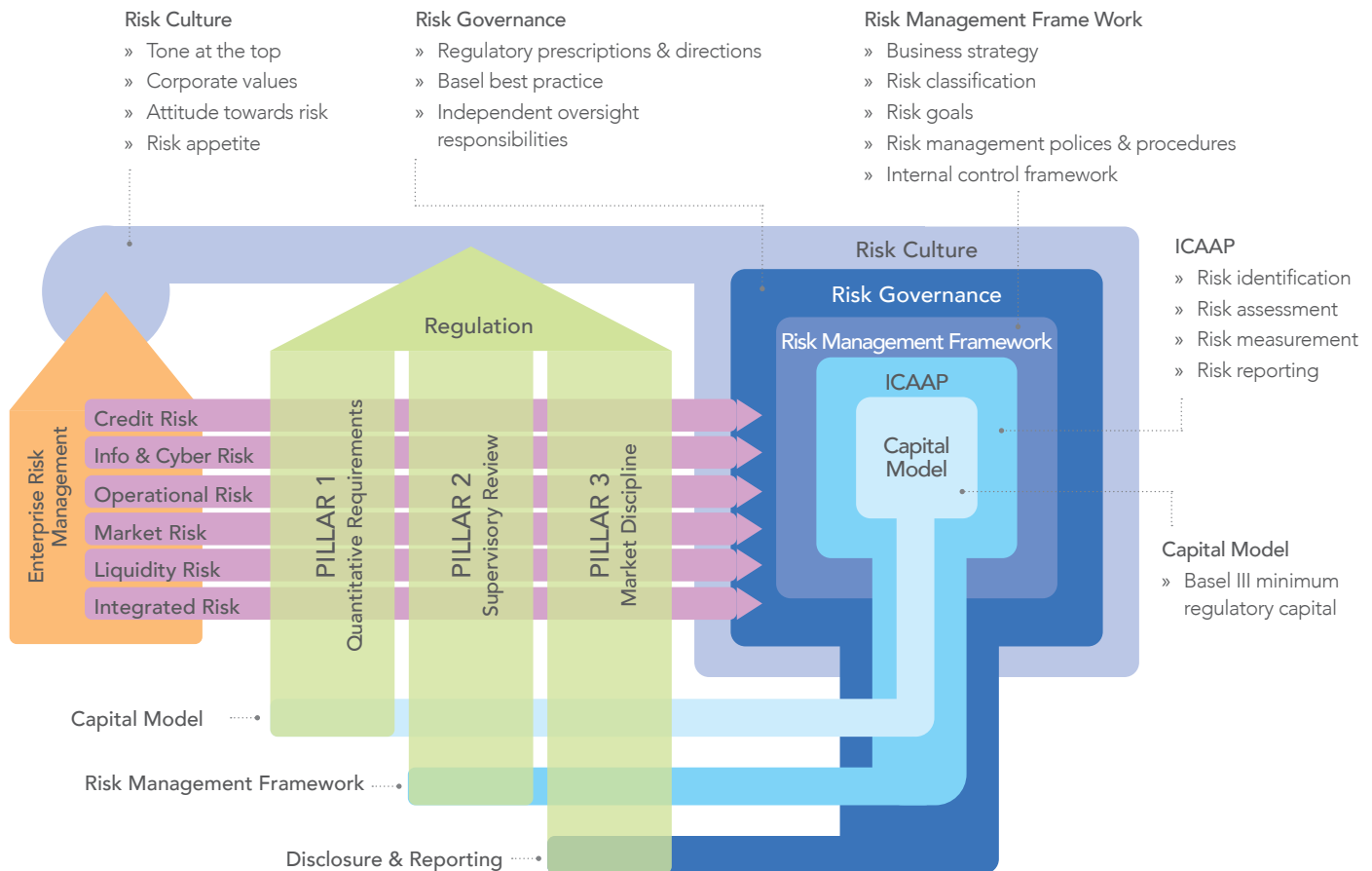
A strong risk culture is key to effective risk management of the Bank. High levels of technical proficiency, adherence to defined processes and increased levels of risk awareness reinforce the formal components of our risk management framework set out in Figure 4 above. Upskilling of staff and capacity building, a code of conduct applicable to all

employees and a remuneration framework that rewards a balanced approach to risk support the right behaviours and shapes the Bank's risk culture. Collectively, these mechanisms emphasise the Bank's attitudes, norms, and behaviours in relation to risk awareness, acceptance and management which is the key to sustainable growth and profitability.

Figure 5: Key Determinants of Risk Culture



Figure 6: HNB Philosophy in Managing Risk



RISK APPETITE

The Risk Appetite Statement sets targets for quantitative elements such as capital adequacy, profitability and efficiency, concentration limits, liquidity positioning and limits for other risk types. Limits are set considering economic & market conditions and familiarity of business.

The Risk Appetite Framework (RAF) of the Bank aims to achieve the following objectives:

- » Link the Bank's business strategy, products and processes with associated risk levels
- » Design Risk Appetite and thresholds in line with the Risk Management Framework of the Bank
- » Enable the Senior Management and the Board of Directors (BOD) to effectively monitor the material risks across various business units of the Bank, and take corrective actions, as and when required
- » Compliance to regulatory principles on Risk Appetite requirements

STRESS TESTING

Stress Testing assesses the resilience of the Bank to movements in financial variables, which could impact the Bank's profitability, liquidity and capital adequacy. The Bank's Stress testing framework complies with the guidelines issued by CBSL and the Basel Committee, encompassing all significant and high impact risk areas of the Bank. Appropriate stress scenario development methodologies applicable to each risk area are clearly specified. The identification of key macroeconomic factors impacting the Bank, methodologies for assessing stress conditions and the feedback from key business drivers support this key process. Key principles driving the stress testing framework are as follows:

- » Stress testing framework is based on an effective governance structure, with clearly documented responsibilities across the first line, second line and third line of defence
- » The stress testing framework is a key risk management tool within the Bank employed to ensure readiness of the Bank to face adverse events and drive business strategies and decisions

- » The stress testing framework aims to capture material and relevant risks that apply across its business and apply stresses that are sufficiently severe
- » The models and methodologies to assess the impact of scenarios and sensitivities need to be fit for purpose, and are regularly reviewed to ensure their effectiveness and relevance
- » The stress test framework, models, and results are subject to challenge and regular review

The main object of stress testing is to assess the impact of adverse scenarios on the Bank's Capital Adequacy Ratio (CAR). Once all the Stress Tests for various risk factors are performed, the net impact on the Bank's CAR is assessed.

Results of stress testing are reviewed by BIRMC of the Bank within the defined risk appetite and these are also communicated to the Board. Certain trigger actions are predetermined at defined risk levels and action taken in this manner are also communicated to BIRMC and to the Board.

GROUP RISK

The Bank has four direct subsidiaries and managing risks arising from the operations of these entities is necessary to ensure the resilience of the HNB Group. The Integrated Risk Management Division of the Risk Management function has overall responsibility for managing Group Risk and receives regular risk reports from the subsidiaries. Two direct subsidiaries are public listed companies and comply with the regulatory reporting requirements of the Colombo Stock Exchange. Additionally, HNB Assurance PLC and HNB General Insurance Ltd., are regulated by the Insurance Regulatory Commission of Sri Lanka and HNB Finance PLC is regulated by CBSL and comply with the requirements of their respective legal enactments and other regulatory directions and guidelines. The two insurance companies and HNB Finance PLC have their own dedicated risk management functions which liaise with the Bank's IRM division, providing relevant information to facilitate monitoring of risks stemming from the operation of these subsidiaries.

In addition to having senior officials of the Bank on the Board of the subsidiaries, IRM also receives the Regulatory Inspection Reports and Management Letters of the Group entities to ascertain potential areas of risk concern and follow up on agreed remedial action to strengthen the risk management environment.

STRENGTHENING RISK MANAGEMENT IN 2020

Risk management is a dynamic function and also an area that is evolving rapidly in response to increasing systemic financial and operational risks. Technological advances have supported progress with an array of tools and dashboards that have increased the capabilities and insights to support this core function. The Bank continues to embrace these advancements, strengthening its risk management capability and overall resilience.

Risk & Capital Review

Figure 7: Key Initiatives of the Bank to Strengthen Risk Management in 2020



PLANS FOR 2021

While global economies are believed to have commenced a long and slow ascent towards normalisation, individuals, entities and countries are more vulnerable due to the stresses of 2020 risk overhang. Forecasts for 2021 reflect positive growth supported by low interest rates, a lower base and prospects of multiple vaccines and therapies to curtail the contagion. Risk levels and vulnerabilities remain elevated as the capacity to absorb shocks is diminished with all requiring time to rebuild resilience.

Moratoria given in 2020 were extended till March 2021 and this will be a key concern. Market indicators such as cheque returns, and Non-Performing loans indicate elevated credit risk levels and the Banking

industry is working with the regulator to find solutions that balance the interests of the primary stakeholders.

The Bank continues to invest in enhancing its risk management capabilities to support adroit navigation through the uncertainty and volatility forecast for 2021. As we balance diverse priorities, resources including the highly specialised skills required, have been aligned to deliver the forecasts and insights we need. Consequently, some projects have been deferred to allow for additional demands on measuring, monitoring and managing risks on existing platforms. Additionally, we have assessed our own capabilities and velocity of risks to prioritise and invest. Those projects that have been selected for implementation in 2021 are set out below.

Figure 8: Planned Initiatives to Strengthen Risk Management in 2021

INTEGRATED RISK		
<ul style="list-style-type: none"> » Review of the Bank's ICAAP as well as the Risk Appetite Statement and Risk Goals for 2021 based on the embedded and emerging risks from COVID-19 » Enhance country risk assessments with pandemic management ratings and other COVID-19 related Credit Risk metrics 		
CREDIT RISK	OPERATIONAL RISK	MARKET RISK
<ul style="list-style-type: none"> » Review and update Bank's Credit and Collateral Framework policies including lending policies across Corporate Banking, SME, Microfinance, Retail Banking to be in line with pandemic based market dynamics, as evidenced » Quarterly review of the Credit Approval Structure against new NPAs, LRMs, Moratorium changes, Regulatory changes and other emerging credit risks to the loan book. » Half yearly review of guidelines on Special Asset Management (SAM) Unit based on emerging portfolio risks, NPA profiles, NPA migration, Legal Recovery challenges and other emerging credit risks to the NPA, Watch list and MRL book » LRM findings based quarterly Review of guidelines for tagging delinquent customers into Watch Listing and Management Review Listing (MRL) to identify distress accounts at an early stage and support taking appropriate action to rehabilitate and risk manage the Bank's high risk credit exposures » Review top group exposures of the Bank on a quarterly basis and assess concessions granted due to COVID-19 Pandemic and any vulnerability to increases in Credit Risk » Periodically review COVID-19 affected industries to assess the impact to the Bank's lending portfolio » Monitor the new TOD management process i.e. identifying and reporting exceptions to the new TOD approval guidelines » Development of a "Legal action follow-up model", collect information and manage all related information in a central location to generate MI for Board and Board Sub-Committees » Development of forward looking macroeconomic models for deriving of risk estimates (PD, LGD & EAD) for IFRS 9 computations in the context of emerging risks from COVID and the probability of such risks persisting over the next three years or so 	<ul style="list-style-type: none"> » Review Business Continuity Policy to incorporate COVID related risks - both embedded and emerging » Enhance monitoring of Operational resilience in all DR Drills and escalation of deficits in operational resiliency in DR Drills » Ensure proper processes and controls are in place to carry out and supervise suspense account reconciliation, including a governance framework on RPAs and Bots used » Identify risk vulnerabilities of outsourced business activities and formulate a more stringent / focused outsourced business activity review process. » Carry out Risk & Control Self-Assessment (RCSA) across of the Branch Network » Increase vigilance over operational risk due to pandemic and increased global threat levels » Implement Advanced Approach for capital allocation for operational risk in line with Basel III 	<ul style="list-style-type: none"> » Review the ALM policy with improved risk metrics - Delta limits for investment in securities, Liquidity gap limits for banking book » Implement L1 level controls of cut loss and take profit limits at ISIN level for all Treasury desk activities » Review Counterparty and Treasury limits to capture COVID-19 risk challenges » Increase review frequency of Treasury limits post COVID-19 pandemic outbreak » Strengthen controls over exposures to securities markets with the introduction of caps based on the total asset book, measurement of volatility, SWAPs

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CYBER RISK

- » Review policies on Information and Cybersecurity to deal with emerging risks, and risk assess the Banks Information and Cybersecurity metrics against embedded and emerging risks to ensure that they are in line with industry best practises
- » Review external consultant's engagement in implementing an ITGC governance control and best practices
- » Ensure Guidelines for Preventing & Detecting Supply Chain Related Cyber Attacks is fully complied with
- » 1Q21 implementation of EDR, towards detecting and blocking anomalous behaviour in the HNB's IT universe
- » Risk assess the project on reviewing user limits assigned to core banking users and ensure the implementation of recommendations
- » Risk assess Privilege Access as part of the L2 process for activities on Databases, Operating Systems and Applications of critical systems and risk assess the Banks Information and Cybersecurity metrics against embedded and emerging risks
- » Implement a Digital Right Management (DRM) and End Point Detection & Response (EDR) to enhance security of data transfers and traffic

COMPLIANCE RISK

- » Enhance rigour in monitoring of FIU compliance requirements using Data Analytics/BOTS to identify trends and patterns of alerts generated by the AML system, thereby reducing false positives and manual reviews.
- » Heightened state of environmental alert to cyber crimes from regulators and other institutional requirements on the use of Digital Channels and evolving trends used by criminals to carry out Money Laundering related transactions.
- » Successful implementation by Operations Department of taking a photograph at the time of on boarding new customers, to reduce non-compliant/fraudulent account opening
- » Successful roll out of the ITRS (International Transaction Reporting System) initiated by the CBSL to automate various International, Trade and Treasury related reports.
- » Enabling the virtual onboarding of customers as per FIU/CBSL guidelines and to have an MOU with the Registrar of Persons to access the NIC Database
- » Purpose of Deposits to be captured for Deposits above Rs. 50,000/- and OTP to be generated for Cash Deposit Machines (CDM)/ Cash Recycler Machines (CRM) deposits to identify the depositors.
- » Capturing NIC/Phone Number for all deposits made through CRMs as per FIU instructions.
- » Retaining of CCTV images for 03 months to support investigations by law enforcement authorities.
- » Increased coverage and frequency of Compliance Audits - Offsite/ Onsite in order to cover all branches and critical Head Office departments
- » Establishing a credible overview of compliance at the Bank's subsidiaries.
- » Commencement of the Compliance Certification course conducted by the Compliance Department for identified Head Office Departments such as Operations, Treasury, Trade & Custody and key branches

INTEGRATED RISK MANAGEMENT & CAPITAL MANAGEMENT

Regulatory Capital

ICAAP is managed in compliance with the Banking Act Direction No. 1 of 2016 Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, which specifies the minimum capital requirement and buffers in respect of total risk weighted assets. CBSL issued three directions on reclassification of Domestic Systemically Important Banks (D-SIB) and revision to the compliance requirement of Basel III direction in 2019 amending the composition of D-SIBs and

revised the requirement of applicable Higher Loss Absorbency (HLA). Accordingly, HNB is required to maintain a CET1 1.0% of Risk-Weighted Assets as HLA as opposed to 1.5% as per Direction No 01 of 2016. As one of the measures to increase liquidity of the Banking sector in the aftermath of the outbreak of COVID-19, CBSL has allowed D-SIBs and non-D-SIBs to draw down the Capital Conservation Buffers by 100 bps and 50 bps respectively. Requirements relevant to HNB are given below:

Figure 9: Regulatory Capital Requirements

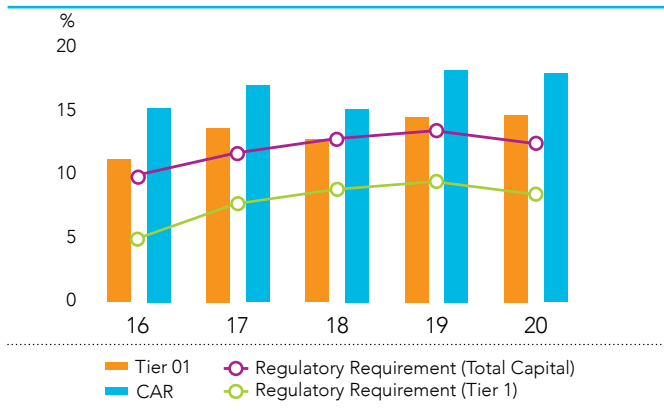
Components of Capital	Regulatory Requirement as at			Bank's Position as at		
	1.1.2019	31.12.2019	31.12.2020	1.1.2019	31.12.2019	31.12.2020
Common Equity Tier (CET1) ^(a)	8.5%	8.0%	7.0%	12.8%	14.57%	14.73%
Total Tier 1 ^(a)	10%	9.5%	8.5%	12.8%	14.57%	14.73%
Total Capital ^(a)	14%	13.5%	12.5%	15.22%	18.28%	17.98%

(a) Including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important Banks

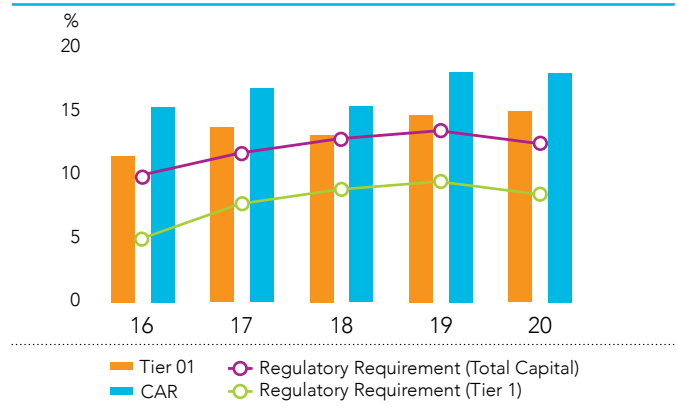
Extraordinary regulatory measures taken by CBSL to provide flexibility to licensed commercial Banks to support businesses and individuals affected by the outbreak of COVID-19 included a deferment of minimum capital requirement of Rs 20 Bn for Licensed Commercial Banks. Since HNB had already complied with the requirement, there is no impact to the Bank.

Below charts depict the components of the Bank's and Group's capital and compliance with regulatory requirements. Basel III Market Discipline and Minimum Disclosures under Pillar III are given on Page 88 as required by Direction No.1 of 2016.

CAPITAL ADEQUACY - BANKING OPERATIONS



CAPITAL ADEQUACY - GROUP



Risk Weighted Assets

Capital requirements are measured as a percentage of Risk Weighted Assets which are calculated on the following basis as per CBSL direction No.1 of 2016:

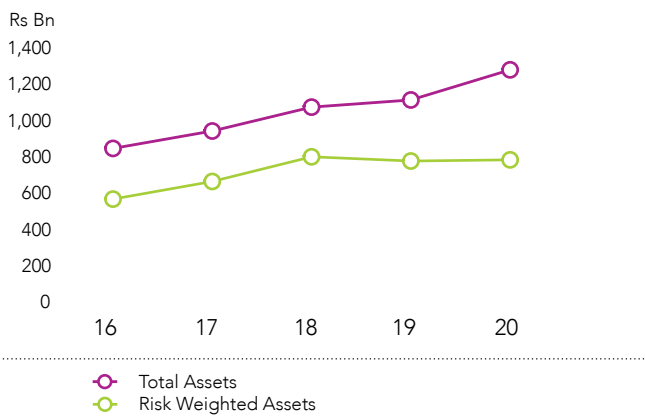
- » Credit Risk – The Standardised Approach
- » Market Risk – The Standardised Measurement Method
- » Operational Risk – Basic Indicator Approach

Risk & Capital Review

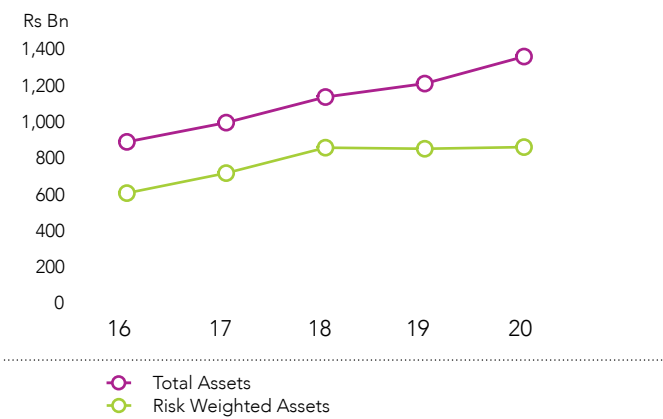
Figure 10: Risk Weighted Assets & Capital Charge

Item Rs '000	Bank			
	Risk Weighted Assets		Capital Required	
	2019	2020	2019	2020
Credit Risk	725,747,553	724,293,579	97,975,920	90,536,697
Market Risk	606,406	832,706	81,865	104,088
Operational Risk	63,185,465	70,963,945	8,530,038	8,870,493
Total	789,539,424	796,090,230	106,587,822	99,511,279

TOTAL ASSETS VS. RISK WEIGHTED ASSETS - BANK

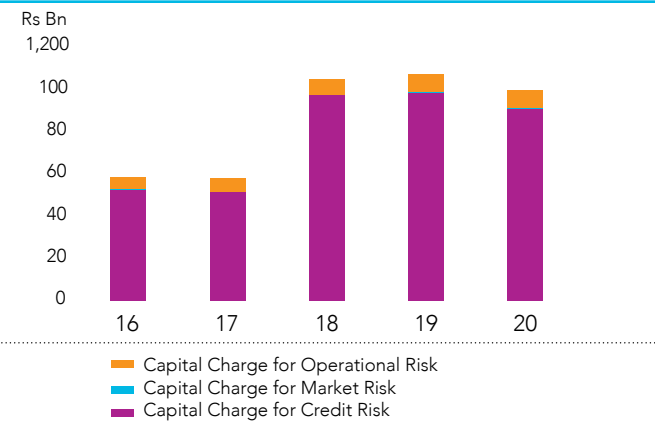


TOTAL ASSETS VS. RISK WEIGHTED ASSETS - GROUP

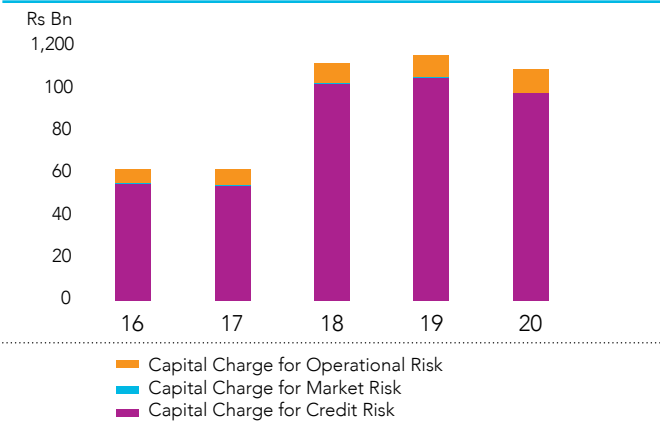


RWAs increased by Rs.7 Bn during the year to Rs. 796 Bn for the Bank. The difference between Total Assets and Risk Weighted assets increased during the year to Rs. 495 Bn.

