Risk Management

Risk arises from uncertainty pertaining to the Bank's future losses as well as future gains. Therefore, there is a natural trade-off between risk and return. Risk is not necessarily related to the size of the potential loss as many potential losses are large but are quite predictable and can be provided for using risk management techniques.

Risk is inherent in every level of activity carried out by a bank, but is managed through an effective process of risk management with the aid of risk limits and related controls.

Identify the Risks

↓

Quantify and estimate the risk exposures

↓

Determine the collective efforts of the risk exposures

↓

Develop a risk mitigation Strategy

↓

Asess and Review performance

The Bank's mission with respect to risk management is to enhance its risk management capabilities, culture and practices so as to be in line with internationally accepted standards and practices. This mission is to support the Bank's vision which is to be an admired leader by providing a unique banking experience, through equitable financial solutions.

The strategic focus of Amāna Bank's risk management process is to create a risk based culture that enables the Bank to take an integrated approach to Risk Management and assigning the traditional approach of independently managing risk within each Department or Unit.

The major categories of risks are credit, market, liquidity and operational risks. Banks also face other risks including but not limited to reputational, legal, regulatory, etc.

Amāna Bank has adopted an Integrated Risk Management (IRM) framework with a set of policies approved by its Board of Directors (BOD) along with supporting procedures. The purpose of these policies and procedures is to manage and optimise the risk-reward trade off. Through the IRM framework, the BOD assesses the risk profile and has oversight over the implementation of the IRM framework of the Bank and its management on a regular basis, at minimum on a quarterly basis. Integrated Risk Management is a set of practices and processes supported by a risk-aware culture and enabling technologies that improves decision making and performance through an integrated view of how well the Bank manages its unique set of risks.

The IRM framework covers identification of potential risks and sources of such risks, the mechanism of managing such information and reporting on how to monitor such risks. It also defines relevant officers and committees responsible for risk control and mitigation. The risk management policies and procedures, among other matters, address;

i. a system to aggregate overall risk exposures for monitoring and control
ii. measures for risk diversification with limits for various exposures based on risk appetite
iii. risk measurement approaches such as use of historical databases, stress testing and scenario analyses
iv. capital maintenance considering expected and unexpected losses
v. capital allocation to businesses and products in order to optimise risk adjusted returns and economic value additions
vi. disaster recovery and contingency plans.

RISK APPETITE

An effective risk governance framework includes a strong risk culture, a well-developed risk appetite articulated through the Risk Appetite Statement, and well defined responsibilities for risk management in particular and control functions in general.

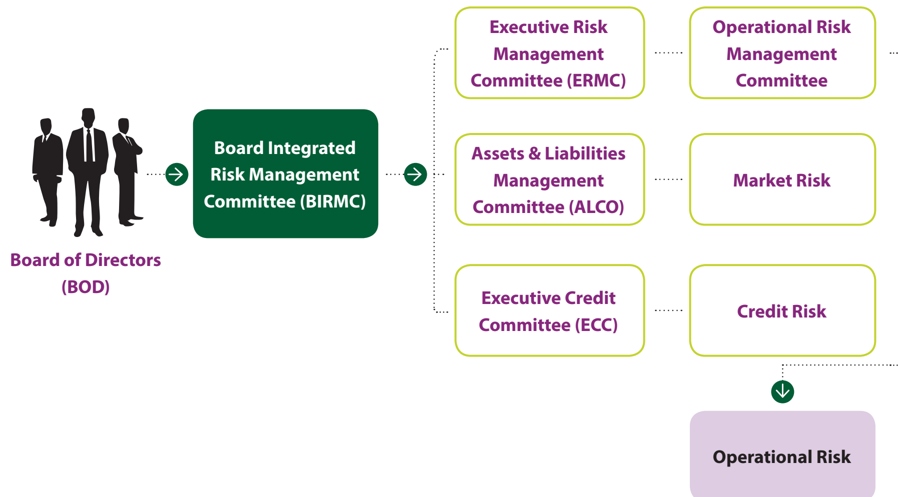
The Bank's risk appetite reflects its tolerance to accept risk. The subsequent application of the risk appetite into defined risk limits, sets boundaries to its business strategy and to its ability to exploit business opportunities.

In order to effectively apply risk appetite, the Bank has defined quantitative indicators on all risk categories (for example: capital adequacy level, risk limits, earnings growth, foreign exchange net position, single borrower limits, liquidity gap, etc.) and embedded qualitative aspects in its policies and procedures (such as assessment criteria). The Bank's risk policy and risk limits are designed to be consistent with the defined risk appetite.

RISK MANAGEMENT STRUCTURE

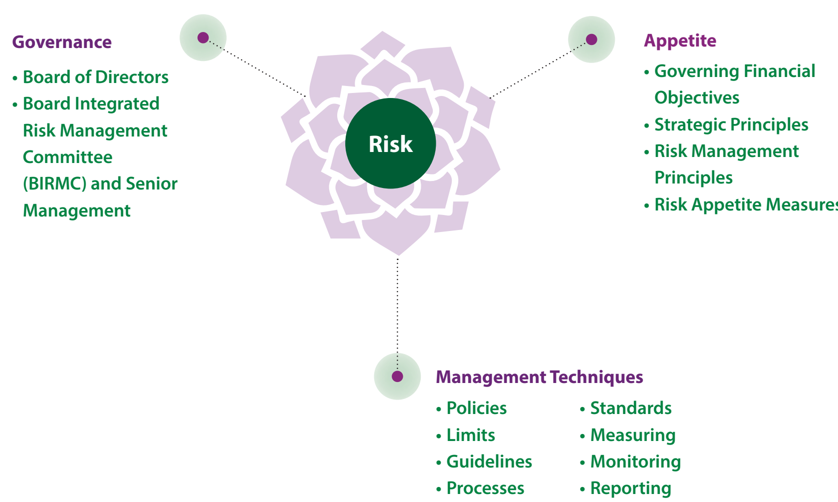
The Risk Management Department (RMD) is mandated to design and operate the Bank's integrated risk management process and is independent of business lines. The Bank has developed a risk management framework adhering to the Basel III Accord, which provides guidance to the overall risk management goals and strategy. This risk management framework provides the basis for the on-going development and enhancement of the Bank's integrated risk management infrastructure and capabilities. The framework provides a structured approach to the management, measurement and control of risk i.e. a way that people and processes ensure that business activities provide an appropriate balance of return for the risks undertaken. The primary goals of risk management are to ensure that the outcomes of risk taking activities are consistent with the Bank's strategies and risk appetite. The Bank's enterprise-wide risk management framework provides the foundation for achieving these goals.