CAPITAL CHARGE FOR RISK- BANK



CAPITAL CHARGE FOR RISK - GROUP



Stress Testing

Stress testing is a key component of Capital Planning as detailed on page 49. Extracts from the Bank's comprehensive stress tests on the Bank's CAR are given below for the highest risk indicator in each major risk category.

Figure 11: Stress Testing Results on a moderate stress scenario

Type of Stress Applied	Description	Impact on CAR as at 31.12.19		
		Low Impact	Moderate Impact	Severe Impact
NPL Stress	Increase in NPL ratio for different portfolio and thereby increase in provision	✓		
Credit Risk – Asset Downgrade	Increasing the amount of non-performing facilities over the balance of performing facilities	✓		
Credit Concentration Risk – Large Borrowers Default	Default of the higher borrowers by classifying the credit granted to them as non-performing	✓		
Credit Concentration Risk – HHI	% increase in HHI under stress	✓		
Interest Risk in Banking Book (IRRBB) EAR and EVE (LKR)	To assess the long-term impact of changes in interest rates on Bank's Economic Value of Equity (EVE) through changes in the economic value of its assets & liabilities. Also, to assess the immediate impact of changes in interest rates on Bank's earnings due to changes in interest rates and net Interest Income (NII)	✓		
Foreign Exchange Risk	% shock in the LKR exchange rate against all other currencies	✓		
Liquidity Risk	Deposit runs and rollovers	✓		
Global Financial Crisis (Multiple Scenarios)	1. Adverse changes in Foreign Exchange Rates 2. Interest Rate Risk 3. Liquidity	✓		
Overall Credit Portfolio Deterioration	1. NPL Stress 2. Asset Downgrade 3. Concentration Increase	✓		

Risk & Capital Review

CREDIT RISK MANAGEMENT

Credit risk is the largest exposure for the Bank and arises from its lending and investment activities. At the close of the year, assets with exposure to credit risk accounted for 97% of the Total Assets of the Bank. Significant attention is focused on managing this key exposure in accordance with the Credit Risk Policy suite and the Bank's Risk Appetite. Two consecutive years of high impact risk events have exerted upward pressure on this key risk across the industry as evinced by the movement of key risk indicators.

Definition

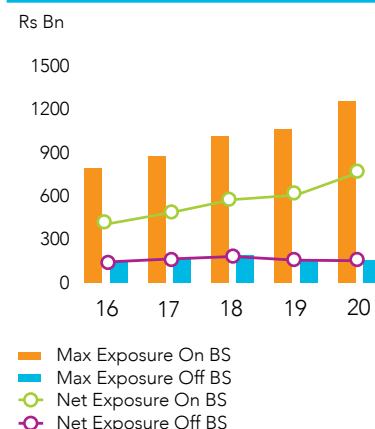
The risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations

Credit Risk Components

- » Default Risk
- » Counterparty Risk
- » Concentration Risk
- » Residual Risk
- » Recovery Risk

Audited	2020	2019	%
	Maximum Exposure Rs. 000's	Maximum Exposure Rs. 000's	
Maximum Credit Exposures	1,415,525,837	1,223,592,092	16%
Total Assets subject to Credit Risk	1,256,507,315	1,061,024,711	18%
Off Balance Sheet Commitment subject to Credit Risk	159,018,522	162,567,381	-2%
Max Exposure to credit risk Gross Loans & Receivables to customers	814,543,457	771,939,001	6%
Net exposure to credit risk of Loans & Receivables to Customers	328,972,999	321,419,306	2%
Impaired Loans	63,035,895	58,996,841	7%
Provisions for impairment	41,962,735	30,169,928	39%
Individual Impairment	20,195,010	15,779,696	28%
Collective Impairment	21,767,725	14,390,232	51%
Impaired Loans as a % of gross Loans and Receivables	7.74%	7.64%	1%
NPA (Gross)	4.31%	5.91%	-27%

CREDIT EXPOSURE



Recoveries functions segregated from Risk Management enhancing objectivity

NPA improved to 4.31% with the regularising of a large SOE debt

Credit Risk Review

The Bank continued to maintain a prudent growth strategy in line with the Bank's risk appetite as the economy went into recession by the 1st quarter of 2020. Accordingly, net exposures to credit risk were relatively flat, increasing marginally by 2% during the year reflecting a lower demand for private credit as commercial activity declined globally. Provisions for impairment increased substantially by 39% to Rs. 42 Bn reflecting a prudent risk appetite in response to the prevailing economic challenges. Allowance for individual impairment increased by 28% to Rs.20 Bn due with the allowance for collective impairment increasing by 51% to Rs. 22 Bn. The regularisation of a large state-owned enterprise debt eased the year end impact with a resultant improvement in the

NPA. It is also noteworthy that the NPA of 4.31% is maintained below the industry average of 4.7%.

CBSL Moratorium

The COVID-19 pandemic has had a significant impact on Credit Risk in which the effected borrowers' repayment capacity has been significantly challenged. The CBSL, under the government initiative implemented a Rs.150Bn relief measure scheme which enabled new facilities for working capital and investment requirements at concessionary rates to Businesses and individuals affected by the pandemic.

Process of considering facility concessions under the CBSL moratorium scheme

Activity	Unit	Eligible Customers	Non-Eligible Customer
Obtaining Customer Documents	Branches and Business Units	Obtaining customer consent.	Obtaining customer consent and justification for request for concessions
Loan Origination	Credit Committee	Approval based on the CBSL Guidelines.	Approval made on case-by-case basis and referred to the Risk Team considering the recommendation and justification by the Branches.
Disbursement/Modifications in the Core Banking System	Branches/Regional Offices	Modification of the loan facilities done in the Core Banking System.	Modification of the loan facilities done in the Core Banking System after receipt of approval.
Post Disbursement	Credit Administration /Compliance		Reporting to CBSL

Risk & Capital Review

Activities in 2020

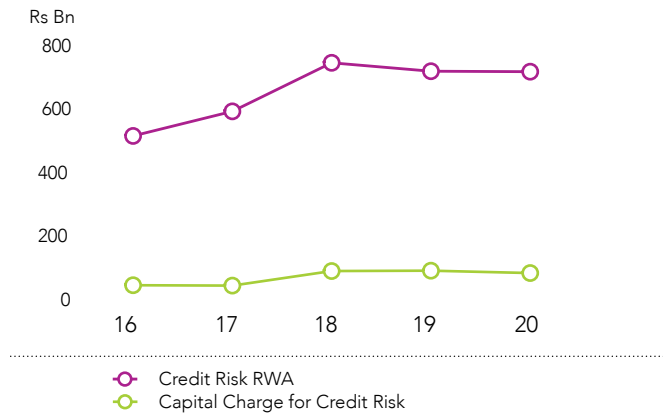
Key activities implemented to enhance the Bank's management of credit risk are as follows:

Policy Framework and Reviews	<ul style="list-style-type: none"> » Introduced two new risk framework policies for Credit and Collateral, which were previously covered under individual product policies and now serves as underlying frameworks to the numerous product/segment credit policies » Reviewed and updated lending product policies across Corporate Banking, SME, Microfinance, Retail such as Credit Cards, Housing Loans, Personal Loans, Educational Loans, leasing » Review of Special Asset Management (SAM) Guidelines based on implications of COVID-19 » New guidelines for tagging delinquent customers into Watch Listing and Management Review Listing (MRL) were introduced to identify distress accounts at an early stage and support taking appropriate action to rehabilitate and risk manage the Bank's high risk credit exposures
Strengthening Processes	<ul style="list-style-type: none"> » Introduced a framework of system controls with regards to staff been able to create account excesses in the Core Banking System » Enhanced the previous scope of LRM reviews to capture the learnings from new additions to NPA, Watch Listed and MRL customers, accounts approved for Parate Auctions and highlight areas for improved credit underwriting and monitoring » LRM findings are circulated to Corporate Management for remedial action and the implementation of corrective measures are followed up for closure. Additionally, the LRM unit follows up on the implementation of Internal Audit Review recommendations with relevant business and operational units
Monitoring	<ul style="list-style-type: none"> » Continued to provide Credit Risk dashboards to BIRMC and BOD, supported by monthly Key Risk Concerns » Conducted periodic industry studies covering eight sectors including construction, apparel, automobile and pharmaceutical sectors, which were significantly impacted by the pandemic
Cross Border Exposures	<ul style="list-style-type: none"> » Carried out a legal due diligence of Cambodia to assess the possible challenges that a foreign lender may encounter in initiating legal action for recovery » Carried out overseas country risk assessments of where the Bank has an off-shore Advance Portfolios to assess any increase in credit risk as a result of the COVID-19 outbreak. Country assessments were strengthened with a new metric of sovereign debt sustainability.
Internal Risk Rating Models	<ul style="list-style-type: none"> » Validated and recalibrated existing Internal Risk Rating models for Large Corporate, Emerging Corporate, SME and Financial Institutions » New risk rating models were introduced to assess obligors covering retail, micro finance, small SME and project finance business segments.
COVID-19 Pandemic Related Responses	<ul style="list-style-type: none"> » Reviewed top group exposures of the Bank on a quarterly basis and assessed concessions granted due to COVID-19 Pandemic and any vulnerability to increases in Credit Risk » Introduced and reviewed new credit guidelines to address requirements of COVID-19 impacted individuals and businesses » Operationalised the concessions of the Government to COVID-19 affected Individuals and Businesses and periodically reviewed COVID-19 affected industries to assess the impact to the Bank's lending portfolio

CREDIT RISK GOVERNANCE

Extensive changes to the Credit Risk governance structure were implemented in 2019 which included the establishment of the Board Recoveries Committee and the new Branch Operating Model and the establishment of a separate Credit Management vertical. The functions within the Risk Management Department have been more streamlined to monitoring credit risk and advisory functions, enhancing the objectivity.

RISK WEIGHTED ASSETS & CAPITAL CHARGE FOR CREDIT RISK



Approved Regulatory Capital Approach

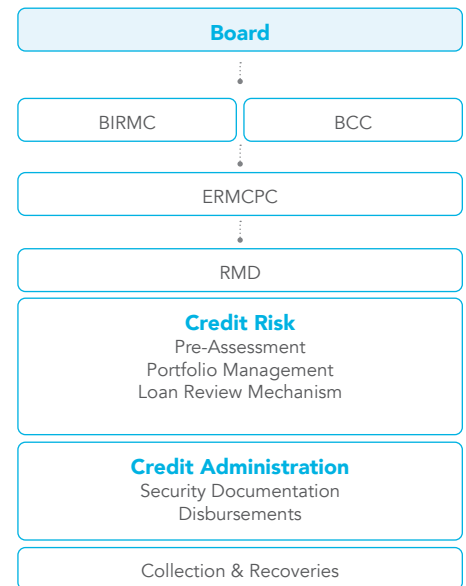
The capital charge for Credit Risk is computed using the Standardised Approach as required by the CBSL Direction No.1 of 2016. Accordingly, specific risk weights are applied to net counterparty exposures in defined categories after recognising a limited set of qualifying collateral. Template 8: Credit Risk under Standardised Approach: Exposures by Assets Classes and Risk Weights on page 95 provide details according to risk weights while Template 7: Credit Risk under Standardised Approach. on page 94 details the computation of Risk Weighted Assets for Credit Risk. The overall RWA Density for the Bank is 55% at the close of the year compared to 63% in 2019.

Internal Risk Ratings

The Bank has developed its own Basel III compliant Internal Risk Rating to progress to the more advanced Internal Ratings based approach to computing the charge for Credit Risk. Further, the Internal Risk Ratings also serve to strengthen our capability to manage default risk.

Internal risk rating models for Large Corporate, Mid-Market, Financial Institutions and SME were validated and recalibrated in 2019. Planned implementation of new Risk Rating scorecards for Retail, Micro Finance and Small-SME and Project Finance was deferred due to business interruptions experienced during the year. We expect to complete this in 2021.

Figure 12: Credit Risk Governance



Risk & Capital Review

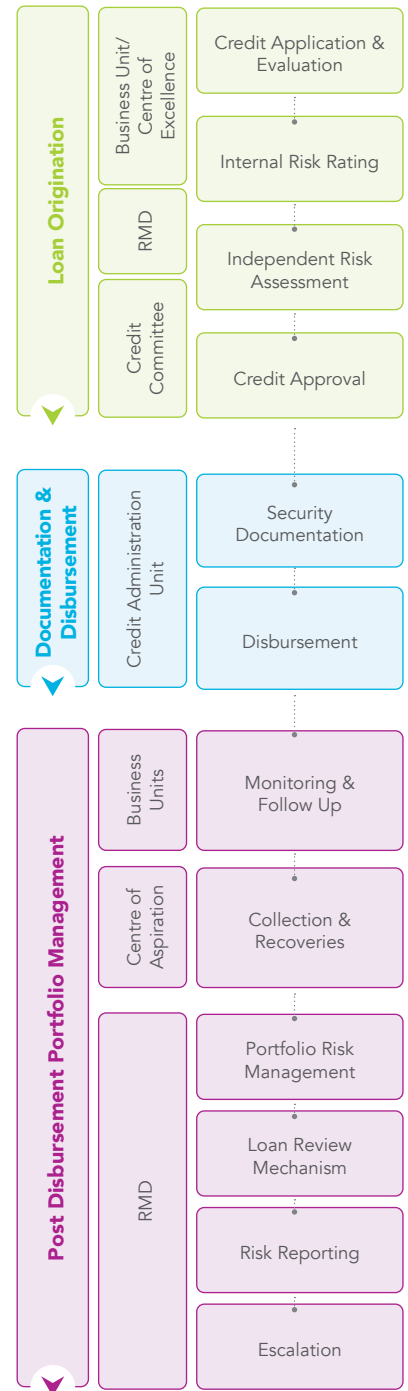
Credit Risk Management Processes

The Bank's processes facilitate management of Credit Risk throughout the life cycle of the loan as depicted in Figure 13: Segregation of Duties for Credit Risk Management.

Key credit risk management tools, controls and processes in place are briefly described below;

- » **Segregation of credit risk management tasks at branch level** – The new branch model has a clear segregation of duties between relationship management/sales and the loan approval process for SME and retail segments facilitating high levels of specialisation. Separation of recoveries from these functions enabled focused attention on this vital area with monitoring at management and Board levels. Consequently, the Credit Risk vertical is able to measure, monitor and make recommendations at portfolio level for managing credit risk in line with the Bank's risk appetite.
- » **Independent Risk Assessment** – Corporate, Emerging Corporates and SME facilities are independently reviewed by the Credit Risk Management function. Retail facilities are reviewed by the Centre of Excellence (COE) enabling high levels of specialisation, and improved turnaround times.
- » **Delegation of Authority** - Approval of credit facilities above a specified threshold have been assigned to Credit Approval Committees. The Credit Risk management division provides its assessment on credit facilities prior to approval of facilities in order to support decision making of the relevant approving committee.
- » **Internal Risk Ratings** – Risk rating are assigned to borrowers above a certain threshold using the Internal Risk Rating framework, which has been approved/accepted by the regulator.
- » **Loan Origination System (LOS)** – The state-of-the-art LOS rolled out in 2019 was extended to all Retail lending products in 2020 enabling a paperless workflow for evaluation, faster turnaround times and enhanced information security. It is integrated with the core banking system, security documentation process and other peripheral systems maximising efficiencies, strengthening controls and the quality of management information for monitoring credit risk.
- » **Collateral** – The Bank obtains collateral as a secondary recourse through mortgage bonds over movable and immovable property, guarantees, liens over financial assets and assignments of receivables. Regular valuations are carried out to ensure adequacy of collateral throughout the lifecycle of the loan.
- » **Security Documentation and Disbursement** – The Centralised Security Repository centre checks completeness and authenticity of documentation including security documentation and compliance with pre-disbursement conditions. This function supports compliance and recovery processes with required documentation while the pre-disbursement function ensures that correct limits and rates are marked in the system facilitating accurate billing, monitoring and recovery processes.
- » **Loan Review Mechanism** – The LRM function carries out post reviews of credit facilities covering all business lines to identify qualitative improvements in credit evaluation and administration processes and gain insights regarding the effective functioning of processes and controls in place. Reports from LRM are submitted to BIRMC and Board and the feedback and learnings from LRM reports are incorporated when Credit Policies are reviewed
- » **Management of Large Exposures** - Large borrower exposures of 20 largest exposures are maintained within internal risk limits and bank monitors material exposures and substantial exposures as a part of the Bank's internal risk goals. Further, Industry risk limits are set to monitor concentration risk facilitating early action on industries with elevated risk.
- » **Portfolio Risk Management** - The Portfolio Risk Management Unit and Collections and Recovery Divisions together with business units monitor accounts to identify early warning signs of asset quality deterioration. EWS, Watch Lists and Management Review Lists, Likely to fall in to NPA lists are used for alerting Business units, Risk Management department, Management Committees and the Board to support managing the credit quality of the lending portfolio. The Special Asset Management (SAM) Unit manages accounts with Early Warning Signals leveraging on the teams highly specialised skills to provide appropriate solutions to manage credit risk of distress accounts.

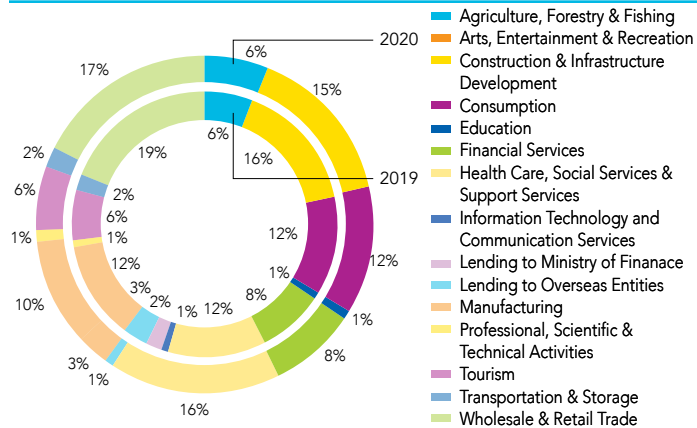
Figure 13: segregation of duties for credit risk management



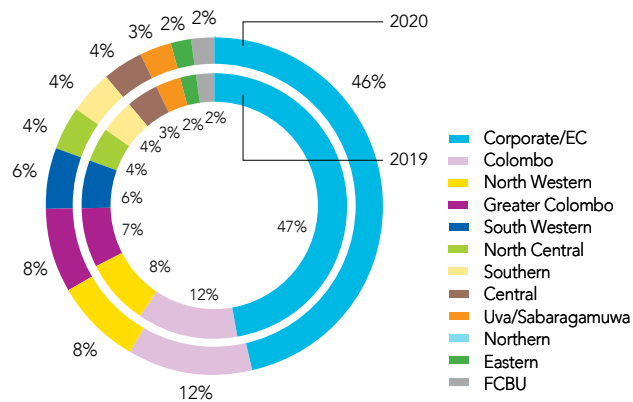
CONCENTRATION RISK

Diversification supports resilience of the portfolio to vulnerabilities of industry sectors, customer segments, geographies and other factors. Accordingly, the Bank maintains a diversified portfolio, managing concentrations across products, industry sectors, counterparties, and geographies in line with its risk appetite. Credit concentration risk is quantified using HHI model to derive additional capital requirement under Pillar 2 during the ICAAP computation. Review of concentration risk is a key factor in managing credit risk and dashboards are reviewed at all levels of the risk governance structure to balance portfolio quality and earnings.