Integrated Risk Management Framework document was revised by RMD, reviewed by the Board Integrated Risk Management Committee (BIRMC) and approved by the BOD during the year.



The Bank's risk management framework is applied on an enterprise-wide basis and consists of three key elements as depicted below:

Risk Management Framework



The Bank has in place a strong risk management framework which is based on the need, to assess the Bank's exposure to risks while minimising adverse impacts of credit risk, market risk, liquidity risk and operational risk on resources, earnings and cash flows through a robust framework of integrated risk management. The Bank has ensured that its portfolios/exposures remain aligned to the defined risk appetite and strategy whilst proactively managing risks supported by strong open-minded risk identification.

The Board is required to define the risk appetite for the Bank and is responsible for the activities and overall performance of the Bank. This risk appetite supports effective decision-making, capital allocation and is central to embedding risk management in business decisions and risk reporting across the Bank.

A strong and pervasive integrated risk management culture provides a sound foundation of risk management framework consistent with the bank's objectives, risk tolerance, control standards and management philosophy.

The risk governance structure at Amāna Bank stems from the Board of Directors and is monitored by the following Board and Management committees:

- Board Integrated Risk Management Committee (BIRMC)
- Board Audit Committee (BAC)
- Board Credit Committee (BCC)
- Assets and Liabilities Management Committee (ALCO)
- Executive Risk Management Committee (ERMC)
- Operational Risk Management Committee (ORMC)
- Management Audit Committee (MAC)
- Executive Credit Committees (ECCs)
- IT Steering Committee (ITSC)

The Board has defined the risk appetite for the Bank which is then rolled out to each business line and subsequently to the business unit. The Board is assisted by a number of Board level and Management level committees.

TYPICAL ROLES/RESPONSIBILITIES IN SETTING RISK APPETITE

Stakeholders	Roles/Responsibilities
Board of Directors	• Review and approve risk appetite • Review strategic objectives and positioning
BIRMC	• Understand the risk profile of the Bank and the Bank's performance against same • Set basic goals for the Bank's risk appetite and strategy, such as ratings or earnings-volatility targets with senior management and issue guidelines for senior management in implementing risk management policies and procedures throughout the Bank • Ensure that the risk function is adequately staffed with professionals who are sufficiently competent in managing and monitoring all risks within the Bank and that they can avail of appropriate systems and tools
CEO, CRO and Senior Management	• Develop Business Strategy • Identify availability of capital • Coordinate process of aligning risk appetite and risk strategy with business strategy and capital capacity • Oversee monitoring and reporting around the risk appetite process • Align business lines and goals within the risk parameters • Communicate risk appetite • Promote risk culture • Communicate and integrate objectives throughout the business processes • Embed risk appetite related goals in performance objectives
Business/Support Unit Heads	• Propose key initiatives in light of economic, risk and competitive outlook • Align risk policies, processes and limits used in managing day-to-day business operations with the metrics contained in the risk appetite statement

With the intention of being consistent with the risk-ownership concept under the Basel III Accord, the Bank's strategy to manage various risks is structured into '3 Lines of Defence' as summarised below:

1ST LINE OF DEFENCE: RISK TAKING UNITS

These are the units directly exposed to specific risks daily and must assume primary responsibility in their management. By identifying and analysing risks and shortcomings, instituting regular controls, monitoring and reporting procedures and taking appropriate action, they are in the best position to mitigate or avoid risks. The overall ownership of the risk environment and responsibility to manage the risks therefore reside with them.

2ND LINE OF DEFENCE: RISK CONTROL UNITS

This refers to the respective Risk Management Team and the Risk Control Committees, including other control and monitoring departments such as Legal, Compliance and Sharia Supervision. The RMD shall be responsible for the development and maintenance of the risk management framework and its implementation. Other controlling and monitoring departments are responsible to develop guidelines in managing risks under their purview. Both RMD and controlling/monitoring departments ensure timely receipt of reports and perform analyses before submitting them to top management and the BOD for their oversight. Where appropriate, they provide support to the risk taking units and initiate changes to policies and procedures.

3RD LINE OF DEFENCE: INDEPENDENT ASSURANCE

This refers to the Internal Audit function whose roles and responsibilities under the risk management policy are to provide independent assurance to the BOD on the effectiveness of the risk management framework, that the policy has been implemented with integrity.

The Bank has been continuously leveraging the risk management system capabilities to drive the following benefits:

i. increase efficiency and reduce operating cost for risk management through optimised utilisation of resources and skills (reduction in manual operations)
ii. reduce potential losses with enhanced risk management and increase profitability through better control over risk appetite.
iii. adhere to regulations that may come into effect in the future (i.e. by Central Bank of Sri Lanka (CBSL), Securities and Exchange Commission (SEC), etc.)
iv. enhance strategic decision-making with foresight into risks.
v. enhance product and services strategy by providing confidence in introducing innovative and profitable offerings.
vi. timely detection of risks to reduce losses due to risk events.

During the year, the country witnessed unforeseen events in the form of terrorist attacks which prompted certain prudent risk management measures to be adopted in line with market conditions assisting the Bank to reach the level of growth achieved. In doing so, the Bank was further able to strengthen the risk based culture by means of a robust risk management framework throughout all branches and departments. The Bank's RMD strategically manages the risks by working closely with the business units at every stage of the process, and with the use of credit risk and operational risk management tools the Bank has successfully managed the Non Performing Advances (NPA) ratio at a level below the industry average and worked towards strengthening the Risk Control and Self-Assessment (RCSA) process.

ASSESSMENT OF CAPITAL ADEQUACY

In order to provide assurance that the Bank has sufficient capital to support all its business and risk taking activities, RMD carried out the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the Basel III guidelines, as required by CBSL.

ICAAP guides the minimum internal capital requirement for the Bank's current and future business strategies and financial plans for the next three years via a comprehensive risk assessment process on its portfolio risk exposures, its risk management practices towards material risks and potential capital planning buffer required in the event of stress.

CBSL directed all licensed commercial banks in Sri Lanka to formulate their ICAAP document and submit the same for regulatory evaluation within five months of the financial year end. The Bank has, in compliance with the CBSL guidelines, formulated the ICAAP document and met the said requirement.

Capital Requirement under Basel III

Minimum Requirement covered under Pillar 1 of Basel III regulations has been complied with, which required the capital buffers to be implemented. Amāna Bank is maintaining the capital to comply with the buffer requirement and maintain CAR at 12.5% by 2019, which is the rate that is applied for banks which carry an asset base of less than LKR 500 billion.

Assessment of the capital has been reviewed by the ICAAP process which assesses the risks that are not covered in the Pillar I in order to meet the capital ratio and the buffer requirement as specified by the regulator. ICAAP was prepared in line with Basel III capital and buffer requirements and the capital was assessed under various stress scenarios for smooth functioning of the Bank.

During the year, the country witnessed unforeseen events in the form of terrorist attacks which prompted certain prudent risk management measures to be adopted in line with market conditions assisting the Bank to reach the level of growth achieved. In doing so, the Bank was further able to strengthen the risk based culture by means of a robust risk management framework throughout all branches and departments.

The Bank has adopted the latest requirements of Basel III. The Liquidity Coverage Ratio (LCR), is being reported to CBSL based on existing guidelines. LCR in terms of all currencies and based on rupee have been monitored separately and reported to the relevant management committee and BIRMC on a monthly basis in order to assess the liquidity risk of the Bank. The Leverage Ratio and Net Stable Funding Ratio (NSFR) which came into effect from 1 january 2019 have also been reported to CBSL as part of Basel III reporting.

The compilation of the ICAAP report is spearheaded by the Management Committee and a cross functional team which consists of resource personnel from risk, audit and finance departments.

ICAAP report helps the Bank meet the following objectives:

i. ensure that the Bank is adequately capitalised beyond the minimum regulatory capital requirements under Pillar I at all times;
ii. ensure a comprehensive coverage of risks facing the Bank, covering not only the Pillar I risks but also other risks that are covered under Pillar II and Pillar III. Further, the ICAAP document shall also aim to address inadequacies in risk management process of Pillar I risks through related risks categories (example: residual credit risk and under-estimation of credit risk in standardised approach).
iii. formulate a process that forms an integral part of the Bank's risk management processes so as to enable the BOD and senior management to assess the risks that are inherent in their activities and are material to the Bank on an on-going basis.
iv. have a process for assessing the overall capital adequacy in relation to the risk profile.
v. enable the Bank to withstand adverse business conditions by evaluating the adequacy of capital in stress scenarios.
vi. usage of risk management in general business decisions and budgets, day-to-day activities such as evaluating individual credit decision process and in overall strategic planning of the Bank.
vii. embark upon a continuous process for improvement in risk management techniques, policies, processes, systems and overall awareness of the Bank.

SOURCES OF CAPITAL AND CAPITAL MANAGEMENT

The growth in profitability in the ensuing years will be a source of internally generated capital whilst external sources will include equity via rights issue and private placements.

The Bank having raised equity capital in 2017 through a rights issue, satisfied the regulator's current minimum capital requirement of LKR 10 billion. This also enabled the Bank to support its current and future expansion activities whilst continuing to maintain its regulatory capital adequacy ratios at a healthy level well above minimum requirement. Supplemented by sustained growth in profits, the Bank expects its level of capital to be adequate in the short to medium term. Based on the latest regulation, the Bank is required to increase its capital up to LKR 20 billion by end 2020 and in this regard, the Board of Directors is in the process of evaluating suitable options to comply with this requirement before the stipulated deadline.

Whilst the current level of capital is adequate to support the planned capital expenditure as well as business growth up to the mid-term, subsequent to meeting the requirement in 2020 the Bank expects to be well-positioned in terms of the desired capital level.

Further to Amãna Bank's second successive dividend payment in 2019, the Bank may, subject to the provisions of the Articles of Association, the Companies Act No. 07 of 2007 and any other applicable guidelines make dividend payments by way of interim and final dividends to its shareholders in relation to the profits made from time to time. Such dividends will be paid after taking into consideration the Bank's earnings, investment requirements and other financial conditions.

STRESS TESTING

Stress testing is an important risk management tool that enables a bank to identify the potential sources of risk, evaluate the magnitude of it, develop tolerance levels and generate strategies to mitigate the identified risks. Sound stress testing practices enables the Board and Senior Management to make a more informed forward looking assessment of risks when determining Bank's risk appetite, business strategies and contingency plans.

Moreover, Pillar 1 of the Basel Accord related to minimum capital requirements mandates that banks undertake stress testing for assessing capital adequacy if they are using the Internal Models Approach (IMA) to determine market risk or advanced or foundation internal ratings-based (IRB) approaches to determine credit risk. Pillar 2 of the Basel Accord related to the supervisory review process (SRP) mandates that banks undertake general stress tests. Compliance with Basel III requirements help banks to correctly assess risk and develop plans to reduce their actual losses. The internally developed scenarios shall include economic recession scenarios, one of which must be a prolonged recession, to assess its ability to withstand and mitigate such scenarios. These scenarios have been applied in Bank's ICAAP, annually.