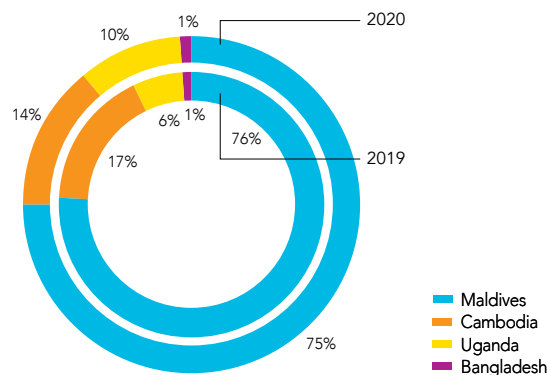
EXPOSURES BY INDUSTRY SECTOR



EXPOSURE BY GEOGRAPHY



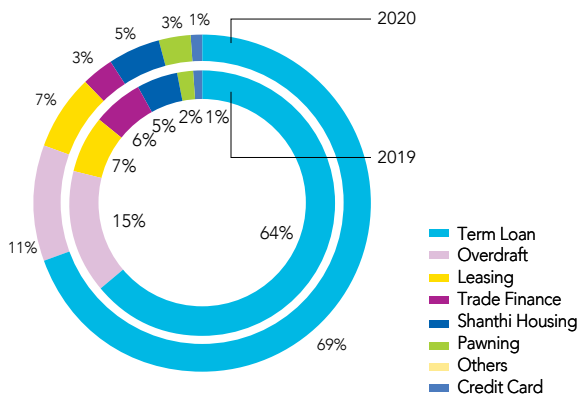
CROSS BORDER EXPOSURES



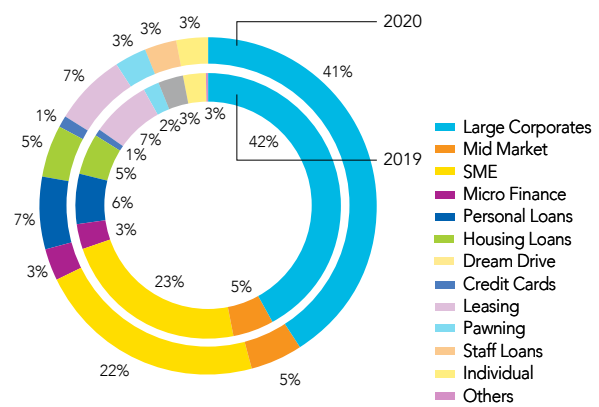
Region (Rs Mn)	December'2020	December'2019
Corporate/EC	375,810	367,886
Colombo	100,453	95,228
North Western	64,717	60,071
Greater Colombo	63,811	57,755
South Western	49,195	44,712
North Central	36,329	33,059
Southern	35,655	30,971
Central	35,635	31,710
Uva/Sabaragamuwa	24,275	21,916
Northern	18,618	16,603
Eastern	15,140	14,665
FCBU	1,100	1,295
Total	820,738	775,871

Risk & Capital Review

EXPOSURE BY PRODUCT



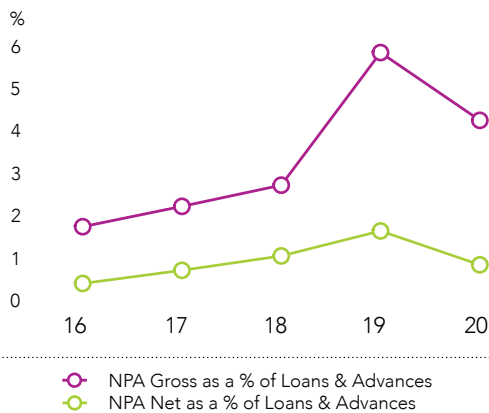
EXPOSURES BY COUNTERPARTY



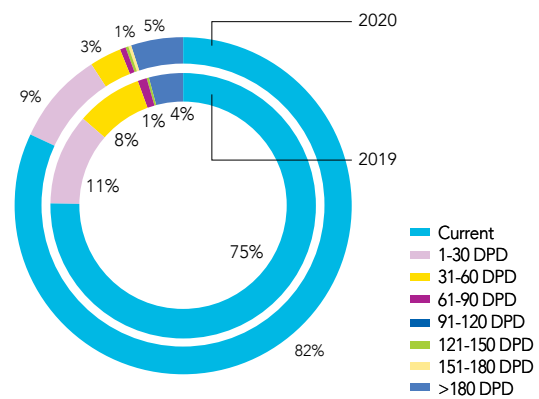
DEFAULT RISK

Default risk indicators include non-performing ratios, ageing of exposures and classification of the portfolio using Internal Risk Rating models as given below. The COVID-19 pandemic and a recessionary economy contributed to elevate default risk during the year which were eased by the moratoria extended by GOSL and the Bank to some extent even at the close of the year. These moratoria are expected to end on 31st March 2021. As the curtailing the pandemic and economic recovery are expected to continue into 2021 with the economic recovery taking a slower than anticipated pace, it is likely that we will need to reassess the default risk at this time. Increased vigilance and strengthened processes provide wide ranging insights and information on this which will be useful in making the decisions based on the operating environment at the time.

NON-PERFORMING ADVANCES



AGEING OF PAST DUE LOANS



OPERATIONAL RISK MANAGEMENT

Inherent in all banking activities, Operational Risk is a key risk for the Bank and significant resources are allocated to managing this key risk. A significant amount of economic capital is allocated for Operational Risk and the Bank endeavours to move towards the advanced approaches for measurement of this omnipresent risk. Information & Cyber Risk is handled as a separate pillar due to its significance although it is defined within Operational Risk by the CBSL and Basel III Regulatory Management Framework for Banks.

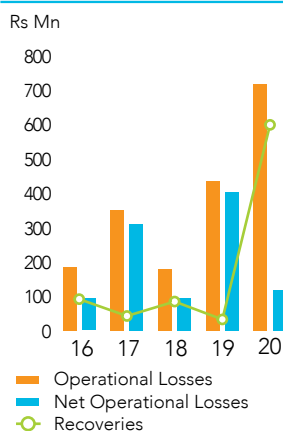
Definition

The risk of loss resulting from inadequate and or failed internal processes, people or systems, or from external events

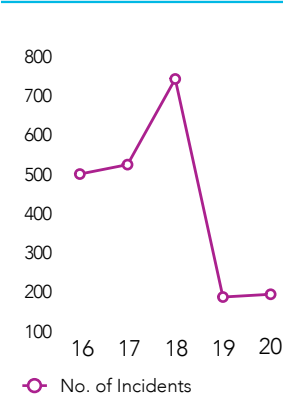
Operational Risk Components

- » Compliance Risk
- » Legal Risk
- » Financial Crimes Risk
- » Technology Risk
- » Information & Cyber Risk
- » Business Continuity Management
- » Conduct Risk

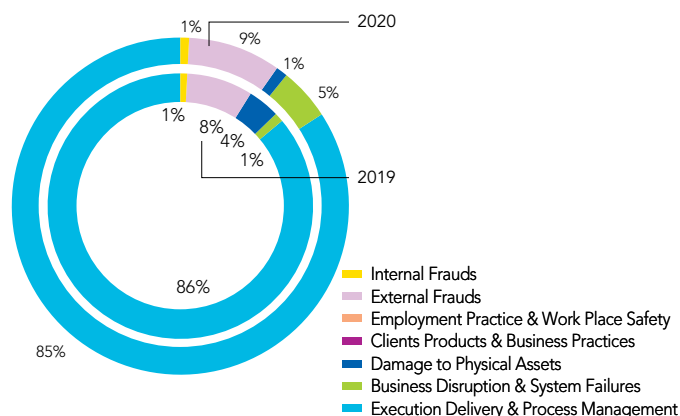
OPERATIONAL LOSSES & RECOVERIES



NO. OF INCIDENTS



OPERATIONAL LOSSES BY TYPE



Operational Risk 2020 Highlights

- » Revision of Operational Risk Management Policies
- » Introducing three new policies supporting the overall ORM of the Bank.
- » Appointment of a COVID-19 Committee to assess action required and co-ordinate the Bank's response to the pandemic
- » Development Business Continuity Management and Public Health Contagion Plan

Operational Risk Review

Operational risks increased during the year as COVID-19 threats were multifaceted, exacerbating operational risk drivers. Bank staff needed to change their routine behaviours not just at the workplace but also outside to maintain high levels of hygiene and practice social distancing. Lockdowns and business interruptions presented challenges, however, as Banking was an essential service, we had to facilitate remote working for a number of staff members. We also had to

ensure that customers in rural villages had access to cash as public transport systems shut down. Additionally, Bank staff had to deal with additional stress stemming from multiple factors which had the potential to drive behavioural changes. Lean teams and additional workloads presented their own challenges.

Despite all the factors elevating risk, the Bank was able to manage operational risk due to the early appointment of a COVID-19

Committee to manage the Bank's pandemic response. It included representation from all key areas including HR, IT, & Finance. This cross functional team came together to assess the support required by staff for efficient operation of our functions. It oversaw the management of risks related to the pandemic and was driven by the Operational Risk Management Division. The year saw closure of branches and departments due to risk of infection which were managed under the guidance of the relevant government

Risk & Capital Review

officials. Business continuity was maintained throughout most of the lockdown periods, ensuring people had access to cash.

Operational Risk Governance

Operational Risk is managed in line with the Bank's Operational Risk Policy. The Board plays a key role in approval of policy, setting the tone at the top, monitoring risk and shaping the risk culture of the Bank. Board Integrated Risk Management Committee assists the Board in discharge of its duties and has oversight responsibility for management of Risk including operational risk. The Board Audit Committee plays a key role through oversight of the implementation of sound internal controls and obtaining assurance on the effective operation of the same through internal and external audits.

Executive Risk Management and Credit Policy Committee is one of the executive committees for risk management in addition to the Operational Risk Steering Committee (ORSC) which supports the BIRMC in identifying, measuring, monitoring and managing Operational Risk. The Operational Risk Unit focuses on Preventive and Detective measures and supports the Executive and Board level committees.

Activities in 2020

- » Developed and rolled out the Containment Plan for Public Health Contagion disruptions
- » Establishing Business Continuity Management and conducting of DR drills covering mission critical units and systems
- » Reviewed and updated existing policies to ensure they are in line with industry best practices
- » Increased vigilance over operational risk due to pandemic and increased global threat levels
- » Commenced preparation to move to Advanced Approach for capital allocation for operational risk in line with Basel III
- » The policy framework was strengthened with the introduction of three new policies.
- » The Fraud Risk Management Policy codifies current practices enhancing the rigour of Fraud Risk Management processes

- » Policy on Reporting & Provisioning for Operational Losses provides detailed guidelines to branches and other front-line operations on the defined/precise process and procedures to report operational losses, consolidating circulars in this regard
- » The Customer Blacklisting Policy was developed to comply with industry best practices and also to comply with regulators and government agencies for the purposes of strengthening the Bank's compliance framework

Additionally, the Operational Risk Management Policy was reviewed during the year in preparation for Capital allocation based on advanced approaches for operational risk. Revisions included formalising the root cause analysis process, elaborating the role of participants and connecting to the new policy introduced on Provisioning for Operational Losses.

Approved Regulatory Capital Approach

The Banking Act Direction 1 of 2016 allows the use of the Basic Indicator Approach, the Standardised Approach and the Advanced Measures Approach for calculation of regulatory capital for operational risk. The Standardised Approach and the Advanced Measures Approach are considered advanced approaches requiring regulatory approval. The Bank uses the Basic Indicator Approach for calculation of regulatory capital at present as set out in Template 10 on page 98. The Bank is in the process of moving into advanced approaches for capital calculation in line with the Basel III guidelines, but plans were deferred due to challenges relating to the pandemic.

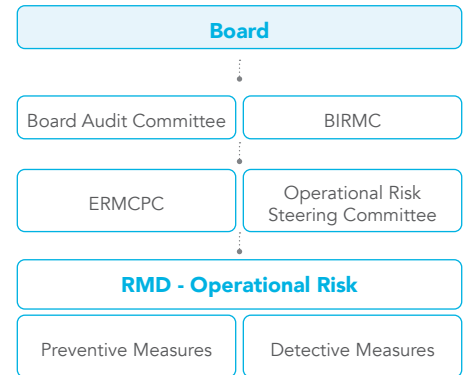
The capital charge for operational risk is the second highest, reflecting its significance in risk management. Moving to advanced approaches is expected to reduce the charge in the future.

Managing Operational Risk

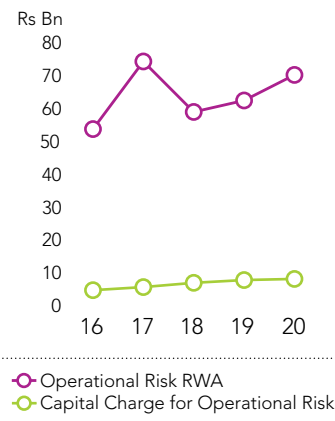
The ORM framework sets out the following specific tools for managing operational risk:

- » **Risk & Control Self-Assessment (RCSA)** - The RCSA process is forward looking and requires business units to assess their own processes and controls on a quarterly

Figure 14: Operational Risk Governance



RISK WEIGHTED ASSETS & CAPITAL CHARGE FOR OPERATIONAL RISK



basis. These are reviewed, validated and consolidated by the Operational Risk Unit to assess the operational risk profile of the entire Bank. This process facilitates prioritisation and resource allocation, supporting operational risk identification, measurement, monitoring and management.

- » **Key Risk Indicators (KRI)** - Key risk indicators provide early warnings of escalations in risks identified by the Bank which are monitored continuously to initiate timely and effective action. Triggers and thresholds are reviewed and revised regularly to reflect regulatory requirements and changes to the Bank's risk appetite, internal benchmarks which reflect trends observed externally and internally. The bank focuses primarily on lead indicators and secondarily on lagged indicators in determining the KRIs.
- » **Internal Loss Data Capturing & Reporting** – Operational Risk Dashboards provide information appropriately categorised according to Basel guidelines on internal losses including potential losses and “near misses” for material risks. These are reviewed by ORSC, ERMCP and BIRMC to identify potential threats and determine appropriate action to manage the same. External loss events and incidents are captured on best effort basis and reviewed in relation to internal control environment.
- » **Root Cause Analysis** – Material loss events and incidents are reviewed to ascertain the root cause and these learnings are used to improve the control environment under the Operational Risk Management function.
- » **Risk Matrices** - The Bank uses risk matrices to consolidate and prioritise risks considering the potential impact and likelihood of occurrence.
- » **Risk Review of New Products & Processes** - Policy and procedures for introducing new products or amending or discontinuing existing products or delivery channel are clearly set out to minimise associated risks.

Mitigating Operational Risk

Operational risk is mitigated through operational risk event analysis. The following tools are key to mitigating operational risk:

- » **Risk Culture** – The risk culture is a key preventive tool and is nurtured through a fit for purpose policy framework, governance structure, regular training to increase risk awareness and effective internal controls.
- » **Insurance** – A comprehensive insurance cover is in place securing the Bank from low frequency- high severity and high frequency- low severity loss events. Adequacy and effectiveness of insurance covers are reviewed periodically with the assistance of external consultants.
- » **Scenario planning** - The operational risk unit uses scenario planning mainly in its BCM and related activities to demonstrate and make uses of the development of appropriate responses to few potential loss events that can or likely to take place together such as fire, security breach etc. This year scenario planning was extended to cover the pandemic with a Public Health Contagion Plan incorporating the safety protocols.
- » **Assessment of Outsourcing Activities** – A comprehensive Outsourcing Policy and guideline sets out the activities, terms and conditions relating to outsourced activities and the Compliance Division monitors the same. Detailed KYC and due diligence tests are conducted before engagement or renewal of existing contracts to assess the AML/CFT risks that may arise regarding the outsourcing arrangements. The Operational Risk Unit carries out a risk-based review of critical outsourcing activities on a need basis and a complete report on outsourced activities is submitted to CBSL periodically as required for review. The Operational Risk Unit will also ensure that all critical outsourcing service providers have a satisfactory BCP and that they perform regular tests on its BCP to ensure disaster readiness and a return to normal operations as quickly as possible.

Business Continuity Planning & Disaster Recovery

A comprehensive Business Continuity plan clearly defines roles and responsibilities and procedures, Crisis Management, Emergency Response, Business Recovery and IT Disaster Recovery Planning facilitating continuity of operations in the event of emergency or

disaster. This was augmented by a Business Continuity Management and Public Health Contagion Plan in response to the COVID-19 pandemic. Additionally, all Business Continuity plans were updated, reviewed and approved by the Senior Management in 2020.

Business Continuity Steering Committee (BCSC) and a Disaster Management Team (DMT) oversee the BCP strategy and provide an effective structure to enable the Bank to respond to a crisis and stabilise until the situation returns to normalcy. Timely appointment of a COVID-19 Committee in early 2020 was critical to respond effectively to the multi-faceted challenges posed by the pandemic.

A comprehensive Business Impact Analysis (BIA) has identified mission critical units, critical processes and necessary resources, which have been clearly documented together with Recovery Time Objectives (RTO), Recovery Point Objectives (RPO) and Recovery Strategies in the BCP documents.

Regular BCP and Disaster Recovery tests are conducted to cover all critical systems and the Mission Critical Units (MCUs) of the Bank. BCP tests are reviewed by the Bank's Internal Audit department and recommendations for improvements are implemented. The Bank also conducts awareness sessions and publishes Newsletters amongst the staff to enhance the knowledge of Business Continuity Management process.

The Bank's Business Continuity Plans have been tested over the past two years with the Easter terror attacks in 2019 and the COVID-19 pandemic in 2020 and we have continued operations with minimal downtime. Clear communications with the public supported our efforts as we were able to communicate our emergency responses to situations that were of concern to local communities and customers. The operations have remained resilient, adapting successfully to a new norm including telecommuting, digitalising and product innovation with solutions like Solo and Momo to support customers.

Risk & Capital Review

INFORMATION & CYBER RISK

Information and Cyber Risk management continues to evolve at a rapid pace as threats surged during 2020. High levels of migration to digital platforms by customers and the increasing audacity and sophistication of hackers combine to make this an increasingly important risk for the Bank. The Bank continues to invest in this vital area of risk, strengthening governance structures, policy frameworks, competence of teams and surveillance and monitoring tools.

Definition

Potential loss arising from computer systems and networks from the theft of or damage to their hardware, software or electronic data as well as from the disruption or misdirection of the services they provide

Components of Cyber Risk

- » Information Risk
- » Cyber Risk
- » Financial Crime Risk
- » Technology Risk

Global Cybersecurity Trends

- » Uncontrolled access to personal data undermines confidence in the digital society.
- » Smart consumer devices are spreading faster than they can be secured
- » Vulnerabilities in real-time operating systems could herald the end of the patch age
- » Automating the security function Risk

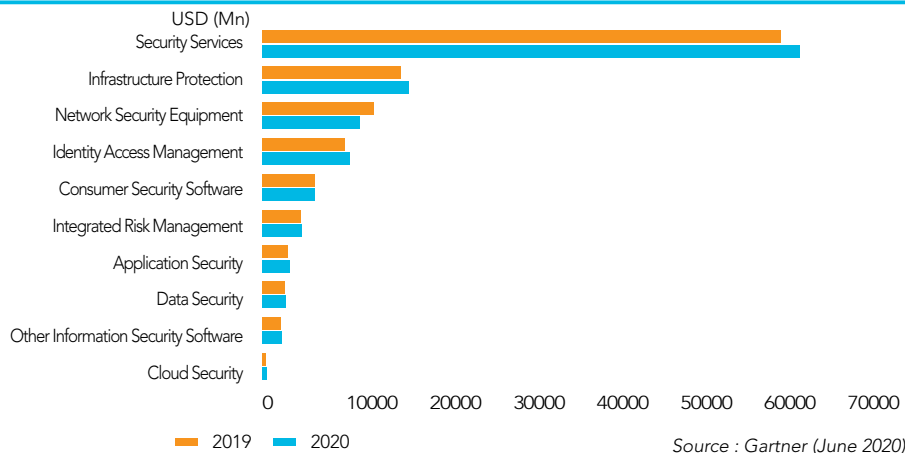
Key Initiatives in 2020

- » Independent review on user limits assigned to core banking users
- » Implementation of Data Leakage Prevention (DLP) Solution
- » Engagement of external cybersecurity consultants to conduct Vulnerability Assessment & Penetration Testing (VAPT)
- » Policy review included changes to accommodate the new norm and remote working

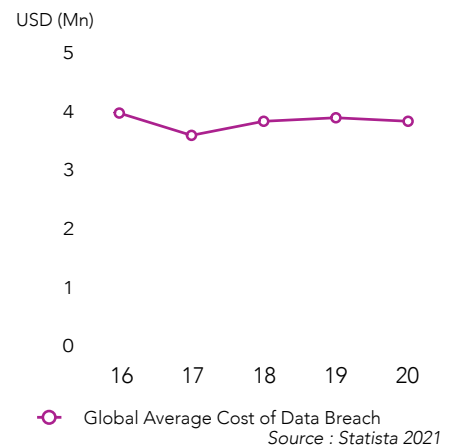
Top 5 Cyber Threats Facing Banks in 2020

- » Credential Stuffing
- » Cloud Providers
- » Phishing Attacks
- » Ransomware
- » Internet of Things (IoT) Exploitation

WORLDWIDE SECURITY SPENDING BY SEGMENT



GLOBAL AVERAGE COST OF DATA BREACH



Information & Cyber Risk Review

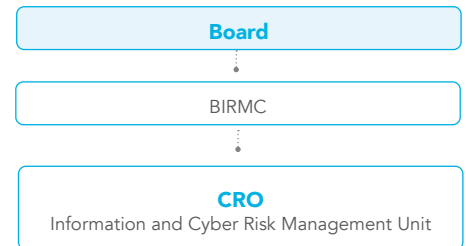
- » Information Security Policy & Procedure review
- » Privilege user activity review
- » Removable media access review
- » Internet Access Review

Information & Cyber Risk Governance

Information and Cyber Risk Governance was a key area of concern due to the rapid escalation of threats. Accordingly, the first line of defence was strengthened with the appointment of a Chief Information Security Officer who reports directly to the COO.

The Information and Cybersecurity Risk Management Unit is part of the Risk Management Department of the Bank and reports to the CRO who reports independently to BIRMC. This Unit was also strengthened during the year to support the security governance function of the Bank from a Risk Management perspective.