Sensitivity and Scenario Analyses

The Bank uses a range of stress testing methodologies such as sensitivity and scenario analysis to ensure that its stress testing is comprehensive. Sensitivity analysis estimates the impact on the value of a portfolio of exposures arising from assumed movements in a single risk factor or several closely related risk factors.

Supervisory Review and Evaluation

As part of the Bank's risk-based supervisory framework and evaluation of ICAAP, stress testing shall be reviewed and evaluated annually. The Bank is required to take action to improve its capital or risk management processes in order to address any adverse scenario impact conducted through stress testing.

CREDIT RISK MANAGEMENT

Overview

Credit Risk is the risk of potential loss arising from failure of a customer or counterparty to perform according to its contractual obligations to the Bank. It includes failure in the repayment of capital plus the Bank's profit/ mark-up on direct financing or from off balance sheet assets such as letters of credit, letters of guarantee, documents against acceptance, etc. within the agreed tenure and in the agreed currency.

Credit Risk generates the largest regulatory capital requirement for the Bank. The Bank manages the Credit Risk in the entire portfolio as well as on individual credit exposures.

The main objectives of Credit Risk Management function is to:

- ensure optimal risk-reward pay off for the Bank and to maximise returns
- maintain quality of the portfolio by minimising non-performing advances and probable losses
- maintain a well-diversified portfolio by prudently managing risk in the asset portfolio to ensure that risk of excessive concentration to any industry/sector/ individual customer is minimised
- ensure that all requirements as per regulatory guidelines are maintained and all related party transactions monitored and reported to the relevant authorities as well as ensuring clearly defined internal policies and guidelines are set and reviewed regularly to meet the current requirements of the Bank

Following are the main elements through which the Bank achieves the objectives of the Credit Risk function.

Credit Policies and Guidelines

The Bank has a well-defined Credit Risk Policy approved by the BOD and a Credit Procedure Manual which are reviewed regularly. These documents outline fundamental standards and disciplines to actively manage the credit risk across the Advance portfolio of the Bank, defines the credit culture, target markets, prohibited areas of business, set acceptable risk parameters, set standards for collateral, delegated authorities and the guide to post-disbursement monitoring of financing accommodated. The policy guidelines are used to manage the incidence of credit risk, which is spelt out in the Credit Risk Policy ensuring stringent pre/post credit risk management in line with the risk appetite of the Bank, the regulations of CBSL and Basel guidelines.

The Bank continuously strengthens its monitoring mechanism of credit risk to ensure regular and frequent review of the portfolio. This helps the Bank to understand any emerging risk trends, align its credit risk appetite to its business objective, whilst promoting risk based business decision-making.

Structured Standardised Credit

Credit proposals are prepared in pre-determined formats, and comprise of financial appraisal, independent review of financial and non-financial information such as credit ratings, collateral and covenants, and credit approval based on BOD sanctioned delegation of authority (DA).

Credit is extended only to suitable and well-identified customers on evaluating and ensuring the purpose, ensuring that the primary source of repayment for each credit is from identifiable cash flow, sources of income, their ethical standards and records. Where the source of repayment is unknown or speculative or where the purpose/destination of funds is undisclosed such requests are not accommodated, further ensuring that risk considerations shall have priority over business and profit considerations.

A pricing mechanism that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns, based on risk based pricing. The financial performance of borrowers are continuously monitored and frequently reviewed as set out in each approval and as per credit procedure guidelines. The Bank obtains collateral as a possible secondary recourse or as a fall back option. These are obtained based on exposure guidelines set by the credit risk policy and collateral guidelines, which in turn are set according to regulatory guidelines on collateral.

Collateral and Credit Enhancements

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letters of credit/ guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's approved valuation policy. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models.

Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent professional valuers.

In terms of collateral repossessed, the Bank's policy is to sell the repossessed assets at the earliest possible opportunity. Such collateral repossessed are held on a memorandum basis without derecognising the underlying receivable.

Delegation of Authority

The BIRMC has been delegated with the responsibility of managing the Bank's overall risk including credit risk. At an executive level, credit authority has been further delegated to Executive Credit Committees (ECCs) which is headed by CEO and CRO respectively. The Credit Risk Department conducts independent reviews of the credit risks lying with the relevant business units and makes recommendations on credit policies, prudential limits on sector exposures and counterparty exposures in order to make improvements.

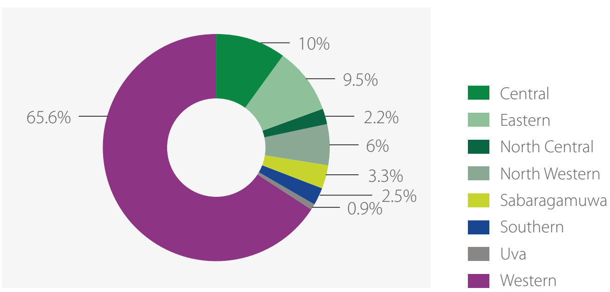
Final authority and responsibility for all activities that expose the Bank to credit risk rests with the BOD which has delegated approval authority to the CEO to re-delegate limits to Business Lines. All DAs to individual members are name specific and are based on the individual experience, judgement, ability, facility type and collateral in order to ensure accountability and mitigate any judgemental errors.