Figure 15: Information and Cyber Risk Governance



Activities in 2020

Key initiatives implemented to enhance the Bank's management of information and cyber risk are as follows:

Strengthening Policy Framework	<ul style="list-style-type: none"> » Amalgamation of the Cybersecurity Policy and the Information Security Policy to form a holistic Information Security Policy which has been rolled out in 2020 » Board approved Information Classification Policy was implemented across the Bank and the classification tool was rolled out to all the users where classification of information was enforced as a mandatory control
Strengthening Processes	<ul style="list-style-type: none"> » Data Leakage Prevention (DLP) project has been implemented across multiple data channels which is a key security project of the Bank that prevents data leakages to a greater extent by strengthening the control framework » Review of user limits assigned to core banking users conducted by external consultant and implementation of recommendations » Engagement of external cybersecurity consultants to carry out system functional reviews and Vulnerability Assessment & Penetration Testing (VAPT) on critical banking systems. » Involvement in various IT/InfoSec projects providing independent inputs and suggestions from Cyber & Information Security risk perspective, in support of the CISO and IT Security verticals
Monitoring	<ul style="list-style-type: none"> » Independent monitoring of Privileged user activities as part of the process defined in Privileged Access Management (PAM) » Necessitated by the exponential increase in remote access surface, developing a framework for firewall change reviews and establishing a function to perform independent reviews on firewall changes
COVID-19 Pandemic Related Responses	<ul style="list-style-type: none"> » Risk assessments on working from home technology options and recommendation on remote work related security best practices via BIRMC

Risk & Capital Review

Information Security Management

The Information & Cybersecurity Policy sets out the framework for management of its information assets, hardware and software which are vital strategic assets. The policy framework seeks to protect these assets from identified internal and external threats to ensure that all statutory and contractual obligations are met, and the brand is protected. It also provides guidance for systematic management of information assets throughout its lifecycle supporting the operational and strategic needs of the Bank in compliance with regulations and internal risk appetite.

Additional tools used to ensure continuous protection of its information assets from emerging threats include the following:

- » **Layered Defence Model** – The Bank has implemented a layered defence model to support management of Information Security.
- » **Third Party Vulnerability Assessments and Third Party Security & Compliance Reviews** – Carried out to manage risks arising from connectivity with third parties.
- » **Periodic reviews of the effectiveness of the Bank's Internal IT/IS Management by IT Security Team** - Internal Audit and CISO carry out separate reviews to assess the effectiveness of the Information and Cyber Risk Management processes and controls.
- » **Monitoring cyber Threat Intelligence** – Review up to date information on current and emerging cyber threats with a view to initiating necessary action in a timely manner.
- » **Data Classification Methodology** – This initiative supports safeguarding of information assets through clear categorisation of access to documents and uses leading IT tools
- » **Controls over Data in Transit, At Rest and in Use** – Email flow and USB/CD ROM restrictions implemented together with organisation wide awareness campaigns enhance levels of information security
- » **Security Information & Event Management (SIEM) Solution** – All critical systems and databases are integrated for log analysis enhancing capabilities of identifying IT & Cyber risks
- » **Surveillance & Upgrading** – Continuous upgrade of anti-virus/ Malware/ Ransomware protection.
- » **Cyber Risk Dashboard** – Communicates developments in Information & Cyber Risk to Executive and Board Committees on a monthly basis. This dashboard includes a tracker of Information and Cyber Risk related incidents, Top 10 cyber risks, Cybersecurity incidents reported during 6 months, IS audit findings, adherence level of security standards, Cybersecurity awareness activities, risk update on Key IT projects, update on BCP and DR drill, update on Endpoint exposed with risks, etc.
- » **IT disaster Recovery Plan** – A key component of the Bank's Business Continuity Plan, this is tested regularly and amended as appropriate.
- » **Privilege Access Management (PAM)** – Provide granular level visibility over activities carried out by privilege users in the banking systems.
- » **Security Operating Centre (SOC)** – Strengthens the Cybersecurity surveillance and incident response process

MARKET RISK

Profitability of the Bank is impacted by movements of market factors which are beyond the Bank's control. These factors impact valuations of portfolios of assets and liabilities as most transactions involve at least one element of market risk. Consequently, the Bank manages these exposures, carefully balancing profitability and stability within its predetermined risk appetite.

Definition

Potential losses arising from factors that affect the overall performance of the financial markets which cannot be eliminated through diversification

Components of Market Risk

- » Interest Rate Risk
- » Foreign Exchange Risk
- » Equity Price Risk
- » Commodity Price Risk

Market Risk Review

The Bank's market risk exposures arise mainly from the Bank's Non-Trading Portfolio (Banking Book) which accounts for 34% of Total Assets and 38% of Total Liabilities. Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk are the most significant components of market risk as the Bank has minimal exposure to commodity price risk and equity risk as these account for less than 5% of the total risk weighted exposure for market risk at the close of the year.

	Audited (Rs.Mn)	
	2020	2019
	Carrying Amount	Carrying Amount
Assets Subject to Market Risk		
Cash & Cash Equivalents	34,124	29,089
Balances with Central Bank of Sri Lanka	7,212	22,795
Placements with Banks	-	7,603
Derivative Financial instruments	1,032	527
Financial assets measured at fair value through profit or loss	84	1,013
Financial assets measured at amortised cost - debt and other instruments	186,606	149,721
Financial assets measured at amortised cost - loans and advances to customers	772,581	741,769
Financial assets measured at fair value through other comprehensive income	249,272	127,695
	1,250,911	1,080,213
Liabilities subject to Market Risk		
Due to Banks	89,747	86,396
Derivative Financial instruments	337	573
Financial liabilities measured at amortised cost - due to depositors	967,821	810,035
Financial liabilities measured at amortised cost - other borrowings	30,526	22,604
Subordinated term debts	28,298	32,695
	1,116,730	952,304

Interest rates declined as the government adopted an accommodative stance on monetary policy in response to the two black swans experienced in 2019 and 2020 which continues to date. The rupee declined by 4% against the US Dollar but recorded sharper declines of 18%, 14%, 14% and 13% against the Swedish Krona, Australian Dollar, Swiss Franc and Euro respectively while recording no significant change against the Indian Rupee.

Risk & Capital Review

Activities in 2020

The Market Risk Management unit implemented the following during the year:

Strengthening Policy Framework	<p>Reviewed the Treasury Policy along with the supplementary policies related to Treasury, which include Contingency Funding Policy, Liquidity Policy and Dispute Resolution Policy</p> <p>Reviewed the ALM policy with improved risk metrics</p>
Strengthening Processes	<p>Reviewed Delta limits for investment in securities</p> <p>Liquidity gap limits for banking book was reviewed during the year</p> <p>Introduced improvements to monthly Market Risk dashboard in order to reflect current business/market environment</p>
Monitoring	<p>A Comprehensive liquidity stress testing has been performed based on diverse parameters</p>
COVID-19 Pandemic Related Responses	<p>Counterparty limits were recalibrated to capture COVID – 19 impact and proposed limits for treasury activities for 2021 have been formulated capturing the risk due to COVID – 19.</p> <p>Increased review frequency of Treasury limits to capture market dynamics of new normal due to COVID -19</p>

Market Risk Governance

The Board has overall responsibility for managing risk and are assisted by BIRMC who have oversight responsibility for this key topic. ERMCP makes proposals on policy to monitor risk, supporting BIRMC with their observations. ALCO manages market risk exposures and profitability, ensuring that risks taken are commensurate with the rewards and managed within the RAS.

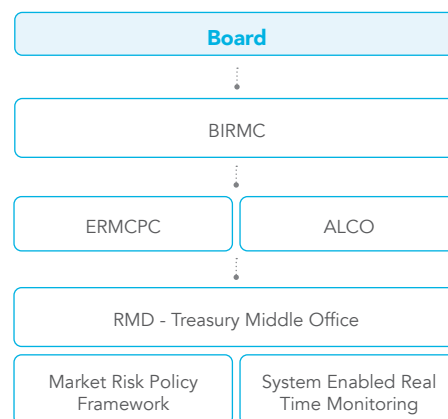
Treasury plays an important role in managing both banking/trading book and the asset and liability position of the Bank. Accordingly, duties are segregated into Front Office, Middle Office and Back Office in line with best practice. Treasury Middle Office (TMO) ensures that Treasury Front Office deals within limits set out in the Bank's risk appetite and Treasury Back Office reconciles and escalates key issues promptly.

The Market Risk Management Unit of RMD independently measures, monitors and reports on market risk exposures using Market Risk Dashboards and assists in review of the Bank's market risk related policies and exposure limits, supporting ALCO, ERMCP, BIRMC and the Board with information required for decision making.

Approved Regulatory Capital Approaches

The Bank uses the Standardised Measurement method as required by CBSL Direction No.1 of 2016 in line with Basel III requirements for computing regulatory capital for Market Risk. Accordingly, the calculation of regulatory capital is based on specified risk weightings applied to net exposures in defined categories as set out in Template 9: Market Risk Under Standardised Measurement Method. The Bank is moving towards the more advanced Internal Model Approach.

Figure 16: Market Risk Governance



Market Risk Management

Market Risk is managed in accordance with the Asset and Liability Management (ALM) and Treasury Policy which support management of Interest Rate Risk, Investment and the Foreign Exchange Risk. The trading portfolio is managed by Treasury while the Non-Trading portfolio is impacted by the Bank's business lines. The Balance Sheet and Income Statement implications of market risk are summarised below.

Portfolio	Banking Book "Hold Until Maturity" and "Available for Sale"	Trading Book "Intend to Actively Trade"
Line Items	<ul style="list-style-type: none"> » Deposits » Loans » Bonds (Investment Portfolio) 	<ul style="list-style-type: none"> » Bonds (Treasury Portfolio) » Derivatives (Forward contracts, Swaps, Options)
Balance Sheet Value	Historical Cost	Mark to market daily
Income Statement	Net Interest Margins	Net Interest margins + Net Change in Value (mark to market)
Risk exposure	<ul style="list-style-type: none"> » Repricing risk » Basis risk » Forex Risk 	All components of market risk

Market risk management is a critical aspect in implementing Asset and Liability Management (ALM) framework of the Bank.

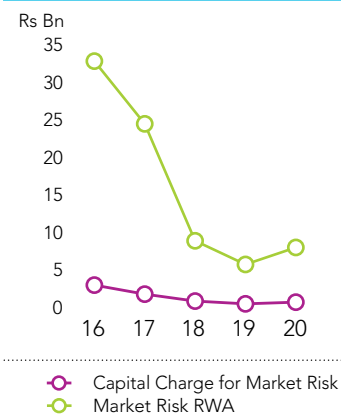
Key tools and processes used to manage market risk include the following:

- » Market Risk Limits – Limits contain trading activities within a specified range in line with the Bank's Risk Appetite Statement. These are reviewed and approved by the BOD and are regularly reviewed by ALCO and ERMCP.

Figure 17: Market Risk Limits

Limit Type	Activity Limit	Target Risk Area
Exposure	Trading/Investment in foreign currency fixed income securities (excluding investment in Sri Lanka Government Treasury Bills & Bonds)	Governs the trading/investment in long-term securities with reputed issuers, with minimum credit ratings of A or equivalent.
	Investment in Sri Lanka Government Treasury Bills & Bonds/ CBSL Securities	Governs trading & investments in Sri Lanka Government Treasury Bills & bonds that are denominated in Sri Lanka Rupees.
	Cap on total investment in Government Securities	Will govern overall exposure to government securities in terms of balance sheet exposure.
	Standing Deposit Facility (SDF) With CBSL	Governs Money Market Deals with CBSL
	Interbank Money	Limits the Bank's exposure to liquidity risk arising from funding mismatches and over reliance of FC borrowings to generate liquidity
	Market/Trade borrowings in FCY both in Sri Lanka and Outside	Limits the Bank's exposure to adverse fluctuations in inter-bank call money rates and liquidity risk arising due to market liquidity
	Cap on inter-bank call borrowing / Call lending	Limits the Bank's exposure to adverse fluctuations in inter-bank call money rates and liquidity risk arising due to market liquidity
Tolerance	Rate tolerances	Governs minimum / maximum deviation from market rates on interest / exchange rates to ensure no undue risks are undertaken
	Amount Tolerances	Govern maximum transaction size undertaken on a currency, instrument or by a dealer.
	Tenor Tolerances	Protects the bank from both market and counterparty risk that could arise with time.

RISK WEIGHTED ASSETS & CAPITAL CHARGE FOR MARKET RISK



Risk & Capital Review

Value at Risk (VaR) - The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99% confidence level and assumes 1-day and a 10-day holding period. It is based mainly on historical simulation. The model generates a wide range of plausible future scenarios for market price movements considering market data and observed relationships between different markets and prices.

Stress Testing - The Bank conducts stress testing on key components of market risk including interest rate, foreign currency and equity to understand the potential impacts. This information is used to provide direction in managing portfolios, optimising profitability and liquidity.

Bank also periodically conducts simulation on severe liquidity crisis event, which can be triggered off by any one or more of the following events taking place:

- » Loss of reputation due to rumours of a large loss, fraud, management misdemeanour etc.
- » Severe rating downgrade (3-4 notches or to below investment grade)
- » News/speculation of an impending takeover/merger.
- » Large regulatory penalty/qualification of accounts by Auditors/other compliance related loss of reputation.

The following stress scenarios were applied to assess the impact of a liquidity squeeze on the Bank:

- » A run on the Bank by depositors
- » Loss of short term interbank LKR liquidity
- » A global banking crisis which could affect short term interbank FC liquidity
- » Moratorium Payback Failure
- » Worst case scenario comprising of all above stress situations
- » Loss of wholesale savings and deposits

Results of the stress testing are tabled at ALCO/ BIRMC for their reference on ALM decisions.

Stress Testing On Projected NII

Results of stress tests carried out on Interest Rate Risk for its Loans and Advances portfolio and the Fixed Income Securities portfolio are given below.

	2020		2019	
	100 bp Parallel Up Rs. '000	100 bp Parallel Down Rs. '000	100 bp Parallel Up Rs. '000	100 bp Parallel Down Rs. '000
As at December 31st	3,673,172.15	(3,887,179.48)	5,207,963	(5,424,645)
Average for the Year	3,963,945.44	(4,168,177.53)	3,821,677	(3,922,997)
Maximum for the Year	6,762,721.63	(7,106,954.30)	5,264,583	(5,471,901)
Minimum for the Year	2,782,980.25	(2,950,571.88)	2,347,052	(2,331,461)

Magnitude of shock	1%	2%	5%	
Fixed Income Risk	Original CAR	CAR after Change		
Fixed Income Total Portfolio	17.98%	17.88%	17.78%	17.47%
Fixed Income Trading Portfolio	17.98%	17.98%	17.98%	17.98%

Interest Rate Risk in Banking Book (IRRBB)

IRRBB arises due to the differences in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which impact future interest income and expenses and its economic value. The Bank's interest rate sensitive assets and interest rate sensitive liabilities are analysed by different maturity buckets to determine suitable strategies to optimise earnings based on identified gaps and future interest rate forecasts. The modified duration gap approach is used for analysing changes in economic value of equity, which requires the mapping of assets and liabilities into different time buckets based on their residual maturity as set out below depicting an increased/decreased sensitivity.

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non- Sensitive	Total (Rs.Mn)
Assets and Off Balance Sheet Exposures	423,716	109,898	124,202	175,801	196,025	101,856	88,238	77,090	1,296,826
Liabilities and Off Balance Sheet Exposures	103,969	221,372	160,850	267,732	107,376	87,564	82,209	263,464	1,294,537
Period Gap	319,747	(111,474)	(36,649)	(91,931)	88,648	14,292	6,029		
Cumulative Gap	319,747	208,272	171,624	79,693	168,341	182,633	188,663		
RSA/RSL	4.08	0.50	0.77	0.66	1.83	1.16	1.07		

Foreign Exchange Risk

Foreign Exchange Risk is managed using currency swaps, exposure limits and VaR. Market risk exposure of the Bank's overnight foreign exchange positions is measured using 10 day VaR, at 99% confidence level. TMO monitors limits in real time and at specified frequencies in accordance with the Bank's comprehensive market risk management limit structure to ensure compliance with Bank's risk appetite. Trigger points are escalated to CRO, MD/ CEO or Board of Directors depending on the potential loss that may arise. The Bank's exposure to FX risk as at the end of the reporting period is given below and it is noteworthy that over 87% of the Bank's foreign currency exposure is in US dollars.

	Net Open Position (NOP)	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR
United States Dollar	5,044	2,481,649	466,425,855
Great Britain Pound	2.7	80,246	20,599,979
Euro	-5	131,252	30,289,064
Japanese Yen	-487	945,335	1,720,509
Singapore Dollar	1	3,720	528,616
Other currencies in USD	(8.16)	98,835	18,576,128
Total Exposure	5,030	2,863,209	538,140,150
Total Capital Funds as at December 31, 2020		143,171,814	
Total exposure as a % of Capital Funds as at December 31, 2020		0.68%	
VaR (99%, 1 day) 31st December 2020		0.73%	
VaR (99%, 1 day) 31st December 2019		0.52%	

Foreign exchange exposures are subject to stress testing by applying shocks between 5% to 15% to estimate the impact on profitability and capital adequacy of the Bank. Accordingly, a 5% change in exchange rate has a minimal impact on CAR as given in the table below.

Magnitude of shock	Original CAR	5%	10%	15%
Foreign Currency Risk		CAR after Change		
All foreign currencies	17.98%	17.98%	17.97%	17.97%
USD/LKR		17.98%	17.97%	17.97%

Risk & Capital Review

Equity Price Risk

The Bank's equity portfolio amounts to a mere Rs.84 mn and is managed considering a long term view. Stress testing conducted at 10% to 40% change in equity prices indicate no change in CAR. The bank conducts mark-to-market calculations on a daily basis for Fair Value through PL and Fair Value through OCI portfolios and VaR calculations on a 10 day basis. Year-end positions are summarised below.

	Dec 2020		Dec 2019	
	Exposure Rs.mn	VaR (99%, 10 day)	Exposure Rs.mn	VaR (99%, 10 day)
Equity (MV)	84 Mn	8.53 Mn	99 Mn	3.46Mn

Commodity Risk

Commodity risk of the Bank is limited to the extent of the Pawning portfolio which is impacted by movements in the price of gold. The Bank's exposure amounts to less than 5% of Total Market Risk exposures due to the Bank's cautious approach to managing risks associated with the Pawning portfolio. The Bank also uses conservative loan to value ratios to manage its exposures to commodity price risk. It is noteworthy that the regulatory approach is to treat the exposure in line with Foreign Exchange Risk as described in the Approved Regulatory Capital Approach on Market Risk.

LIQUIDITY RISK

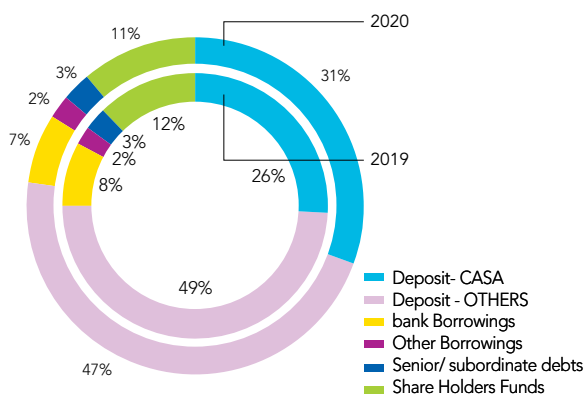
Liquidity risk management enables the Bank to have the appropriate amount, diversification and tenor of funding and liquidity to support its asset base and strategic goals at all times.

Definition

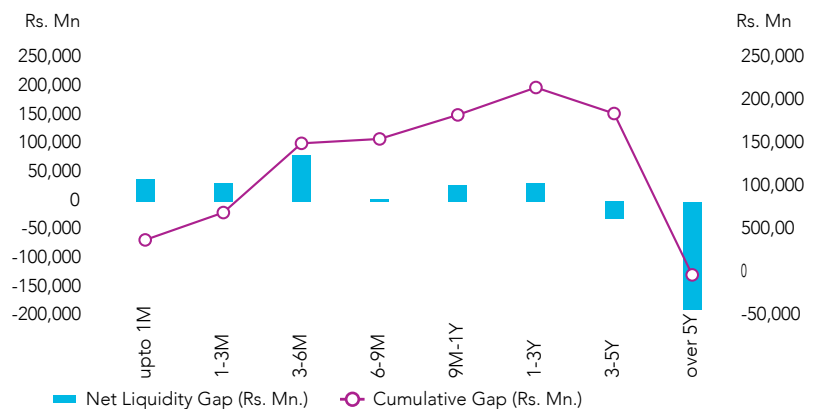
A bank's inability to meet its short term contractual obligations without sustaining unacceptable losses

Liquidity Ratios	2020	2019
Statutory Liquid Asset Ratio (SLAR)	39.58%	29.55%
Liquidity Coverage Ratio	290.29%	251.07%
Net Advances to Total Assets	60.23%	66.12%
Loans to Customer Deposits	87.15%	98.27%
Liquid Assets to Short Term Liabilities	90.40%	72.25%
Commitments to Liquid Assets	76.59%	124.73%
Commitments to Total Loans	45.99%	53.76%

FUNDING DIVERSIFICATION BY PRODUCT



LIQUIDITY GAP BASED ON BEHAVIOURAL ANALYSIS



Liquidity Risk Review

Liquidity ratios strengthened during the year to meet potential contingencies stemming from the COVID-19 pandemic. This was supported by both the conservative approach to capital management, the accommodative stance adopted by the regulator in response to the pandemic and strong deposit growth. The issue of Basel III compliant, Tier 2 listed, rated, unsecured, subordinated, redeemable debentures amounting to Rs.7 Bn in December 2020 further strengthening the liquidity ratios. The Bank's Liquidity coverage ratio (all currencies) stands at 290.29%, comfortably above the regulatory requirement of 100%. Bank's liquid asset ratio (LAR) almost reached the maximum level prescribed by the regulator and it stands at 39.58% just below the statutory maximum of 40%.

Liquidity Risk Governance

A comprehensive liquidity risk management framework is in place which includes a contingency plan encompassing both contracted and un-contracted liquidity positions as summarised in Figure 18. The column on the extreme right reflects the governance structures identifying roles of those with responsibility for managing liquidity risk. The Board, BIRMC, ERMCP and ALCO regularly review reports on the Bank's liquidity indicators to ensure that they are managed within agreed parameters.