Prudential Limits

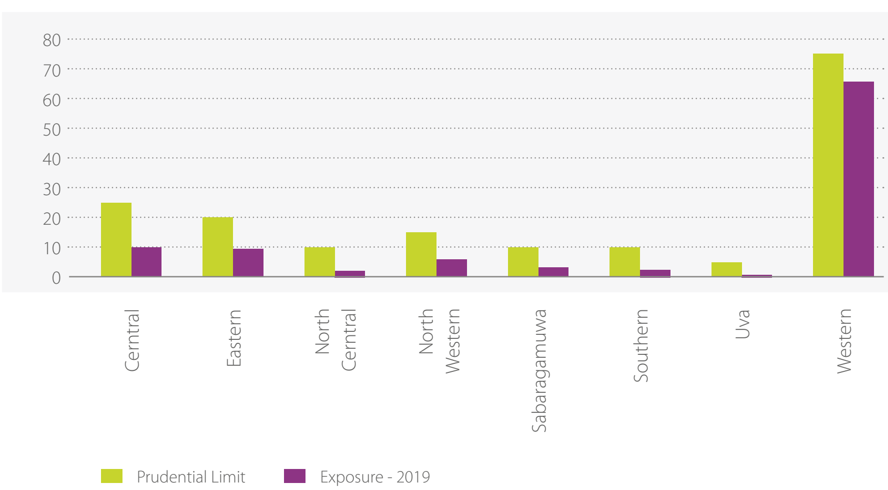
The Bank continuously strengthens its monitoring mechanism of credit risk to ensure regular and frequent review of the portfolio. This helps the Bank to understand any emerging risk trends, align its credit risk appetite to its business objective, whilst promoting risk based business decision-making. This exercise covers analysis of the portfolio based on industry sectors, products, geographies and trends in NPA.

Prudential, industry, geographic and portfolio limits are set by the BIRMC. Credit Risk Department monitors compliance with these approved limits. Desired diversification is achieved by setting maximum exposure limits on single / group obligor exposures, where the internal limits are more stringent than the limits set by the regulator, which too are monitored by RMD for compliance.

Geographical Concentration of Portfolio



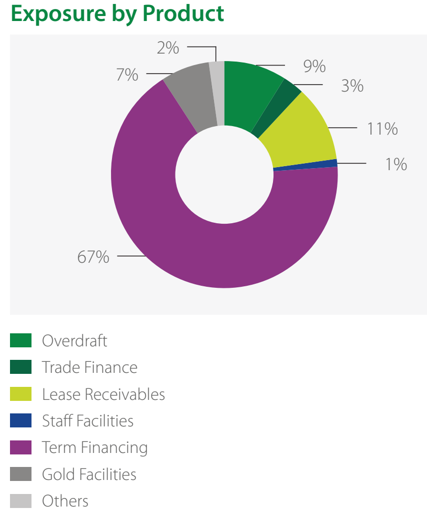
Geographical Concentration Against Prudential Limits (%)



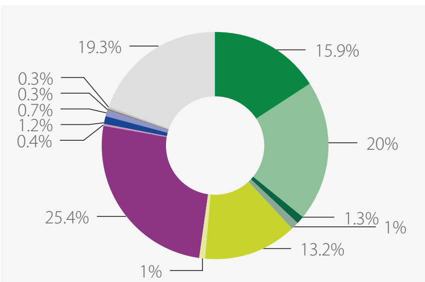
Portfolio Management

Credit portfolio management is an important function within the overall credit risk management. The need for such critical and objective portfolio management emanates from the need to optimise the benefits associated with diversification. It also helps the Bank to identify and address potential adverse impact of concentration of exposures. The Bank has a well-structured portfolio management mechanism which evaluates exposures on the basis of industry concentration, rating quality, internally established early warning indicators, apart from regulator imposed quantitative ceilings such as the single borrower and aggregate exposure. On feedback from regular reviews and interactions with business units the criteria for credit accommodation is amended to insulate portfolios from further deterioration.

Exposure by Product



Exposure by Sector



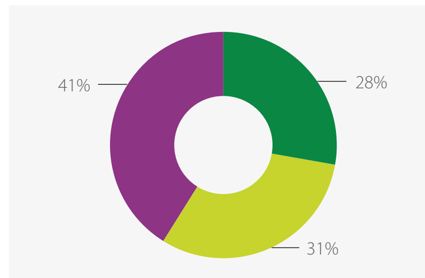
- Agriculture, Forestry and Fishing
- Manufacturing
- Tourism
- Transportation and Storage
- Construction
- Infrastructure Development
- Wholesale and Retail Trade
- Information Technology and Communication Services
- Financial Services
- Professional, Scientific and Technical Activities
- Education
- Health Care, Social Services and Support Services
- Consumption

In addition, stress tests and scenario analyses are carried out to assess the impact of any material changes in the external environment with suitable recommendations to restructure the portfolio. Any deteriorating credits with emphasis on internal and external early warning signals are identified and monitored closely. Non Performing Advances are identified at an early stage through regular interactions with business units, enabling management to take action as appropriate. In addition, a post-approval hindsight review of credits approved is carried out by an independent committee which reports to BIRMC with appropriate recommendations. All monitoring reports are submitted regularly to the respective credit committees and BIRMC.

Developments in 2019

- The Bank has been using a risk scoring model from its inception for its Consumer, SME and Corporate portfolios which required an enhancement with the growth and diversified portfolio of the Bank. With this requirement in mind a robust Risk rating model was successfully selected and implemented, which runs on a sophisticated workflow based software and hosts an obligor risk rating as well as a facility risk rating option. With this the Bank expects to facilitate accurate quantification of credit risk which covers large corporates, SMEs and retail portfolios. This new model will replace the existing Risk score model which was used for facilities offered by the business segments.
- Further, with the implementation of the new risk scoring model, consumer facilities approval workflow also was automated with Housing, and Small Asset Financing (SAF) applications which are now routed through the system for efficient processing of customer files and faster turnaround time. This also helps the Bank to look at the Retail portfolio more proactively in line with the Bank's focus in terms of its Strategic Plan.
- The Credit Risk Policy of the Bank was reviewed to support the Bank's future strategies and to strengthen the Credit Risk function of the Bank in light of the changes taking place in the external environment. With this review being now completed, the Credit Procedure Manual will also be reviewed and plans are underway to draw up a separate procedure manual for Credit Administration function to further strengthen this area.