Risk & Capital Review

Figure 18: Liquidity Risk Management Framework

Regulatory Limit	Hard Limits & Ratios					Decision Limit Adjustment
	Boundaries & Prudent Risk Management Guidelines					
Bank-wide limits per Legal Entity	Internal Model Based Measures <ul style="list-style-type: none"> » Cumulative Gap Limits » Long term funding limits 		Balance Sheet Based Ratios <ul style="list-style-type: none"> » Loan: Asset Ratio » B/S Turnover » Deposits to purchased funds ratio » Limits on committed lines 			Proposed by ALCO, Decision by Board
Operational Limits for steering of liquidity risk position	Max unsecured Funding Limits	Max Cash Outflow limit net securities	Secured Funding Limits	Limits on large transactions	Etc.	Proposed by Treasury/ALM Decision by ALCO
Limits for Trading Units	Max Unsecured Lending	Max Cash Outflow	Liquidity Gap Profiles	Total Foreign Currency Funding		Set by CRO/Treasury decision by ALCO

Liquidity Risk Management

Liquidity risk is managed by monitoring key liquidity risk indicators which indicate changes in assets and liabilities and also by determining appropriate funding activities to maintain desired levels of liquidity in line with the Bank's risk appetite. Liquidity ladders, probabilistic analysis and stress tests are undertaken to evaluate liquidity requirements of the Bank using both stock and flow approaches. Internal limits in place are more stringent than the regulatory requirements in line with the Bank's overall approach to risk management. Liquidity gaps are monitored based on the behavioural analysis of the Bank's assets and liabilities, historical rollover patterns, drawdown of unutilised overdrafts and disbursement of approved but undisbursed loans.

Figure 19: Managing Liquidity Risk

Funding Plan	Managing Liquidity Risk	Managing intraday liquidity risk	Identify Contingent Funding Requirement	Managing Regulator
Identify concentration risk in banking book	Establish liquidity policy and appetite	Maintain liquidity buffers	Early warning indicators	Maintaining LCR
Pricing liquidity risk via transfer pricing mechanism within the bank	Monitor intraday limits and carry out stress testing	Daily clearing and settlement	Conduct liquidity simulations	Reporting on liquidity assets and reserves

The Bank also measures its liquidity position in all major currencies at both individual and aggregate levels to maintain potential risks within specified limits. Potential liquidity commitments resulting from loan disbursements and undrawn overdrafts are also monitored to assess adequacy of funding sources. Liquidity risk is mitigated by maintaining an adequate margin in high quality liquid assets and diverse funding sources. Contingency funding agreements with peer banks are in place ensuring availability of sufficient liquidity buffers in accordance with the Bank's Contingency Funding Plan.

Competition among financial institutions and market interventions, challenge the mobilising of low cost LKR customer deposits. Moreover, with the dearth of lending opportunities in foreign currency and access to low cost foreign currency funding lines the bank has taken a strategic decision to generate low cost LKR funding through foreign currency swaps for short to medium term liquidity. Exposure limits in terms of regulatory and internal, regular management information to ALCO/BIRMC/BOD manages the liquidity risk that could arise from over-reliance of borrowings and cross currency liquidity generation, are actively managed.

Funding Diversification

Deposits from customers account for 75% of funds making this the primary source of funding for the Bank. Shareholder funds grew significantly by 5% as the Bank increased equity to comply with regulatory capital requirements at the close of the year.

Credit Ratings

The following credit rating stand as at the close of the year;

Rating Type	Counterparty Risk Rating	Long Term National Rating
Issuer	Moody's Investors Service Singapore Pte Ltd.	Fitch Ratings Lanka Ltd.
Rating	Caa1 (international rating)	AA+ (lka)
Outlook	Stable	Negative
Date Issued	29 September 2020	05 August 2020
What can change rating up	An improvement in the sovereign risk rating	Limited upside potential due to sovereign rating and operating environment outlook
What can change the rating down	N/A	Deterioration in sovereign rating Deterioration in its credit profile, such as a sustained decline in its capital buffers while operating environment risks are high

Risk & Capital Review

COMPLIANCE RISK

The Bank manages Compliance Risk through a dedicated Compliance Department headed by a Compliance Officer who reports directly to the Board Integrated Risk Management Committee (BIRMC), ensuring the independence of this key function. The Bank has zero tolerance for non-compliance with regulatory requirements and keeps pace with the evolving regulatory landscape to facilitate compliance. Accordingly, the Compliance function was strengthened in 2020 to meet emerging threats in this vital area by expanding the scope and rigour of processes.

Definition

Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation that a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

Key Activities of the Compliance Function

- » Foreign Exchange Regulations
- » Financial Crime
- » Anti Money Laundering & Know Your Client
- » FATCA
- » Group Compliance

Compliance Risk Review

The main focus of the Compliance Department is to ensure that the Bank complies with all legal and regulatory requirements including CBSL, SEC, CSE, SLAASMB etc., in line with the wide-ranging policy framework of the Bank. Its scope encompasses both financial and operational compliance. While the function reports directly to BIRMC, it is also invited to the Board Audit Committee, Board

Related Party Review Committee and the Special Board Digital Banking Committee.

Attention on compliance increased significantly during the year, with greater focus by the authorities to identify and prevent drug related transactions being routed through the financial system. Further, with the increase in the use of the digital channels, due to the current pandemic situation, there was

heightened attention on cyber crimes and hacking related incidents.

Therefore, the compliance function worked very closely with CBSL and other relevant authorities to support their activities in connection to these threats.

The Compliance Department has also commenced AML compliance audits to dive deeper in to AML and regulatory compliance.

Activities in 2020

The following projects were implemented to strengthen the rigour of this key function:

Completed in 2020	AML system upgrade	The AML System was upgraded to a higher version enabling to enhance the transaction monitoring and trend analysis
	Customer onboarding screening process	Screening of new customers at the time of onboarding on a real-time basis against the sanctioned lists and negative news in the Finacle core banking system
	Screening parties to transactions	Integrated the Dow Jones watch list tool to the AML system to screen parties to transactions both locally and internationally
	Contract Management System	All external contract of the Bank are lodged into the contract management system and Compliance Department monitors the renewals and validity of these contracts
	Real time screening of Swift messages	We are integrated into the Global SWIFT screening tool where over 80 SWIFT message types of both incoming and outgoing are screened on a real-time basis
Ongoing Projects commenced in 2020	Integrating with CBSL Go AML system	We are currently in the process of implementing the Central AML monitoring tool, Go AML which is driven by the Financial Intelligence Unit of CBSL, integrating HNB systems to the regulator's platform. We are on target for completion as scheduled and have commenced User Acceptance Testing.
	Trade based screening	Further strengthening Trade based customer screening process and transaction monitoring
	Beneficial ownership	Ongoing project to facilitate Identification of Beneficial ownership details.
	KYC	Launched a project to validate the customer data
	Risk based review of customers	Review of customers are carried out on a risk rating based approach
Planned for 2021	Deploying AI tools for AML	Connecting AI tool to AML system

Mitigation

The Compliance Division staffed with specialists, supports the Compliance Officer in implementing the Bank's compliance programme, thereby ensuring the business- and industry-specific standards are met.

The Compliance Division plays a key role in enhancing awareness on statutory regulations, internal policies and best practices in the industry by integrating these into the training programmes of the Bank, strengthening the first line of defence. As regulation in the financial sector continues to increase, regular training is a vital component of the Bank's compliance function to ensure that employees do not overstep boundaries as a result of ignorance or uncertainty. New recruits and promoted employees receive a compliance training tailored to meet the demands of their new role and function. An e-learning AML module further supports knowledge enhancement on Anti Money Laundering areas.

The Bank's policy framework is updated regularly to incorporate changes in regulations, emerging threats, the Bank's processes and learnings from industry experiences and our own. All policy revisions are reviewed by the relevant board sub-committees and approved by the Board of Directors.

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, customer dissatisfaction, negative/adverse publicity, inability to meet obligations, etc.

The Bank has carefully managed its reputation risk during a difficult year with timely communication with its stakeholders and cooperation with regulators to extend moratoria as well as, initiatives to facilitate customer access to cash and banking services. The state-of-the-art digital platforms of the Bank supported customers in fulfilling their banking needs with much ease and convenience. As an essential service, the Bank implemented safety measures to safeguard the health of its employees and customers while ensuring customer touchpoints functioned efficiently to serve the needs of the communities it operates in. Additionally,

awards and accolades set out on page 69 of IR reflect the high esteem in which the Bank is held, including its response during the COVID-19 pandemic.

- » Providing moratorium according to CBSL guidelines for customers whose cash flows have been adversely impacted as a result of the pandemic
- » Establishing Business Continuity Management and conducting of DR drills covering mission critical units
- » COVID-19 response team to identify potential areas of concerns and address them promptly
- » Establishing a Rs.5 Bn COVID Fund to support customers who did not qualify for government moratoria
- » Extending outreach through mobile ATMs, implementation of IPG as well as SOLO, MOMO etc.
- » Product innovation to meet customer and community challenges stemming from pandemic

Mitigation

The Leadership of the Bank set the tone at the top, nurturing the right behaviours and creating an environment of transparency and accountability across the Bank. Other mechanisms in place to safeguard the reputation of the Bank include:

- » A Code of Ethics issued to all employees ensures that corporate values and expectations of conduct are clearly communicated throughout the Bank.
- » Comprehensive customer engagement mechanisms are in place including the contact centre, which is operative 24x7, enabling customers to contact the Bank for any assistance, report of a complaint and also enables the Bank to address any concerns promptly
- » Print and electronic media exposure is monitored for any adverse remarks or customer complaints on the Bank and its services
- » A comprehensive training and development plan facilitate employee learning on the subject and sharing of learnings while supporting competency development in this area

- » Response plans and identification of spokespersons in events of crisis supports organisation readiness to handle reputation risk events, supporting initiation of timely and effective action to minimise potential impacts.

Monitoring

The Bank uses a scorecard approach to assess Reputation Risk. The Reputational Risk Task Force (RRTF) which operates with the supervision of ORSC reviews reputational risk trigger events and manages attributes that impact the reputation of the Bank, reducing the capital requirement. These pre-emptive measures support scoring, reducing capital allocation under reputational risk.

STRATEGIC RISK

Strategic risk is the risk that the Bank's future business plans and strategies may be inadequate to meet desired business goals and expectations including protecting and enhancing the Bank's competitive position and shareholder returns. The Leadership of the Bank is collectively responsible for providing strategic direction and undertake evaluation of alternative strategies which are deliberated in depth to chart its course.

During the year, strategic risk was assessed to accommodate the significantly altered outlook of the Bank's operating environment and strategies were recalibrated to align with the same. A new organisation structure was implemented strengthening the response to strategic risk with appointment of a Chief Transformation Officer. Project Everest which was to be completed in 2020 was reassessed with implementation of some strategies accelerated while others were deferred, amended or deleted from the project. Accordingly, resources were reallocated to areas that needed strengthening to meet significantly altered ways of working, transacting, opportunities and threats.

Mitigation

A dedicated strategic planning department oversees the strategic planning process. Inputs from RMD strengthen the process through testing of key assumptions and analysis to identify and assess potential areas of concern. Due care is exercised to facilitate compliance with all regulatory requirements including those anticipated for implementation within

Risk & Capital Review

the forecast period. Key risk drivers and other material matters are monitored to identify potential areas of regulation, facilitating early understanding of related impacts and issues.

Optimising risk and return with a thorough understanding of risks and opportunities is key to managing strategic risk. The Bank engages external resources to support its strategic planning processes, bringing in global expertise to support management of strategic risk, recognising the systemic importance of the Bank to the country's economy. Additionally, regular communication with employees on progress of Project Everest through meetings, dedicated monthly newsletters and the intranet ensured that employees were engaged and clearly understood their role in the transformation.

Monitoring

The bank carries out Strategic risk assessment in both quantitative and qualitative dimensions using a scorecard to compute capital allocation for strategic risk as a part of Pillar II risk assessment under ICAAP. Bank plans on operationalising a strategic risk dashboard through which major strategic risks can be escalated to BSIRC through BIRMC which would support the BSIRC in reviewing macroeconomic strategic opportunities and risks available within and outside of Sri Lanka.

CONDUCT RISK

Conduct risk in banking business is defined as any action of a bank or the banking industry that leads to customer dissatisfaction or negatively impacts market stability due to unacceptable or unexpected behaviour in meeting bank's obligations towards its stakeholders.

Managing conduct risk has become increasingly critical in the banking industry as the number of risk events continues to rise. Underlying factors contributing to elevated conduct risk include failures in internal controls, non-compliance, negligence and failure to incentivise the right behaviours etc. The banking and financial sector have been penalised by regulators globally with penalties awarded in judgements or expensive settlements which continue to grab headlines.

The pandemic and the resultant global recession are widely expected to escalate this risk as personal stress factors add pressure on finances and mental health of employees. As these factors are expected to persist in the foreseeable future, managing conduct risk has gained importance in the Bank's risk management agenda.

Mitigating

Understanding what has driven poor conduct in the past helps the Bank in estimating and preventing poor conduct in the future. Accordingly, the Bank has defined its key conduct risk drivers.

Monitoring

Lines of defence in managing conduct risk:

- » Operational: Day to day monitoring and reviewing management of information. This line of defence remains with the respective business unit itself.
- » Compliance: Implementing policies and procedures as prescribed by regulator and industry best standards. The Operational Risk Management department is under the purview of RMD, and the Audit and Compliance department ensures the management of the risk control framework and ongoing compliance monitoring.

- » Board: Assessing conduct risks through review and analysis of periodic management information.

LEGAL RISK

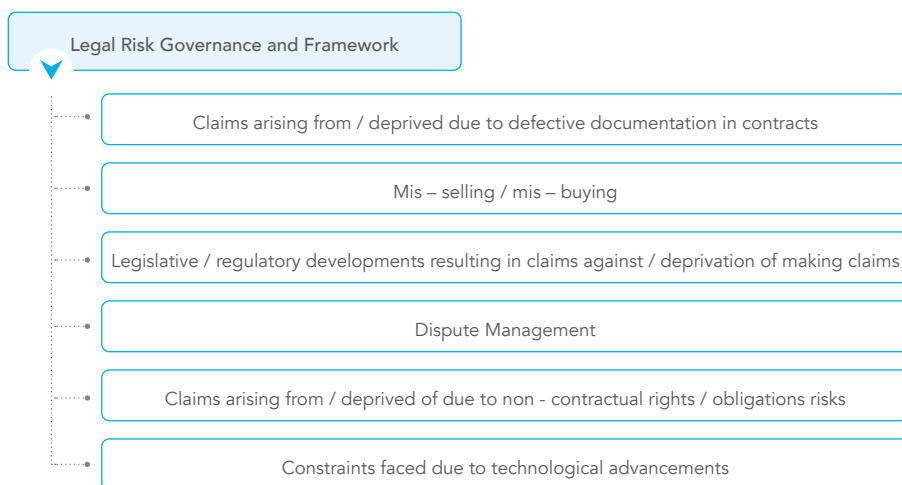
Legal risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. As per ISO 31000, Legal Risk can be of following types:

- » Litigation Risk
- » Contract Risk
- » Regulatory Risk
- » Structural Risk

Mitigation

A legal risk scorecard is in place as a part of the Bank's ICAAP and is used to assess the legal risk faced by the Bank.

The Legal Department of the Bank carries out a comprehensive assessment prior to entering into an agreement with any third party service providers. Additionally, the Bank retains reputed legal counsellors to safeguard the Bank's interest in dealing with litigation against the Bank.



Monitoring

Legal risks are analysed using a scorecard to ascertain the additional capital requirement under Basel III, pillar 2 calculation.

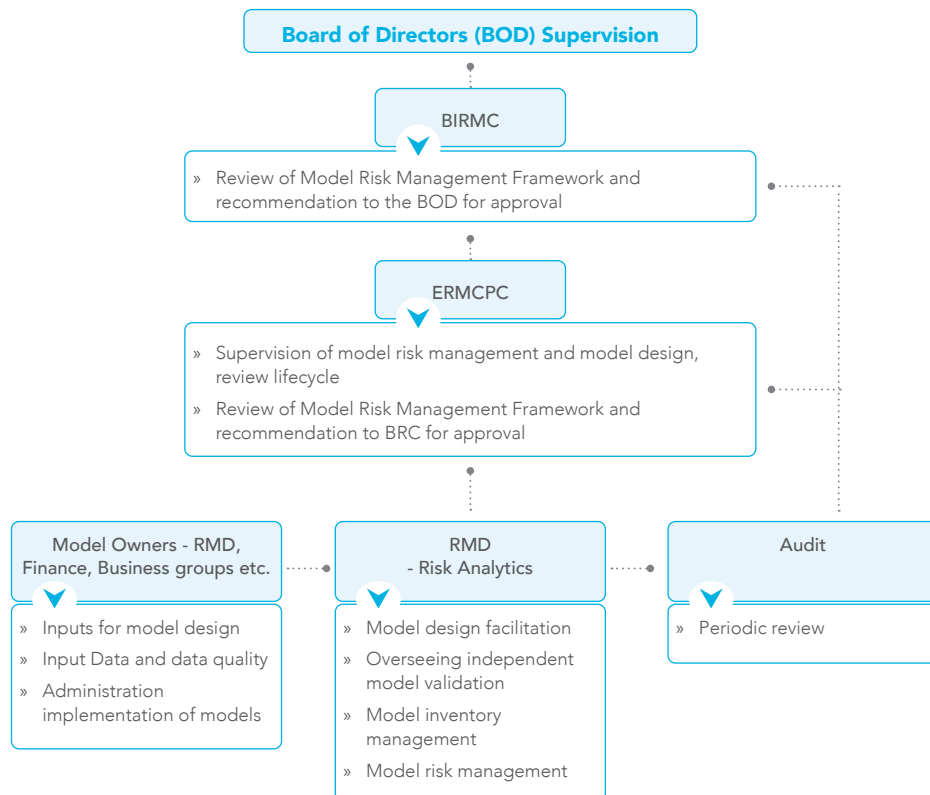
The Legal Department prepares a quarterly compliance assessment report based on a comprehensive checklist covering a broad spectrum of the Bank's litigation and related functionalities which is signed off by every member of the legal department. This is reviewed by the Compliance Division on a quarterly basis, strengthening Legal Risk monitoring.

MODEL RISK

Model risk is the risk of loss that an institution may incur as a consequence of decisions that could be primarily based on the output of the internal models or as a result of the errors in the development, implementation or use/maintenance of the models. As models are widely used to support decision making in the financial sector, it is a critical component of the Bank's Risk Management and is governed by the Model Risk Management Framework.

The Model Risk Management Framework provides guidance on the structure of models and assumptions used for the Bank's business projections, financial analysis and risk management capabilities to ensure that they are sufficiently robust and effective to support its business strategies, risk assessment and measurement capabilities. Model risk can potentially lead to over/underestimating future profits or losses as it supports decision making. Regular back testing done on internal models drives continuous improvement in our models and in the assumptions used for the models, supporting effective management to mitigate model risk. Accordingly, the Bank engaged with external risk consultants in 2019 to establish a Model Risk policy and framework governing all material models used by the Bank.

Figure 20: Model Risk Governance Structure



The governance principles for models' lifecycle are prescribed below:

- » Compliance to model development rules and risk estimation methodologies prescribed by Basel principles and leading model development practices across the globe;
- » Maintain data for models in line with the Risk Data Aggregation (and Reporting) Principles prescribed by the Basel Committee on Banking Supervision through the BCBS 239 principles;
- » Develop distinct models across different portfolios of the Bank such as Retail,

Corporate, etc. for credit portfolios and loss data for market risk and operational risk;

- » Models are to be parsimonious, taking into account the appropriateness of variables, data length, ease of availability, with the aim to maximise performance with resources available;
- » Independent validation of models with the aim of ensuring accuracy of models.

Maintaining strong governance over development of models and their lifecycle is fundamentally important to their effectiveness and risk control. Given in Figure 20 is the overview of the Model Risk Governance structure at the Bank.

Risk & Capital Review

Monitoring

The governance of Bank's Model Risk Management Framework is characterised by cross-departmental involvement in various stages of model development, implementation and review, with the oversight of the Board of Directors, through the Board Integrated Risk Management Committee (BIRMC).

The following areas are managed through specific models in the Bank;

- » Gauging the market risk parameters for the Bank, assessment and monitoring methodology

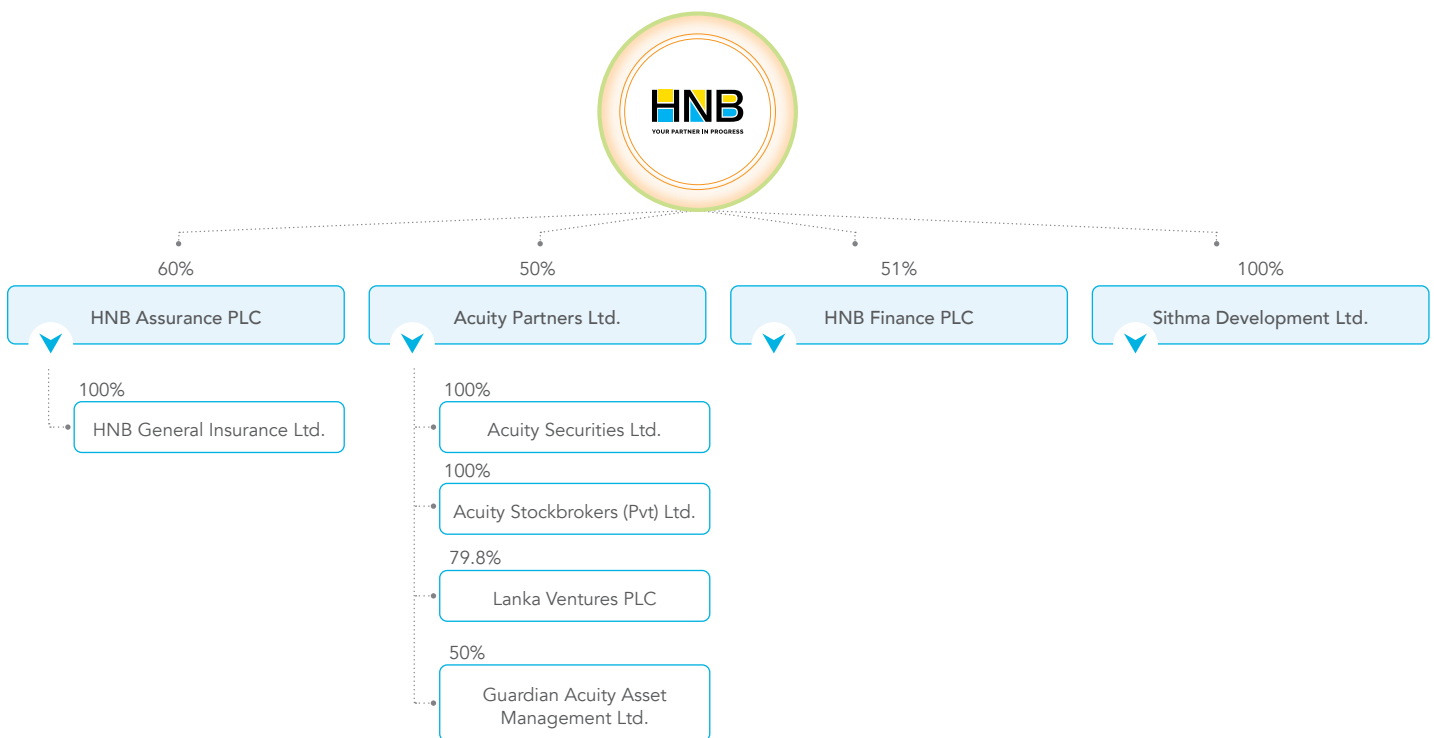
- » Statistical methodologies for business or risk estimations
- » Non statistical models (such as Pillar 2 risk assessment models)
- » Models for assessment of obligors or facilities, to gauge the creditworthiness and risks involved with the same
- » Estimation of losses (market, credit or operational risk losses) for specific portfolios of the Bank
- » Bank's credit risk models, which aim to enable the Bank to predict the Probability of Defaults (PD), Loss Given Defaults

(LGD) based on recoveries information, and Exposure at Default (EAD) based on customer and macroeconomic characteristics, facilitate calculation of impairment due to Expected Credit Loss(es) (ECL) as per the IFRS 9 stipulations of impairment and provision computation.

Performance of Models against actuals are reported via dashboard and other monthly reporting. Additionally, we also obtain independent validation of data quality and model process to strengthen model risk management.

MANAGING GROUP RISK

HNB Group includes four subsidiaries all of which are engaged in financial services except for Sithma Development Ltd., which is the real estate arm of the HNB Group. Acuity Partners is a joint venture providing investment banking services which has four subsidiaries making up a fully-fledged wealth management and investment banking cluster. HNB Assurance PLC and HNB Finance PLC are listed on the Colombo Stock Exchange. Additionally, these two subsidiaries are regulated by the Insurance Regulatory Commission of Sri Lanka and the Central Bank of Sri Lanka respectively. Activities of Acuity Partners are subject to regulations of the SEC as market intermediaries. The Group structure is given below.



Mitigation & Monitoring

The performance of group companies is closely monitored, facilitated by the presence of the Corporate Management members on the Boards of the same. Additionally, risk management divisions of the subsidiaries forward Risk Management Review Reports to the IRM function of the Bank. These reports identify the key risks faced by each entity and measures taken to manage or mitigate such risks.

Risk aggregating poses some challenges due to the varying operating models of the group companies and the Bank continues to address this to facilitate assessment of the Bank's material risks as a Group. Accordingly, the Bank's Risk Management Department has developed a Group Risk dashboard to monitor subsidiary specific financial and non-financial risk parameters covering changes to group structure, general and specific financial highlights of each subsidiary, adherence to respective governing authorities, compliance breaches and non-financial risks faced by respective subsidiaries on quarterly basis.

Effectiveness of the Group Risk Management is supported by the following:

- » All Group Companies indicate healthy financial positions at the close of the year as reported from page 94 to 101 despite a challenging year
- » HNB's capital at risk is limited to amount invested in these companies in the form of equities at the time of companies were incorporated or acquired
- » Key Management Personnel/Director representation on boards of Group Companies support alignment to core values, business strategy and a sufficient information flow

Group Co.	Board Representation	Chairman	Board Risk Committee Representation
HNB Assurance PLC			✓
Acuity Partners (Pvt) Ltd	✓	✓	-
Sithma Developments Ltd	✓	✓	-
HNB Finance (Pvt) Ltd	✓	✓	✓

- » Group companies engaged in Insurance, Finance Business and Investment Banking are subject to regulatory oversight and have structures in place to facilitate compliance.

KEY INITIATIVES IMPLEMENTED IN 2020

- » Stress testing of cashflows at entity level and Group level to ensure adequate levels of liquidity
- » Risk management frameworks were reviewed and recommendations made to align with the Bank's policy framework
- » Increased vigilance over Group companies to enhance risk management processes in line with the Bank
- » Strengthened Group Information Security and Cybersecurity in line with the Bank
- » Business continuity planning of all Group entities were reviewed and recommendations made to strengthen the same where necessary

Risk & Capital Review

HNB ASSURANCE

HNB Assurance PLC (HNBA) and its fully owned subsidiary HNB General Insurance Limited (HNBGI) have well established compliance and risk management systems in place and comply with the regulations of the Insurance Regulatory Commission of Sri Lanka, the CSE and the SEC. The key risk indicators of these two subsidiaries are given below and a summary of their performance is given on page 94 of the IR.

Capital Adequacy Ratio	HNB Assurance PLC National IFS Rating & National Long Term Rating	HNB General Insurance PLC National IFS Rating & National Long Term Rating
HNBA 338%	A(Ika)	A(Ika)
HNBI 256%	Outlook: Stable	Outlook: Stable

Key Risk Indicator	2020	2019
HNB Assurance PLC		
Gross Written Premium	5,487 Mn	5,175 Mn.
Profits After Tax	724 Mn	827 Mn.
Claims Ratio (without policy maturities)	10%	9%
Expense Ratio	45%	48%
Combined Ratio	55%	57%
Capital Adequacy Ratio	338%	309%

Key Risk Indicator	2020	2019
HNB General Insurance Limited		
Gross Written Premium	4,998 Mn.	4,819 Mn.
Profits After Tax	451 Mn.	250 Mn.
Claims Ratio	54%	64%
Expense Ratio	39%	37%
Combined Ratio	93%	101%
Capital Adequacy Ratio	256%	223%

HNBA has its own Risk Governance structure which includes a Board Level Risk Management Committee and a Board Audit Committee. The HNBA Group Risk management policy framework defines the risk management policies and processes and provides clear guidance for managing foreseeable risks. The policy framework is aligned to the HNB policies where relevant to achieve strategic alignment and minimise potential adverse impacts.

The Company reports the details of the risk management activities carried out by HNBA and HNBGI to the Board Integrated Risk Management Committee (BIRMC) of HNB on a quarterly basis. Further, in order to manage the compliance risk, confirmation on compliance is submitted to the compliance division of HNB on a quarterly basis. The following officials of the Bank are directors of HNBA facilitating alignment of values and culture:

Name	Role in HNBA	Role at the Bank
Mr. Dilshan Rodrigo	Non-Executive Director	Chief Operating Officer
Mr. Ruwan Manatunga	Invitee - Board Risk Committee	DGM-Risk/Chief Risk Officer

KEY RISK INITIATIVES IMPLEMENTED IN 2020

- » Increased the frequency of Risk Management Committee meetings to monthly meetings following the outbreak of the pandemic. Accordingly, ten (10) Risk Management Committee meetings were held during the year.
- » CRO of HNB PLC is a regular invitee to the HNBA Risk Management Committee
- » Increased stress testing to cover potential threats arising from COVID-19 pandemic
- » Risk dashboards were introduced for the top 5 risks and all risks including the statutory CAR ratios
- » Stress testing of subsidiary and Group cash flows to ensure there is sufficient liquidity at entity level and Group level
- » Increased emphasis on Cybersecurity and IT risks
- » Key Risk implications report on COVID-19 submitted to Board Risk Committee and subsequently submitted the interim measures and action taken on work arrangements to mitigate the risk implications of COVID-19
- » Road Map developed for IT Audit and Compliance issues and action plan was submitted to the Risk Committee for key IT Audit & Compliance issues with the target completion date
- » Continuous monitoring in place for the HNBGI core system development project
- » Business Continuity Public Contagion Plan reviewed and approved
- » Work From Home policy implemented with the relevant awareness training to staff
- » BCP and BCP with public contagion awareness trainings conducted to the staff with the resource support from HNB
- » Increased emphasis on reinsurance arrangements and counter party risks
- » DR simulation conducted during the year and the results were submitted to the Board Risk Committee
- » Frequent meetings (6 days in a week) with EXCO and Disease Outbreak Response Team (DORT) to identify and respond to the COVID-19 developments among our staff and business partners

HNB FINANCE PLC.

HNBF is a fully-fledged finance company and was listed on the CSE in 2020. Its risk profile is shaped by a legacy of microfinance with more recent successful penetration into the SME market segment, extending the customer life cycle and broad basing the market segments. As a regulated finance company, HNBF has a comprehensive Risk Management Framework aligned to the Bank's risk objectives and parameters. The key risk indicators of HNBF are given below while a summary of its performance is given on page 98 in the IR.

Key Risk Indicator	2020	2019
Deposit Growth (%)	12.18	31.46
Advances Growth (%)	(3.66)	20.92
Profitability (Rs. Mn)	(273)	115
Total Assets (Rs. Mn)	37,414	36,665
Shareholder Funds (Rs. Mn)	4,514	4,802
Total Capital (Rs. Mn)	3,977	5,308
Capital Adequacy Ratio – Tier 1 (%)	10.48	8.97
Capital Adequacy Ratio (%)	18.15	21.48
Impairment Charge (Rs. Mn)	774	1,771
NPA Ratio (%)	17.24	11.10

HNBF recorded a loss of Rs 273 Mn for the year 2020 as COVID-19 exacerbated the subdued economic conditions that prevailed in the previous year. Declining interest rates resulted in lower net interest margins, dampening NII which recorded a decline of 30%. Increased credit risk necessitated a second successive year of high provisioning following the increase in provisions in 2019 due to implementation of IFRS 9. Interest rate cap of 35% for microfinance loans continues to impact profitability, skewing market equilibrium as elevated levels of risk are not reflected in pricing. CBSL has also introduced caps on deposits during the year which eased the competitive pressures within the industry to some extent but HNBF remained largely unaffected due to its ability to raise funds within the required rates. Liquidity risk remains at comfortable levels due to the strong domestic franchise of the HNB Group which enabled HNBF to attract deposits and lending activities were at a low ebb.

The CRO of HNB is an invitee to the risk management committee meetings of HNBF, and provides guidance on development of Risk Management policies, structures, processes and controls using the extensive experience of the Bank's risk management function.

Name	Role in HNBF	Role at the Bank
Mr. Jonathan Alles	<ul style="list-style-type: none"> » Chairman/Non-Independent Non-Executive Director » Member - HR/Remuneration Committee » Member -Nomination Committee » Member - Strategic/Investment Committee 	MD / CEO
Mr. Rajive Dissanayake	<ul style="list-style-type: none"> » Non-Independent Non-Executive Director » Chairman – BIRMC » Chairman - BAC » Member - Strategic/Investment Committee 	Chief Financial Officer
Mr. Ruwan Manatunga	Permanent Invitee - BIRMC	DGM-Risk / Chief Risk Officer

HNBF's RMD assesses the quality of the loan book, NPA ratio, portfolio quality indicators, risk coverage ratios etc. of HNBF, due to elevated risk levels stemming from the operating environment. Additionally, stress testing of cash flows at entity level and HNB Group level were also carried out including scenarios factoring COVID-19 impacts. Additionally, HNBF complies fully with the regulatory requirements for Non-Bank Financial Institutions and CSE requirements including publishing its financial statements quarterly.

KEY RISK INITIATIVES IMPLEMENTED IN 2020

- » Formulation and implementation of the Credit policy
- » Formulation and implementation of the Operation Risk Management policy
- » Formulation and implementation of the BCP policy
- » Involving in driving the Business Continuity Management Process (BCM) towards successful implementation
- » Execution of the full DR Drill of the company in liaison with ICT
- » Driving initiatives towards mitigating IT related risks which include establishment of the IT Steering Committee (ITSC), Conducting of Network Security Vulnerability Assessment and introduction of Change Management Procedure etc.
- » Intensified the Operational Risk Management function by capturing of Operational Losses and Near Misses on a periodic basis.
- » Continuation of the LRM Function

Risk & Capital Review

ACUITY PARTNERS

APL Group's risk exposure is monitored and followed by the Group's Audit Committees with oversight by the Bank's BIRMC. APL Group submits a quarterly report on risk management activities to the Board Integrated Risk Management Committee of the Bank. Acuity Stock Brokers operates under a license issued by the SEC and complies with its requirements while Acuity Securities Ltd., is regulated by CBSL.

Material risks identified by the APL are market risk, compliance risk and liquidity risk. Those risks are assessed and mitigated through laid down procedures based on regulatory and internal procedures. Additionally, Lanka Ventures is impacted by Climate Risks as its portfolio comprises investments in renewable energy. However, climate risks are largely mitigated through diversification as the portfolio covers thermal, wind and hydro power generation.

KEY RISK INITIATIVES IMPLEMENTED IN 2020

- » APL Group continues to follow the existing controls and procedures on Risk Mitigation processes
- » All entities have been able to manage their risks even amid negative impact from COVID-19.

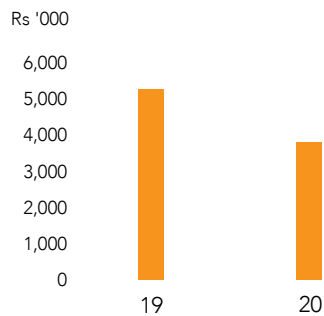
**Debt: Equity
Ratio 38%**

**Profit After Tax
Rs.1,100 Mn**

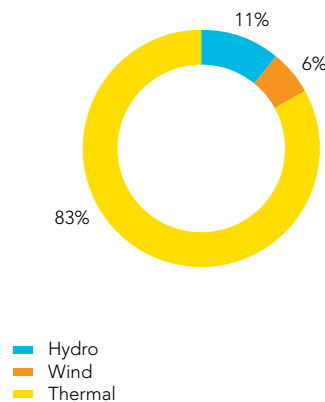
APL Group PAT
Crossed the
Rs.1Bn
mark for the first time
since its inception

Key Risk Indicator	2020	2019
ROE	16%	8.6%
ROI	52%	25%

FUNDS UNDER MANAGEMENT



INSTALLED POWER GENERATION CAPACITY (Mw)



APL Group has turned in a commendable performance despite the COVID-19 impacts as the CSE showed a remarkable recovery from mid-2020 to year end despite the lacklustre economic conditions as interest rates declined sharply in response to implementation of accommodative monetary policy measures. Additionally, deal flows picked up during the year and bond yields increased exponentially. Improved power generation also supported profitability.

The following officials of the Bank are directors of Acuity Partners facilitating oversight and alignment of values and culture:

Name	Role in HNBA	Role at the Bank
Mr. Jonathan Alles	Chairman	Managing Director / CEO
Mr. Rajive Dissanayake	Director of APL	Chief Financial Officer
Mr. Damith Pallewatte	Director of APL & ASL	DGM – Wholesale Banking Group
Ms. Thushari Ranaweera	Director of ASB	DGM – Legal / Board Secretary
Mr. Sanjay Wijemanne	Director ASB	DGM – Retail & SME

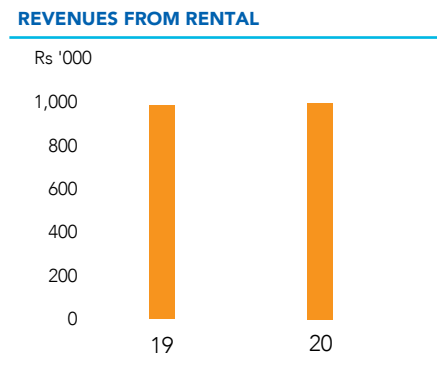
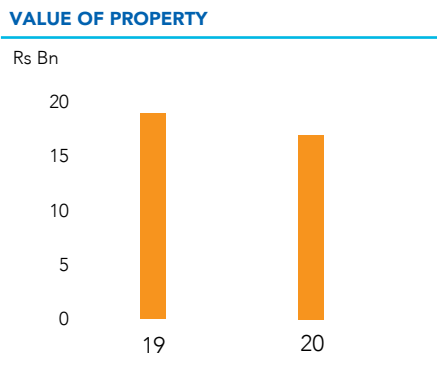
SITHMA DEVELOPMENT (PVT) LTD.

Sithma Development owns and manages the landmark building of the Bank's Head Office and manages some of the branch premises owned by the Bank. Risks related to Sithma are monitored by the Bank's Board Audit Committee and BIRMC in addition to the Board of the subsidiary and the Bank in its role as the parent company.

Typically, the main risks faced by the subsidiary are Market Risk and Compliance Risk. However, operational risk factors became the main risk in 2020 as precautionary measures relating to COVID-19 needed to be implemented urgently throughout 22 floors involving the cooperation of its tenants, their employees and customers and outsourced service providers. Sithma was able to handle these measures satisfactorily through regular communication with key stakeholders and increased investment in personal protective gear and rigorous reinforcement of agreed upon procedures.

The value of its assets and rental revenues are impacted by real estate market movements which stagnated during the period under review. However, these are expected to remain in line with 2020 rates due to its prime location and A grade facilities. As the building houses over 2500 people, compliance with best practice in health and safety standards including fire detection and prevention is a key aspect of risk that is monitored continuously.

Market Risk Indicators

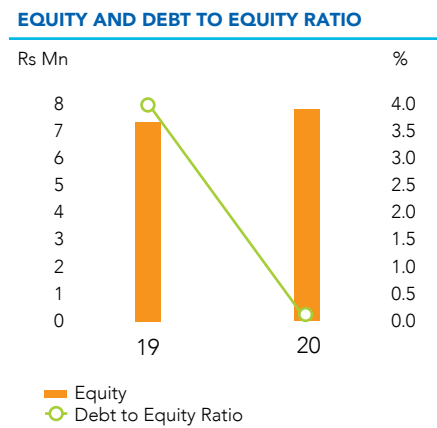
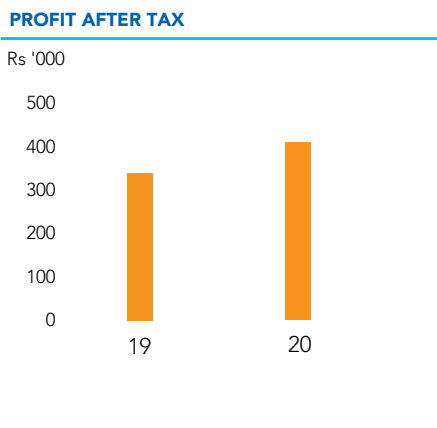


Compliance Risk

Complies with British Standards for Fire Detection & Prevention

A Grade Smart Building

Profitability & Stability



Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 1

Key regulatory ratios - Capital and liquidity

As at December 31	Bank		Group	
	2020	2019	2020	2019
Regulatory Capital (Rs 000)				
Common Equity Tier 1	117,243,040	115,072,496	130,836,136	126,475,924
Tier 1 Capital	117,243,040	115,072,496	130,836,136	126,475,924
Total Capital	143,171,814	144,326,073	157,269,339	155,544,360
Regulatory Capital Ratios				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2020-7% ; 2019-8%)	14.73%	14.57%	14.99%	14.74%
Tier 1 Capital Ratio (Minimum Requirement - 2020-8.5% ; 2019-9.5%)	14.73%	14.57%	14.99%	14.74%
Total Capital Ratio (Minimum Requirement - 2020-12.5% ; 2019-13.5%)	17.98%	18.28%	18.02%	18.12%
Leverage Ratio (Minimum Requirement - 3%)	7.73%	8.14%	8.20%	8.51%
Regulatory Liquidity				
Statutory Liquid Assets (Rs 000)	436,153,114	281,521,339		
Statutory Liquid Assets Ratio (Minimum Requirement – 20%)				
Domestic Banking Unit	38.95%	27.09%		
Off-Shore Banking Unit	35.92%	53.01%		
Liquidity Coverage Ratio – Rupee (Minimum Requirement - 2020-90% ; 2019-100%)	285.50%	465.37%		
Liquidity Coverage Ratio – All Currency (Minimum Requirement - 2020-90% ; 2019-100%)	290.29%	251.07%		