Exposure by Segment



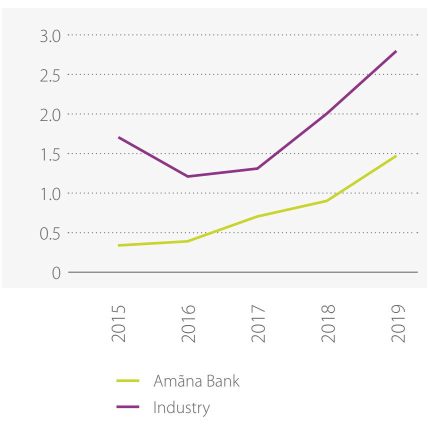
- Consumer
- Corporate
- SME

The increasing trend in banking sector NPAs continued unabated due to the slowdown in economic activity which compelled the Bank to take further steps to contain NPAs inter-alia by:

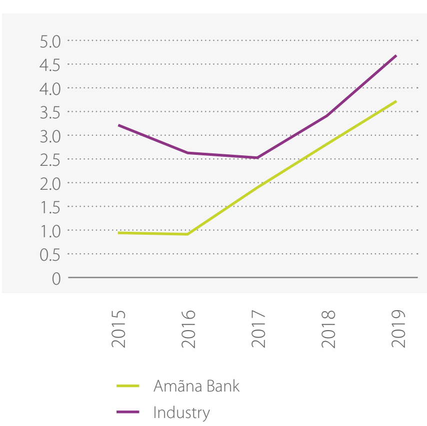
- initiating and extending the SMS alert facility to SME customers as well after having initially introduced it to retail customers thereby providing all with a gentle reminder of their due date and amount.
- segregation of collection and recovery teams into collections and legal recoveries introduced in the previous year was further strengthened with the introduction of a call centre for retail collection which brought in positive results, ensuring focus through tightening up of the follow-up process.
- The legal department is now supported with a Legal Officer dedicated for recoveries and the Bank expects to further strengthen this area with added focus on early recoveries.

As a result of regularly engaging with the customers and implementing the above steps, the Bank's Net NPA ratio was contained at 1.5% well below the industry average of 2.8% whilst the Gross NPA also stood below industry average. These results were achieved amidst difficult market conditions which demonstrates the Bank's resilience to external challenges.

Net NPA (%)



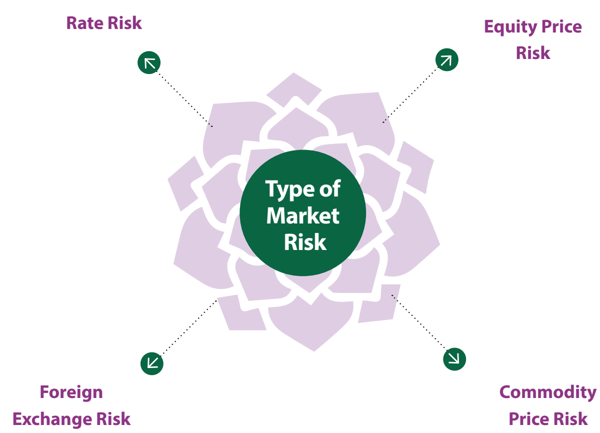
Gross NPA (%)



MARKET RISK MANAGEMENT

Market Risk

Market risk is the risk of loss from changes in market prices and rates (including rates, credit spreads, foreign exchange rates, equity prices and commodity prices), the correlations among them and their levels of volatility. A description of each market risk category is provided below.



Rate Risk

The risk of loss due to changes in the level, slope and curvature of the yield curve, volatility of rates and prepayments.

Foreign Exchange Rate Risk

The risk of loss due to changes in spot and forward prices and the volatility of currency exchange rates.

Equity Risk

The risk of loss due to changes in the prices and the volatility of individual equity instruments and equity indices.

Commodity Risk

The risk of loss due to changes in spot and forward prices and the volatility of precious and base metals.

Market risk mainly arises from activities undertaken by the Bank's Treasury, Foreign Exchange, Equity, Commodity and Money Market portfolios. A Board approved limit structure has been adopted by the Bank to mitigate and monitor its market risk. Further, the BOD and the Management have ensured effective monitoring and management of market risk with the following:

i. BIRMC reviews market risk policies and limits and approval is obtained from the BOD for any changes necessary. An annual review of treasury related policies and limits also takes place to ensure such policies and limits are in line with regulatory requirements.
ii. BIRMC and ALCO monitor and manage market risk of the Bank in accordance with the Board approved risk framework.
iii. Risk Middle Office independently monitors all significant market risks and submits reports to CEO, ALCO and BIRMC.
iv. Risk Middle Office conducts stress testing for foreign exchange exposures, equity investments, gold facilities and liquidity on a periodic basis. Aggregate level of stress testing is conducted on a quarterly basis.

As required by CBSL, the Bank uses the Internal Measurement Approach to calculate Market Risk under Basel regulations. The Bank maintains quoted equity exposures at fair value with changes in fair value recognised either through Profit or Loss or through Other Comprehensive Income (OCI) and manages those portfolios separately based on the requirements of Sri Lanka Accounting Standards. Market risk for the portfolios is monitored based on a VaR methodology and also using other sensitivity analyses.

OBJECTIVES OF THE METHODOLOGIES USED TO ASSESS MARKET RISK

Value at Risk (VaR)

VaR is a method of measuring market risk based on a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the risk of any financial instrument into a common standard.

The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 365 days of market data. Changes in VaR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes. VaR is also used to evaluate risks arising in certain funding and investment portfolios. Back testing is also an important and necessary part of the VaR process, by validating the quality and accuracy of the Bank's VaR model.