TEMPLATE 2

Computation of Capital Ratios

As at December 31	Bank		Group	
	2020 (Rs 000)	2019 (Rs 000)	2020 (Rs 000)	2019 (Rs 000)
Common Equity Tier 1 (CET1) Capital after Adjustments	117,243,040	115,072,496	130,836,136	126,475,924
Common Equity Tier 1 (CET1) Capital	121,925,658	118,734,417	135,425,972	129,178,231
Equity Capital (Stated Capital)/Assigned Capital	37,364,244	33,820,906	37,364,244	33,820,906
Reserve Fund	7,660,000	7,060,000	7,660,000	7,060,000
Published Retained Earnings/(Accumulated Retained Losses)	19,730,429	20,001,415	26,501,436	25,185,402
Published Accumulated Other Comprehensive Income (OCI)	(150,378)	-	(179,654)	-
General and other Disclosed Reserves	57,321,363	57,852,097	58,601,235	58,147,100
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	-	-	5,478,711	4,964,824
Total Adjustments to CET1 Capital	4,682,618	3,661,921	4,589,836	2,702,307
Goodwill (net)	-	-	119,457	122,942
Intangible Assets (net)	1,189,715	962,851	1,289,715	1,062,851
Deferred tax assets (net)	806,539	-	1,728,958	-
Defined benefit pension fund assets	-	-	-	-
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	194,159	199,842	137,165	164,137
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	2,492,204	2,499,228	1,314,541	1,352,377
Additional Tier 1 (AT1) Capital after Adjustments	-	-	-	-
Additional Tier 1 (AT1) Capital	-	-	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to AT1 Capital	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
Tier 2 Capital after Adjustments	25,928,773	29,253,576	26,433,203	29,068,436
Tier 2 Capital	25,928,773	29,253,576	26,433,203	29,068,436
Qualifying Tier 2 Capital Instruments	15,835,122	20,180,403	15,522,576	19,995,263
Revaluation Gains	2,090,479	2,090,479	2,090,479	2,090,479
General Provisions	8,003,173	6,982,695	8,820,148	6,982,695
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to Tier 2	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	-	-	-	-
CET1 Capital	117,243,040	115,072,496	130,836,136	126,475,924
Total Tier 1 Capital	117,243,040	115,072,496	130,836,136	126,475,924
Total Capital	143,171,814	144,326,073	157,269,339	155,544,360
Total Risk Weighted Assets (RWA)	796,090,230	789,539,424	872,777,199	858,259,611
RWAs for Credit Risk	724,293,579	725,747,553	781,917,200	778,470,491
RWAs for Market Risk	832,706	606,406	974,642	686,302
RWAs for Operational Risk	70,963,945	63,185,465	89,885,357	79,102,817
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	14.73%	14.57%	14.99%	14.74%
of which: Capital Conservation Buffer (%)	1.50%	1.50%	1.50%	1.50%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	1.00%	1.00%	1.00%	1.00%
Total Tier 1 Capital Ratio (%)	14.73%	14.57%	14.99%	14.74%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	17.98%	18.28%	18.02%	18.12%
of which: Capital Conservation Buffer (%)	1.50%	1.50%	1.50%	1.50%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	1.00%	1.00%	1.00%	1.00%

Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 3

Leverage Ratio

As at December 31	Bank		Group	
	2020 (Rs 000)	2019 (Rs 000)	2020 (Rs 000)	2019 (Rs 000)
Tier 1 Capital	117,243,040	115,072,496	130,836,136	126,475,924
Total Exposures	1,516,923,701	1,413,843,587	1,595,042,163	1,486,302,051
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	1,282,948,314	1,119,962,503	1,358,239,726	1,190,348,485
Derivative Exposures	131,225,119	159,747,611	131,225,119	159,747,611
Securities Financing Transaction Exposures	13,549,670	18,379,746	16,376,720	20,452,228
Other Off-Balance Sheet Exposures	89,200,598	115,753,727	89,200,598	115,753,727
Basel III leverage ratio (Tier 1/Total Exposure) (minimum requirement 3%)	7.73%	8.14%	8.20%	8.51%

Net Stable Funding Ratio (NSFR)

Item	Bank	
	2020 (Rs 000)	2019 (Rs 000)
Total Available Stable Funding (ASF)	929,169,118	827,883,549
Required stable funding – On balance sheet assets	810,951,321	754,194,533
Required stable funding – Off balance sheet items	14,191,261	13,292,572
Total Required Stable Funding (RSF)	825,142,582	767,487,105
NSFR (minimum requirement - 2020 - 90%, 2019 - 100%)	112.61%	107.87%

TEMPLATE 4

Basel III Computation of Liquidity Coverage Ratio All CCY

As at December 31	2020		2019	
	Total unweighted Value (Rs 000)	Total weighted Value (Rs 000)	Total unweighted Value (Rs 000)	Total weighted Value (Rs 000)
Total stock of High-Quality Liquid Assets (HQLA)	325,892,151	314,678,021	149,011,660	140,423,389
Total adjusted level 1A assets	252,327,699	252,327,699	98,783,496	98,783,496
Level 1A assets	251,239,138	251,239,138	96,592,203	96,592,203
Total adjusted level 2A assets	74,606,790	63,415,772	50,347,022	42,794,969
Level 2A assets	74,606,790	63,415,772	50,347,022	42,794,969
Total adjusted level 2B assets	46,223	23,111	2,072,435	1,036,218
Level 2B assets	46,223	23,111	2,072,435	1,036,218
Total cash outflows	1,084,589,473	166,094,800	917,360,563	140,525,652
Deposits	762,154,997	76,215,500	647,381,008	64,738,101
Unsecured wholesale funding	161,856,305	53,062,438	116,784,932	43,416,765
Secured funding transactions	10,004,543	-	16,709,886	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	128,902,359	15,145,593	118,856,108	14,742,156
Additional requirements	21,671,269	21,671,269	17,628,629	17,628,629
Total cash inflows	116,452,064	57,693,065	167,399,558	84,594,792
Maturing secured lending transactions backed by collateral	-	-	-	-
Committed facilities	3,000,000	-	3,000,000	-
Other inflows by counterparty which are maturing within 30 days	92,526,949	50,962,224	147,957,913	76,853,957
Operational deposits	7,752,924	-	1,143,172	-
Other cash inflows	13,172,191	6,730,841	15,298,472	7,740,835
Liquidity coverage ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		290.29%		251.07%

Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 5

Main features of regulatory capital instruments

Description of the capital instrument	Stated Capital	Debentures - 2007	Debentures - 2006 Type E	Debentures - 2006 Type F	Debentures - 2011	Debentures - 2016
Issuer	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC	HNB PLC
Unique identifier						
Governing law(s) of the instrument	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka
Original date of issuance	Not Applicable	August 1, 2007	April 1, 2006	April 1, 2006	September 5, 2011	March 28, 2016
Par value of instrument		LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated
Original maturity date	Not Applicable	July 31, 2022	March 31, 2021	March 31, 2024	September 4, 2021	March 28, 2021
Amount recognised in regulatory capital (in Rs 000 as at the Reporting Date)	37,364,244	280,000	415,348	924,288	400,000	1,400,000
Accounting classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability	Liability
Issuer call subject to prior supervisory approval						
Optional call date, contingent call dates and redemption amount (Rs 000)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Subsequent call Dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons/Dividends	Dividends	Coupons	Coupons	Coupons	Coupons	Coupons
Fixed or floating dividend/Coupon	Not Applicable	Fixed	Fixed	Fixed	Fixed	Fixed
Coupon rate and any related index		16.75% p.a.	11% p.a.	11.25% p.a.	11.5% p.a.	11.25% p.a.
Non-cumulative or Cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or Non-Convertible	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If Convertible, Conversion Trigger (s)						
If Convertible, Fully or Partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If Convertible, Mandatory or Optional	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If Convertible, Conversion Rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Notes

1. A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of –
 - (a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR
 - (b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board."
2. Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above.
3. The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event.

Debentures - 2016	Debentures - 2016	Debentures - 2019 (Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion)	Debentures - 2019 (Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion)
HNB PLC	HNB PLC	HNB PLC	HNB PLC
Sri Lanka	Sri Lanka	Sri Lanka	Sri Lanka
November 1, 2016	November 1, 2016	September 23, 2019	September 23, 2019
LKR 100/-	LKR 100/-	LKR 100/-	LKR 100/-
Dated	Dated	Dated	Dated
November 1, 2021	November 1, 2023	September 22, 2024	September 22, 2026
400,000	2,400,000	1,538,056	8,077,430
Liability	Liability	Liability	Liability
Not Applicable	Not Applicable	Not Applicable	Not Applicable
Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons	Coupons	Coupons	Coupons
Fixed	Fixed	Fixed	Fixed
11.75% p.a.	13% p.a.	12.3% p.a.	12.8% p.a.
Cumulative	Cumulative	Cumulative	Cumulative
Not Applicable	Not Applicable	Convertible	Convertible
		Refer Note 1	Refer Note 1
Not Applicable	Not Applicable	Fully	Fully
Not Applicable	Not Applicable	Refer Note 2	Refer Note 2
Not Applicable	Not Applicable	Refer Note 3	Refer Note 3

Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 6

Capital Planning Overview

The starting point for the Bank's capital planning exercise is the strategic plan and the 3 year financial projections which are reviewed annually. Expected macro-economic conditions, strategies planned to drive business growth and the Bank's risk appetite, underpin the financial projections. Based on the financial projections, future capital requirements are assessed. Subsequently, the assessment proceeds towards gauging how much of required capital will be generated internally and the extent of which, if any is to be sourced externally.

If requirement for external capital is identified, the Bank could consider options such as rights Issues being the raising of capital from existing shareholders, debenture issues, divestment of capital inefficient Investments to free up capital etc. The option determined by management to be the most appropriate would then be recommended to the Board of Directors and a Board Decision would be taken on raising the sufficient amount of capital through one or more of the options identified above.

However, the Bank is extremely well placed on Capital Adequacy with Tier I and Total CAR at 14.73% and 17.98% respectively being among the best in the industry. The financial projections between 2021-2023 indicate that HNB will continue to be comfortable on Tier I and Total Capital Adequacy.

In the event that loan growth exceeds forecasts by a considerable margin and/or unforeseen events impede profitability and internal capital generation the Bank would still be well placed to raise capital from one or more of the external sources identified previously as in the past. The debenture issue planned for 2021 will also help boost Tier II capital further.

TEMPLATE 7

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects - Bank

Asset Class as at December 31,	Bank - 2020 (LKR'000)					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-balance sheet amount (a)	Off-Balance Sheet Amount (b)	On-balance sheet amount (c)	Off-Balance Sheet Amount (d)	RWA (e)	RWA Density {e/(c+d)}
Claims on Central Government and CBSL	489,316,274	-	452,709,926	-	37,481,827	8.28%
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	9,310,029	-	9,310,029	-	2,789,597	29.96%
Claims on financial institutions	24,725,537	196,795	24,725,537	196,795	15,281,383	61.32%
Claims on corporates	298,489,025	322,424,984	295,303,540	73,042,803	348,066,724	94.49%
Retail claims	366,200,892	68,027,424	327,638,146	17,802,062	238,321,058	68.99%
Claims secured by residential property	48,005,902	-	48,005,902	-	27,312,655	56.89%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	19,736,395	-	19,736,395	-	21,210,354	107.47%
Higher-risk categories	1,205,418	-	1,205,418	-	3,013,545	250.00%
Cash items and other assets	56,666,339	-	56,666,339	-	30,816,436	54.38%
Total	1,313,655,812	390,649,203	1,235,301,232	91,041,660	724,293,579	

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects - Group

Asset Class as at December 31,	Group - 2020 (LKR'000)					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance	Off-Balance	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	493,799,083	-	457,192,735	-	37,481,827	8.20%
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	19,914,929	-	19,914,929	-	6,360,960	31.94%
Claims on financial institutions	27,835,855	196,795	27,835,855	196,795	16,836,543	60.06%
Claims on corporates	308,523,593	322,424,984	305,338,107	73,042,803	357,753,117	94.55%
Retail claims	393,773,520	68,027,424	355,210,774	17,802,062	259,000,529	69.43%
Claims secured by residential property	48,005,902	-	48,005,902	-	27,312,655	56.89%
Claims secured by commercial real estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	19,736,395	-	19,736,395	-	21,210,354	107.47%
Higher-risk categories	1,338,796	-	1,338,796	-	3,346,991	250.00%
Cash items and other assets	79,352,519	-	79,352,519	-	52,614,224	66.30%
Total	1,392,280,593	390,649,203	1,313,926,013	91,041,660	781,917,200	

Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 8

Credit risk under standardised approach: Exposures by asset classes and risk weights - Bank

Asset Classes	Risk Weight	Amount (LKR'000) as at December 31, 2020 (Post CCF & CRM)									Total Credit Exposures Amount	
		0%	20%	35%	50%	60%	75%	100%	150%	>150%		
Claims on central government and central bank of sri lanka		265,300,790	187,409,136	-	-	-	-	-	-	-	-	452,709,926
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		-	7,274,385	-	1,638,878	-	-	159,736	237,030	-	-	9,310,029
Claims on financial institutions		-	-	-	19,281,898	-	-	5,640,435	-	-	-	24,922,332
Claims on corporates		-	8,687,285	-	27,173,291	-	-	331,972,058	513,709	-	-	368,346,343
Retail claims		-	-	-	-	105,914,382	167,359,898	49,252,505	-	-	-	322,526,785
Claims secured by gold		22,913,422	-	-	-	-	-	-	-	-	-	22,913,422
Claims secured by residential property		-	-	31,835,764	-	-	-	16,170,137	-	-	-	48,005,902
Claims secured by commercial real estate		-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)		-	-	-	46,425	-	-	16,695,627	2,994,343	-	-	19,736,395
Higher-risk categories		-	-	-	-	-	-	-	-	1,205,418	-	1,205,418
Cash items and other assets		25,849,903	-	-	-	-	-	30,816,436	-	-	-	56,666,339
Total		314,064,116	203,370,805	31,835,764	48,140,492	105,914,382	167,359,898	450,706,934	3,745,082	1,205,418	-	1,326,342,891

Credit risk under standardised approach: Exposures by asset classes and risk weights - Group

Description	Risk Weight	Amount (LKR'000) as at December 31, 2020 (Post CCF & CRM)									Total Credit Exposures Amount	
		0%	20%	35%	50%	60%	75%	100%	150%	>150%		
Claims on central government and central bank of sri lanka		269,783,600	187,409,136	-	-	-	-	-	-	-	-	457,192,735
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		-	13,044,676	-	6,473,487	-	-	159,736	237,030	-	-	19,914,929
Claims on financial institutions		-	-	-	22,392,216	-	-	5,640,435	-	-	-	28,032,650
Claims on corporates		-	8,835,397	-	27,632,660	-	-	341,399,145	513,709	-	-	378,380,910
Retail claims		-	-	-	-	105,914,382	194,932,526	49,252,505	-	-	-	350,099,413
Claims secured by gold		22,913,422	-	-	-	-	-	-	-	-	-	22,913,422
Claims secured by residential property		-	-	31,835,764	-	-	-	16,170,137	-	-	-	48,005,902
Claims secured by commercial real estate		-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)		-	-	-	46,425	-	-	16,695,627	2,994,343	-	-	19,736,395
Higher-risk categories		-	-	-	-	-	-	-	-	1,338,796	-	1,338,796
Cash items and other assets		26,738,294	-	-	-	-	-	52,614,224	-	-	-	79,352,519
Total		319,435,316	209,289,208	31,835,764	56,544,789	105,914,382	194,932,526	481,931,809	3,745,082	1,338,796	-	1,404,967,672

TEMPLATE 9

Market Risk under Standardised Measurement Method

As at December 31	Bank		Group	
	(Rs 000)	(Rs 000)	(Rs 000)	(Rs 000)
	2020	2019	2020	2019
(a) RWA for interest rate risk	-	1,904	-	1,904
General interest rate risk	-	1,904	-	1,904
(i) Net long or short position	-	1,904	-	1,904
(ii) Horizontal disallowance	-	-	-	-
(iii) Vertical disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific interest rate risk	-	-	-	-
(b) RWA for Equity	8,439	13,839	26,181	24,625
(i) General equity risk	4,622	7,244	13,745	12,879
(ii) Specific equity risk	3,817	6,596	12,437	11,746
(c) RWA for foreign exchange & gold	95,649	66,121	95,649	66,121
Capital charge for market risk [(a) + (b) + (c)] * CAR	832,706	606,406	974,642	686,302

Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 10

Operational Risk under basic indicator approach

As at December 31			Bank					
Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at, 2020			Gross Income (LKR'000) as at, 2019		
			1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		60,830,747	60,000,953	56,578,162	49,769,056	60,830,747	60,000,953
Capital Charges for Operational Risk					8,870,493			8,530,038
Risk Weighted Amount for Operational Risk					70,963,945			63,185,465

As at December 31			Group					
Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at, 2020			Gross Income (LKR'000) as at, 2019		
			1st Year	2nd Year	3rd Year	1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		75,398,127	76,867,302	72,447,964	61,312,178	75,398,127	76,867,302
Capital Charges for Operational Risk					11,235,670			10,678,880
Risk Weighted Amount for Operational Risk					89,885,357			79,102,817

TEMPLATE 11

Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank only

As at December 31	2020 (Rs 000)				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	1,291,851,536	1,306,169,433	1,216,949,016	84,499	84,609,498
Cash and cash equivalents	34,123,562	34,141,138	34,141,138	-	-
Placements with banks	-	-	-	-	-
Balances with Central Bank of Sri Lanka	7,212,395	7,212,395	9,078,728	-	-
Reverse repurchase agreements	-	-	-	-	-
Derivative financial instruments	1,032,318	-	-	-	-
Financial assets measured at fair value through profit or loss	84,499	84,499	-	84,499	-
Financial assets measured at amortised cost - loans and advances to customers	772,580,720	788,379,703	710,025,123	-	78,354,580
Financial assets measured at amortised cost - debt and other instruments	186,605,516	187,591,740	187,591,740	-	-
Financial assets measured at fair value through other comprehensive income	249,271,658	246,113,660	242,847,742	-	3,265,918
Investment in joint venture	755,000	755,000	-	-	755,000
Investments in subsidiaries	3,017,285	3,017,285	1,973,000	-	1,044,285
Investment properties	475,109	475,109	475,109	-	-

As at December 31	2020 (Rs 000)				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Property, plant and equipment	20,705,056	20,705,056	20,705,056	-	-
Right-of-use assets	5,356,868	5,356,868	-	-	-
Intangible assets and goodwill	1,309,172	1,309,172	-	-	1,189,715
Deferred tax assets	806,539	-	-	-	-
Other assets	8,515,839	11,027,808	10,111,380	-	-
Liabilities	1,157,849,911	1,164,552,651	-	-	-
Due to banks	89,746,709	88,812,093	-	-	-
Derivative financial instruments	337,014	-	-	-	-
Securities sold under repurchase agreements	10,361,383	10,352,629	-	-	-
Financial liabilities measured at amortised cost - due to depositors	967,821,404	947,778,748	-	-	-
Dividends payable	962,185	962,185	-	-	-
Financial liabilities measured at amortised cost - other borrowings	30,526,261	30,548,403	-	-	-
Debt securities issued	1,875,042	1,820,686	-	-	-
Current tax liabilities	7,725,731	8,138,876	-	-	-
Deferred tax liabilities	-	7,238,140	-	-	-
Other provisions	3,917,784	5,031,439	-	-	-
Other liabilities	16,278,033	36,703,738	-	-	-
Subordinated term debts	28,298,365	27,165,716	-	-	-
Off-Balance Sheet Liabilities	631,948,229	631,948,229	-	-	-
Guarantees	64,980,482	64,980,482	64,980,482	-	-
Performance Bonds	39,489,881	39,489,881	39,489,881	-	-
Letters of Credit	28,334,448	28,334,448	28,334,448	-	-
Other Contingent Items	138,246,005	138,246,005	138,246,005	-	-
Undrawn Loan Commitments	360,897,413	360,897,413	360,897,413	-	-
Other Commitments	-	-	-	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital of which Amount Eligible for CET1	35,572,329	35,236,376	-	-	-
Of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	22,665,227	31,837,700	-	-	-
Accumulated Other Comprehensive Income	1,221,363	-	-	-	-
Other Reserves	74,542,706	74,542,706	-	-	-
Total Shareholders' Equity	134,001,625	141,616,782	-	-	-

Market Discipline-Disclosure Requirements Under Pillar III

TEMPLATE 12

Explanation of Significant Differences between Accounting and Regulatory Exposure Amounts

(a) Derivative financial instruments

Derivatives are financial instruments which derive values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices.

The fair value of these derivative financial instruments are determined using forward pricing models. The positive fair value changes of these financial instruments as at the balance sheet date are reported as assets while the negative fair value changes are reported as liabilities. The details of derivative financial instruments have been disclosed in Note 28 to the financial statements.

(b) Loans and receivables to other customers

The loans and receivables to customers considered in regulatory reporting differs with the published financial statements since CBSL time based provisions were netted off when arriving at loans and receivables for regulatory reporting purposes, while impairment allowances based on incurred losses have been netted off in loans and receivables for publication purposes. The impairment allowance has been computed using established processes with judgments being exercised when determining the presence of objective evidences of impairment. The process used in determining the impairment provision has been described in detail in Note 31 (b) to the financial statements.

(c) Financial investments - Available for sale

Financial investments - Available for sale have been measured at fair value in published financial statements while these investments have been measured at cost for regulatory reporting purpose. The details of financial investments - available for sale have been disclosed in Note 33 to the financial statements.

(d) Financial assets at fair value through OCI

Financial assets at fair value through OCI have been measured at fair value in published financial statements while these investments have been measured at cost for regulatory reporting purpose. The details of financial investments - available for sale have been disclosed in Note 33 to the financial statements.

TEMPLATE 13 : BANK RISK MANAGEMENT APPROACH

The Risk Report from pages 41 to 87 in CG&RR sets out the Bank's approach to risk management including governance structures, policies, processes, limits and the current risk profile of the Bank.

TEMPLATE 14 : RISK MANAGEMENT RELATED TO KEY RISK EXPOSURES

Risk	Compliance
Section I -Credit Risk	Refer Note 5 to the Financial Statements on pages 172 to 201 in IR
Section II Market Risk	Refer Note 5 to the Financial Statements on pages 172 to 201 in IR
Section II (a) IRR	Refer Pages 101 to 102 in CG&RR
Section II (b) Equity Position Risk	Refer Page 102 in CG&RR
Section II (c) Foreign Exchange	Refer Page 103 in CG&RR
Section III Liquidity Risk	
Section III (a)	Refer Page 104 in CG&RR
Section III (b)	Refer Pages 105 to 106 in CG&RR
Section III (c) & (d)	Refer Pages 75 to 76 in CG&RR Refer Note 5 to the Financial Statements on pages 172 to 201 in IR
Section IV Operational Risk	Major Financial Losses incurred by Bank on page 63 in CG&RR Details of activities that have been outsourced together with parties and basis for payment for such services on page 65 in CG&RR. Details of due diligence tests of third party service providers on page 65 in CG&RR.
Section V Interest Rate Risk in Banking Book (IRRBB)	Refer page 107 in CG&RR

TEMPLATE 14 - SECTION II MARKET RISK -(A) INTEREST RATE RISK

Interest Rate Sensitivity Gap Analysis as at 31-Dec-2020-LKR

(Values are in Millions LKR)

			1M	3M	6M	1Y	3Y	5Y	>5Y
Account Type	Product	Product Name Level18							
Rate Sensitive Assets	Inflows	Balances due from Head Office, Affiliates and Own Branches	0	0	0	0	0	0	3,772
		Bills of Exchange	240	2	0	0	0	0	0
		Cash on hand	25,850	0	0	125	0	0	0
		Deposits with CBSL	354	354	354	708	1,769	1,769	1,769
		Investments (Net of provisions)	15,840	48,726	60,629	92,481	10,233	10,716	5,494
		Loans and Advances	277,037	38,410	36,754	54,485	98,144	55,592	38,925
		NPLs	1	1	0	2,778	0	0	8,335
		Net Inter-Branch Transactions	0	0	0	0	0	0	0
		Other Assets	51	550	64	5,140	0	0	9,356
		Overdraft	53,185	6,655	3,932	5,818	3,400	3,255	3,192
		Accrued Interest	1,551	728	632	730	156	0	0
		Balances due from Other Banks	0	0	0	0	0	0	0
		Fixed Assets L1	0	0	0	0	0	0	22,469
			374,107	95,424	102,365	162,265	113,702	71,333	93,313
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0	0	0	0	0	0	768
		Bills Payable	1,324	0	0	0	0	0	0
		Demand Deposits	12,085	12,085	9,064	12,085	13	13	15,116
		Interest Payable	2,402	4,567	3,617	2,992	2,191	1,602	0
		Other Liabilities	188	0	232	5,855	21,715	1,437	8,007
		Savings Deposits	18,417	38,811	12,631	16,824	63,155	63,153	63,153
		Time Deposits	56,063	115,665	103,258	137,143	15,432	4,351	0
		Bonds Issued	0	501	0	8,000	2,437	2,971	8,077
		Borrowings	598	587	646	1,511	5,120	3,871	201
		Capital & Reserves	0	0	0	0	0	0	35,236
		Repo	10,005	163	42	144	0	0	0
		Reserves	0	0	0	0	0	0	104,508
			101,083	172,379	129,489	184,554	110,063	77,399	235,067
Net Gap			273,025	-76,955	-27,124	-22,289	3,638	-6,066	-141,754
Cumulative Gap			273,025	196,070	168,946	146,657	150,295	144,229	2,475
Rate Sensitive Assets total		(Excl- Cash on hand, Deposits with CBSL)	347,904	95,071	102,011	161,432	111,932	69,563	91,544
Rate Sensitive Liabilities total		(Excl- Demand Deposits, Capital)	88,997	160,294	120,425	172,468	110,050	77,386	184,715
Net Gap			258,907	(65,223)	(18,414)	(11,037)	1,882	(7,822)	(93,172)
Cumulative Gap			258,907	193,683	175,269	164,233	166,115	158,293	65,121

Market Discipline-Disclosure Requirements Under Pillar III

Interest Rate Sensitivity Gap Analysis as at 31-Dec-2020-USD

(Values are in Thousands USD)

			1M	3M	6M	1Y	3Y	5Y	>5Y
Account Type	Product	Product Name Level18							
Rate Sensitive Assets	Inflows	Bills of Exchange	3,071	4,323	1,411	0	0	0	0
		Cash on hand	2,052	0	0	0	0	0	0
		Investments (Net of provisions)	50,000	0	110,000	99,125	442,817	168,680	136,860
		Loans and Advances	341,599	77,678	9,859	3,057	4,705	2,920	-16,600
		NPLs	0	0	0	5,209	0	0	15,627
		Other Assets	0	1,692	0	0	0	0	0
		Overdraft	8,869	1,477	75	87	120	120	120
		Accrued Interest	1,466	154	538	2,324	8	0	0
		Balances due from Other Banks	165	0	0	0	0	0	37,746
					407,222	85,324	121,883	109,801	447,650
Rate Sensitive Liabilities	Outflows	Balances due to Other Banks	0	188,403	77,053	265,000	0	0	0
		Demand Deposits	3,886	3,886	2,914	3,886	362	362	5,098
		Interest Payable	1,329	4,318	3,733	4,686	2,766	484	0
		Other Liabilities	287	358	353	2,140	1,075	1,075	11,981
		Savings Deposits	12,551	12,552	9,410	12,533	47,049	47,048	47,048
		Time Deposits	66,594	119,256	123,129	241,712	55,175	12,984	0
			84,646	328,773	216,592	529,957	106,426	61,952	64,127
Net Gap			322,576	-243,449	-94,709	-420,156	341,224	109,769	109,627
Cumulative Gap			322,576	79,126	-15,582	-435,738	-94,514	15,255	124,881
Rate Sensitive Assets total (Excl - Cash on Hand)			405,169	85,324	121,883	109,801	447,650	171,721	173,754
Rate Sensitive Liabilities total (Excl- Demand Deposit)			80,761	324,887	213,678	526,071	106,064	61,590	59,029
Net Gap			324,409	-239,563	-91,794	-416,270	341,586	110,131	114,725
Cumulative Gap			324,409	84,845	-6,949	-423,219	-81,633	28,497	143,222

Notes

- The above figures have been prepared as per SLAS including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- Prepared as per requirement given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

TEMPLATE 14 - SECTION II MARKET RISK -(B) EQUITY POSITION RISK

Rs. Mn

Equity	Carrying Value	Fair Value	Realized Gains/Losses	Unrealized Gains/Losses	Capital Adequacy Calculation
Investment Portfolio	6,830	12,156			Capital Charge - 104 RWA - 832
Trading Portfolio	129	84			

TEMPLATE 14 - SECTION II MARKET RISK - (C) FOREIGN EXCHANGE RISK

Report on Liquidity Gap Summary as at 31st Dec 2020 (Consolidated Foreign Currency)

(Amount in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	3,106	4,330	1,411	0	0	0	0
	Cash on hand	2,743	0	0	0	0	0	0
	Investments (Net of provisions)	58,072	3,526	121,514	121,041	506,929	202,808	150,635
	Loans and Advances	36,037	58,366	52,183	67,402	178,602	86,470	24,137
	NPLs	0	0	0	5,210	0	0	15,630
	Other Assets	0	2,631	0	0	0	0	673
	Other	0	0	4,079	8,160	0	0	0
	Overdraft	880	960	1,018	1,985	3,300	2,881	2,471
	Accrued Interest	1,481	158	568	2,324	8	0	0
	Balances due from Other Banks	165	0	0	0	0	0	35,374
	Forward Contracts	70,205	109,343	62,613	61,559	0	0	0
		172,689	179,314	243,387	267,681	688,839	292,159	228,920
Total Outflows	Balances due to Other Banks	0	113,680	60,284	260,807	56,615	44,856	24,752
	Demand Deposits	4,606	4,606	3,454	4,606	380	380	6,011
	Interest Payable	1,464	4,537	4,191	4,942	2,780	484	0
	Letters of Credit/Guarantees/ Acceptances	0	4,079	4,079	4,081	0	0	0
	Other Liabilities	309	0	387	2,287	1,157	8,658	0
	Savings Deposits	15,640	15,912	12,347	16,925	62,568	60,452	58,377
	Time Deposits	79,754	143,678	153,937	288,256	64,884	15,606	0
	Forward Contracts Payable	72,782	158,280	22,330	9,224	0	0	0
		174,555	444,772	261,011	591,128	188,384	130,435	89,140
Net Liquidity Gap		(1,866)	(265,459)	(17,624)	(323,447)	500,455	161,724	139,780
Net Gap as % of Total Outflows		(1)	(60)	(7)	(55)	266	124	157
Cumulative Gap		(1,866)	(267,325)	(284,949)	(608,396)	(107,942)	53,782	193,562

Notes

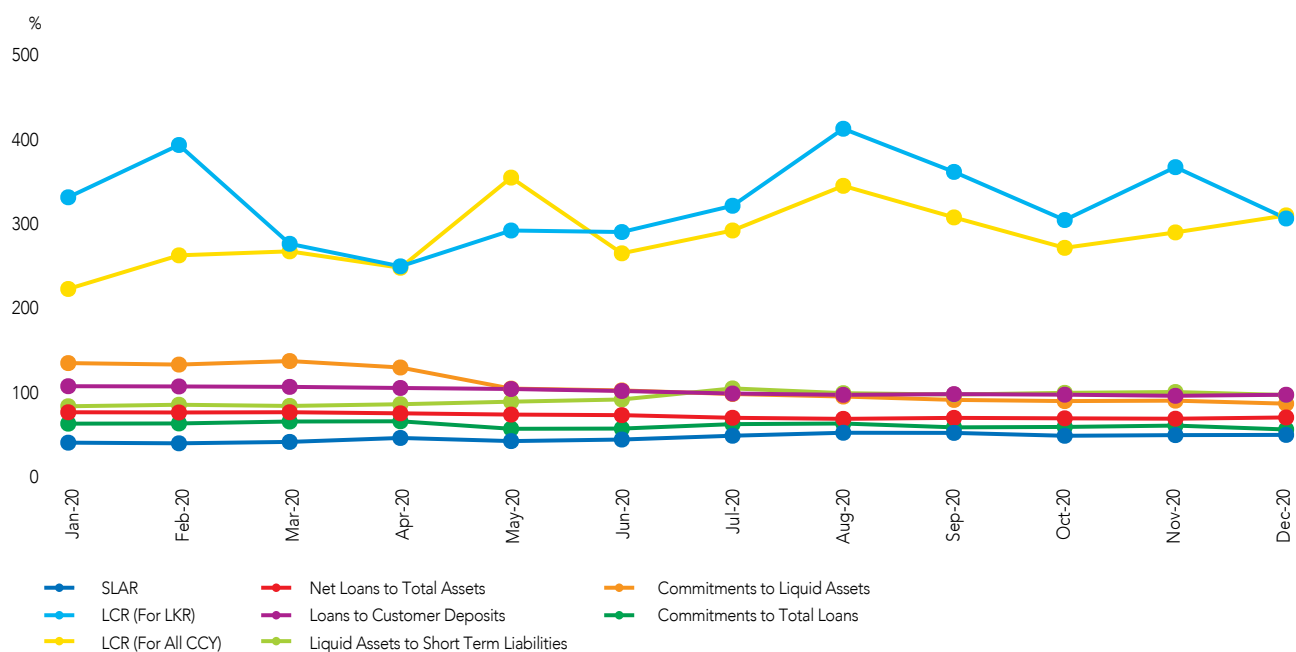
- 1) The above figures have been prepared as per SLAS including interest cash flows and may differ from SLFRS figures given in the Statement of Financial Position
- 2) Prepared as per requirement given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

Market Discipline-Disclosure Requirements Under Pillar III

Template 14 - Section III Liquidity Risk - Key Liquidity Ratios

Report on Liquidity Gap Summary as at 31st Dec 2020 (Consolidated Foreign Currency)

Ratio	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
SLAR	30.35%	29.59%	31.26%	35.94%	32.23%	34.06%	38.57%	42.10%	41.94%	38.52%	39.30%	39.57%
LCR (For LKR)	321.17%	383.14%	266.03%	239.32%	281.79%	279.99%	311.11%	402.38%	351.25%	294.22%	356.87%	296.04%
LCR (For All CCY)	212.51%	252.36%	257.10%	237.63%	344.49%	254.76%	281.82%	334.73%	297.32%	261.25%	279.54%	299.72%
Net Loans to Total Assets	66.40%	66.13%	66.43%	65.13%	63.64%	62.97%	59.82%	58.57%	59.74%	59.19%	58.74%	60.23%
Loans to Customer Deposits	97.26%	96.98%	96.49%	95.17%	93.96%	91.60%	88.59%	87.04%	87.91%	87.22%	85.90%	87.15%
Liquid Assets to Short Term Liabilities	73.50%	75.29%	73.89%	75.91%	78.92%	81.55%	94.66%	89.03%	87.37%	89.40%	90.40%	86.83%
Commitments to Liquid Assets	124.66%	122.90%	127.09%	119.44%	94.44%	92.28%	88.02%	85.03%	81.03%	79.64%	80.14%	76.59%
Commitments to Total Loans	52.89%	53.14%	55.42%	55.70%	46.80%	47.06%	52.32%	53.05%	48.51%	48.99%	50.61%	45.99%



Template 14 - Section III (b) Liquidity Risk - Currency Wise

Report on Liquidity Gap Summary as at 31st Dec 2020 (LKR/ Behavioural)

(Amount in Million LKR)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Balances due from Head Office, Affiliates and Own Branches	0	0	0	0	0	0	3,772
	Bills of Exchange	240	2	0	0	0	0	0
	Cash on hand	25,850	0	0	125	0	0	0
	Deposits with CBSL	354	354	354	708	1,769	1,769	1,769
	Investments (Net of provisions)	16,154	50,018	61,345	94,765	14,148	12,559	7,382
	Loans and Advances	66,436	81,766	86,836	104,555	207,895	103,418	79,440
	NPLs	1	1	0	2,778	0	0	8,335
	Net Inter-Branch Transactions	0	0	0	0	0	0	(0)
	Other Assets	51	280	64	5,140	0	0	9,356
	Other	0	0	566	1,133	0	0	0
	Overdraft	5,110	7,243	7,781	15,274	26,198	22,422	18,736
	Accrued Interest	1,551	728	632	730	156	0	0
	Balances due from Other Banks	0	0	0	0	0	0	0
	Fixed Assets L1	0	0	0	0	0	0	22,469
	Forward Contracts	3,925	16,495	1,374	679	0	0	0
	Reverse Repo	135	0	0	0	0	0	0
		119,805	156,888	158,952	225,888	250,167	140,169	151,260
Total Outflows	Balances due to Other Banks	0	0	0	0	0	0	768
	Bills Payable	1,324	0	0	0	0	0	0
	Demand Deposits	12,085	12,085	9,064	12,085	13	13	15,116
	Interest Payable	2,402	4,567	3,617	2,992	2,191	1,602	0
	Letters of Credit/Guarantees/ Acceptances	0	566	566	567	0	0	0
	Other Liabilities	188	0	232	5,855	21,715	27	8,007
	Savings Deposits	19,153	19,735	15,734	22,007	80,492	75,855	71,309
	Time Deposits	58,778	121,139	110,408	145,796	20,630	6,544	0
	Bonds Issued	0	1,329	235	10,206	2,841	5,653	13,233
	Borrowings	670	637	696	1,652	5,466	3,979	226
	Capital	0	0	0	0	0	0	35,236
	Forward Contracts Payable	16,590	14,951	11,152	10,721	0	0	0
	Repo	10,011	166	43	150	0	0	0
	Reserves	0	0	0	0	0	0	104,508
		121,202	175,176	151,747	212,032	133,349	93,675	248,403
Net Liquidity Gap		(1,396)	(18,288)	7,206	13,856	116,817	46,494	(97,143)
Net Gap as % of Total Outflows		(1)	(10)	5	7	88	50	(39)
Cumulative Gap		(1,396)	(19,685)	(12,479)	1,376	118,194	164,688	67,545
Adjustments for Behavioural Maturities	Time Deposits	48,567	99,531	77,905	89,315	(144,580)	(82,961)	(87,776)
	Unutilised O/D	(14,986)	(14,986)	(14,986)	(29,973)			
	Undisbursed Loans	(1,927)	(1,927)	(1,927)	(3,854)	(3,212)		
	Pawning Rollovers	(311)	(648)	(1,054)	(7,688)	9,701		
Total Adjustments		31,343	81,969	59,937	47,801	(138,091)	(82,961)	(87,776)
Adjusted Net Liquidity Gap		29,946	63,681	67,143	61,656	(21,273)	(36,467)	(184,920)
Adjusted Net Gap as % of Total Outflows		33	68	73	38	(8)	(21)	(55)
Adjusted Cumulative Gap		29,946	93,627	160,770	222,426	201,153	164,686	(20,234)

Notes

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- 2) Prepared as per requirement given in the Banking Act Direction No 7 of 2011 on "Integrated Risk Management Framework".

Market Discipline-Disclosure Requirements Under Pillar III

Report on Liquidity Gap Summary as at 31st Dec 2020 (USD/ Behavioural)

(Amount in Thousands USD)

		1M	3M	6M	1Y	3Y	5Y	>5Y
Particulars	Product							
Total Inflows	Bills of Exchange	3,071	4,330	1,411	0	0	0	0
	Cash on hand	2,052	0	0	0	0	0	0
	Investments (Net of provisions)	58,072	3,526	121,514	121,041	506,929	202,808	150,248
	Loans and Advances	34,668	56,221	49,779	66,560	175,234	84,559	23,238
	NPLs	0	0	0	5,209	0	0	15,627
	Other Assets	0	1,692	0	0	0	0	0
	Other	0	0	3,010	6,022	0	0	0
	Overdraft	880	960	1,018	1,985	3,300	2,881	2,471
	Accrued Interest	1,466	154	538	2,324	8	0	0
	Balances due from Other Banks	165	0	0	0	0	0	37,746
	Forward Contracts	36,363	64,039	54,838	57,174	0	0	0
		136,737	130,922	232,109	260,315	685,470	290,248	229,330
Total Outflows	Balances due to Other Banks	0	105,826	60,284	260,807	56,615	44,856	28,841
	Demand Deposits	3,886	3,886	2,914	3,886	362	362	5,098
	Interest Payable	1,329	4,318	3,733	4,686	2,766	484	0
	Letters of Credit/Guarantees/ Acceptances	0	3,010	3,010	3,011	0	0	0
	Other Liabilities	287	358	358	2,152	1,075	1,075	11,981
	Savings Deposits	12,863	13,110	10,207	14,031	51,791	49,871	47,989
	Time Deposits	68,053	124,777	129,302	255,341	64,384	15,606	0
	Forward Contracts Payable	96,668	156,058	21,303	8,305	0	0	0
		183,085	411,344	231,112	552,218	176,993	112,253	93,909
Net Liquidity Gap		(46,347)	(280,422)	997	(291,904)	508,477	177,995	135,421
Net Gap as % of Total Outflows		(25)	(68)	0	(53)	287	159	144
Cumulative Gap		(46,347)	(326,769)	(325,772)	(617,676)	(109,199)	68,796	204,217
Adjustments for Behavioural Maturities	Time Deposits	53,562	94,113	83,177	175,188	(170,066)	(111,411)	(124,564)
	Unutilised O/D	(3,047)	(3,047)	(3,047)	(6,095)			
	Undisbursed Loans	(9,837)	(9,837)	(9,837)	(19,673)	(16,394)		
Total Adjustments		40,679	81,229	70,293	149,421	(186,460)	(111,411)	(124,564)
Adjusted Net Liquidity Gap		(5,669)	(199,192)	71,289	(142,483)	322,017	66,584	10,857
Adjusted Net Gap as % of Total Outflows		(4)	(60)	44	(35)	89	30	5
Adjusted Cumulative Gap		(5,669)	(204,861)	(133,571)	(276,054)	45,963	112,546	123,404

Notes

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Template 14 - Section (V) Interest Rate Risk in the Banking Book (IRBB)

Present Market Value of RSA/RSL on Movement of Market Interest Rates - LKR

(Values are in Millions LKR)

	1M	3M	6M	1Y	3Y	5Y	>5Y
Rate Sensitive Assets total	347,904	95,071	102,011	161,432	111,932	69,563	91,544
Rate Sensitive Liabilities total	88,997	160,294	120,425	172,468	110,050	77,386	184,715
Net Gap	258,907	(65,223)	(18,414)	(11,037)	1,882	(7,822)	(93,172)
Cumulative Gap	258,907	193,683	175,269	164,233	166,115	158,293	65,121
Duration weight	0.08	0.25	0.50	1.00	3.00	5.00	30.00
Market Rates	4.49	5.21	5.33	5.61	6.62	7.39	8.80
Present Value at market rates	257,961	64,400	17,942	10,450	1,553	5,477	7,420
Present Value at market rates + 50 basis pt	257,858	64,324	17,900	10,401	1,531	5,351	6,467
Change in Market value for 50 basis point interest movement	(103)	(76)	(42)	(49)	(22)	(126)	(954)

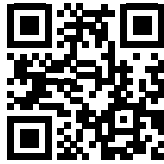
Present Market Value of RSA/RSL on Movement of Market Interest Rates - USD

(Values are in Thousands USD)

	1M	3M	6M	1Y	3Y	5Y	>5Y
Rate Sensitive Assets total	405,169	85,324	121,883	109,801	447,650	171,721	173,754
Rate Sensitive Liabilities total	80,761	324,887	213,678	526,071	106,064	61,590	59,029
Net Gap	324,409	-239,563	-91,794	-416,270	341,586	110,131	114,725
Cumulative Gap	324,409	84,845	-6,949	-423,219	-81,633	28,497	143,222
Duration weight	0.08	0.25	0.5	1	3	5	10
Market Rates	0.15	0.25	0.26	0.34	0.25	0.45	0.95
Present Value at market rates	324,368	239,414	91,675	414,860	339,037	107,686	104,375
Present Value at market rates + 10 basis pt	324,341	239,354	91,630	414,447	338,024	107,151	103,346
Change in Market value for 10 basis point interest movement	(27)	(60)	(46)	(413)	(1,013)	(534)	(1,028)

Notes

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