Stress Testing

VaR measures potential losses in normally active markets. Accordingly, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on portfolios. The stress testing programme is designed to identify key risks and quantify potential losses from abnormal events. The Bank subjects its equity portfolios to stress tests on a periodic basis, using stress tests based on risk factor sensitivities and specific market events. The stress testing programme is an essential component of the Bank's comprehensive risk management framework which complements the current VaR methodology and other risk measures and controls employed by the Bank. Risk Middle Office conducted the stress testing on an aggregate level and reported to ALCO and BIRMC on a quarterly basis.

Sensitivity Analysis

Sensitivity analysis assesses the effect of changes in rates on current earnings and on the economic value of shareholders' equity. It is applied to each of the major currencies within the Bank's operations.

Gap Analysis

Gap analysis is used to assess the rate sensitivity of the Bank's operations. Under gap analysis, rate sensitive assets and liabilities and off balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates.

Rate Risk Analysis

Earnings perspective involves analysing the impact of changes in the profit rate on accrual or reported earnings in the near term, measured by changes in the net financing income. Economic value perspective involves analysing the changes of impact of profit on the expected cash flows on assets minus the expected cash flows on liabilities plus the net cash flows arising from off balance sheet items. The level of profit rate changes is an important factor to choose fixed/floating rate assets/liabilities, their maturities and hedging decisions.

VaR Assumptions

The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses will be below the VaR limit on average under normal market conditions, for 99 out of 100 days.

Since VaR is an integral part of the Bank's market risk management, VaR figures are reviewed monthly against loss limits by ALCO and at every BIRMC.

In practice, the actual trading results may differ from the VaR calculation and in particular the calculation does not provide a meaningful indication of profits and losses in stressed market situations.

		VaR of Foreign Exchange Exposures (LKR million)	Approved Loss Limits for FX Operations (LKR million)	VaR of Equity Portfolio (LKR million)	Approved Loss Limits for Equity Operations (LKR million)
2019	End December	1.07	7.27	3.57	35.00
	Daily Average	3.85		4.75	
	High	9.12		5.46	
	Low	0.28		3.55	
2018	End December	1.49	4.57	4.75	35.00
	Daily Average	2.07		9.47	
	High	6.48		15.80	
	Low	0.33		4.08	

Foreign Exchange Risk

Foreign Exchange Risk is a monetary loss that arises because of unhedged or not fully hedged foreign currency positions. Foreign exchange risk results from imperfect correlations in currency price movements as well as changes in international market rates. Potential large losses could reduce the extent of a bank's foreign investment and also put it at a competitive disadvantage compared to its competitors.

Such risks are primarily due to changes in foreign exchange rates which are managed by setting and monitoring dealer, currency, counterparty and settlement limits for on and off balance sheet instruments.

Foreign exchange exposures in individual currencies are managed in accordance with the limits approved by the BOD. In addition, this is also managed and monitored against the regulatory limits set by CBSL.

The Bank engages in interbank forward transactions to cover positions created due to customer transactions and mismatches in balance sheet positions. In addition, the Bank's activities in the trade financing business result in off balance sheet exposures. Cash flows of currencies are managed by undertaking promissory buy/sell transactions on a matching basis.

The concentration of on and off balance sheet foreign currency risk as at 31 December 2019 and 31 December 2018 are given in the tables shown below:

As at 31 December 2019

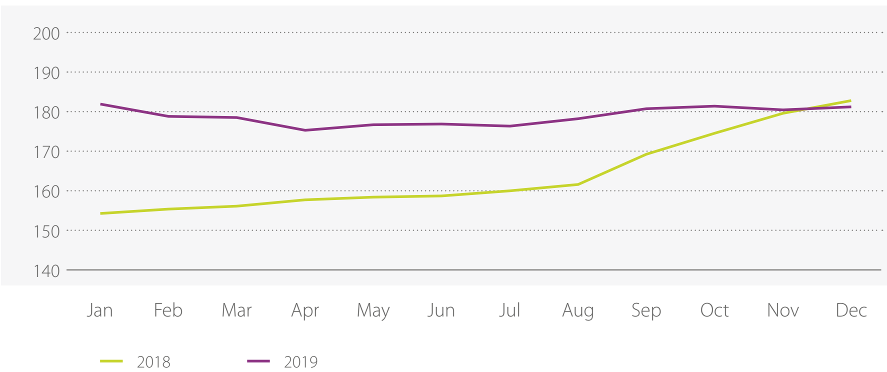
Currency	Spot			Forward			Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR
	Assets	Liabilities	Net	Assets	Liabilities	Net				
U.S. Dollar	105,241,879	(41,851,442)	63,390,436	75,950,000	(139,171,992)	(63,221,992)	168,445	-	168,445	33,506,405
Pound Sterling	1,336,829	(1,269,335)	67,494	60,000	-	60,000	127,494	-	127,494	29,885,343
Euro	457,480	(153,110)	304,370	-	(7,821)	(7,821)	296,549	-	296,549	60,307,702
Japanese Yen	(965,123)	(2,610,599)	(3,575,772)	6,350,000	(1,049,718)	5,300,282	1,724,560	-	1,724,560	2,879,540
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	337,952	(1444,00)	193,953	-	-	-	193,953	-	193,953	24,665,490
Canadian Dollar	-	-	-	-	-	-	-	-	-	-
Other Currencies										60,442,534
Total Exposure										211,687,013
Total Capital Funds as per 31.12.2019 Financial Statements										11,833,327,210
Total Exposure as a % of Total Capital Funds (should not exceed 30%)										1.79%

As at 31 December 2018

Currency	Spot			Forward			Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR
	Assets	Liabilities	Net	Assets	Liabilities	Net				
U.S. Dollar	82,533,241	(46,690,310)	35,842,930	77,184,032	(111,831,556)	(34,647,524)	1,195,406	-	1,195,406	280,443,814
Pound Sterling	126,090	(1,817,571)	(1,691,481)	1,700,000	-	1,700,000	8,519	-	8,519	920,526
Euro	411,361	(541,436)	(130,075)	300,000	-	300,000	169,925	-	169,925	411,361
Japanese Yen	(2,547,019)	(4,510,875)	(7,057,894)	4,300,000	-	4,300,000	(2,757,894)	-	(2,757,894)	(4,582,107)
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	90,083	(147,121)	(57,038)	90,000	-	90,000	32,962	-	32,962	4,242,848
Canadian Dollar	200	-	200	-	-	-	200	-	200	26,876
Other Currencies										21,976,886
Total Exposure										348,056,190
Total Capital Funds as per 31.12.2018 Financial Statements										11,347,153,694
Total Exposure as a % of Total Capital Funds (should not exceed 30%)										3.07%

During the year 2019, the LKR appreciated by 0.6% against the US Dollar.

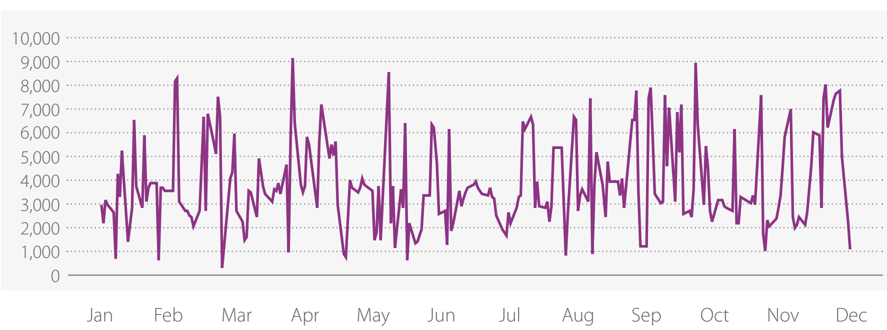
Exchange Rate - USD/LKR (LKR)



Revaluation of all foreign currency assets and liabilities is carried out daily by i-MAL core banking system according to accepted market best practices.

A graph giving daily VaR figures of the foreign currency exposure is given below.

FX VaR 2019 (LKR '000)



Equity Position Risk

The Bank holds equity portfolios for trading and investment purposes. These portfolios expose the Bank to rate risks, credit spread and equity risks. Equity position risk arises due to changes in individual equity prices. The Bank's equity portfolio is held at fair value where such changes in fair value are recognised either through Profit or Loss or Other Comprehensive Income. The Portfolio of equity where fair value is recognised through Profit or Loss is purchased with a view to hold them in the short term and equities where fair value is recognised through OCI are purchased in order to hold them in the medium term. Recognition and measurement of these portfolios are in accordance with SLFRS 9 principles which came into effect from 1 January 2018.

The performance of the equity portfolio is monitored by the Equity Investment Committee (EIC) and ALCO. The Board of Directors has laid down sector, portfolio and loss limits to control and mitigate the risks of the equity portfolio. The Bank also adheres to the Guidelines issued by CBSL regarding the exposure to a single entity and the total exposure limit for the equity portfolio. The Bank conducts transactions only in white-listed equities.

The sectoral exposure of equity portfolio comparing with previous year is given below:

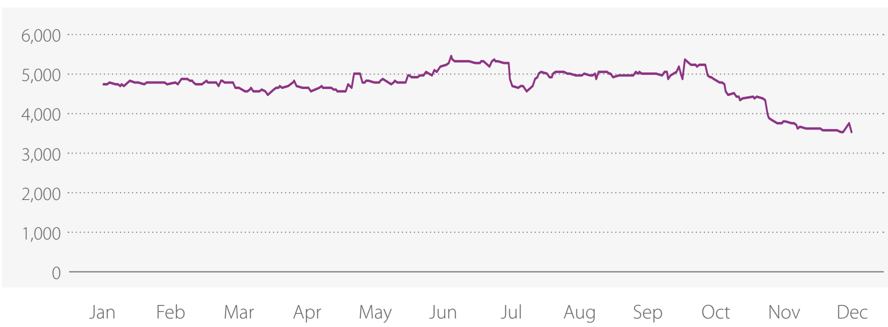
			2019
Equity/Sector	**Total Cost as at 31 December**	**Mark-to-Market Value as at 31 December**	**Maximum Exposure Limit for Sector**
	LKR	**LKR**	**LKR**
Construction	5,640,000	8,720,000	52,000,000
Beverage & Food	6,543,300	5,002,930	52,500,000
Trading	37,452,822	38,382,705	52,500,000
Telecom	17,267,236	19,885,964	52,500,000
Sub Total	66,903,358	71,991,599	
Strategic Investments	184,685,504	143,946,055	
Total Equity Portfolio	251,588,862	215,937,654	
Total Approved Portfolio Limit			710,000,000

			2018
Equity/Sector	**Total Cost as at 31 December**	**Mark-to-Market Value as at 31 December**	**Maximum Exposure Limit for Sector**
	LKR	**LKR**	**LKR**
Manufacturing	31,168,000	25,149,280	87,500,000
Construction	16,942,000	10,321,200	52,000,000
Beverage & Food	13,201,058	12,364,632	52,500,000
Trading	42,319,103	40,479,560	52,500,000
Diversified	24,062,519	18,160,392	87,500,000
Power	6,739,410	5,750,963	52,500,000
Sub Total	134,432,090	112,226,027	
Strategic Investments	244,335,790	184,685,504	
Total Equity Portfolio	378,767,880	296,911,532	
Total Approved Portfolio Limit			710,000,000

The Bank's Treasury system carries out daily marking to market of the equity portfolio against the closing weighted average prices published by the Colombo Stock Exchange.

A graph indicating the daily VaR figures for Equity portfolio (excluding the strategic investment portfolio) is given below:

Equity VaR 2019 (LKR '000)



Rate Risk

Rate risk arising from the Bank's financing and investment activities is managed in accordance with the Board approved policies and limits, which are designed to control the risk to net financing income and economic value of shareholders' equity.

Mismatches in maturity of assets and liabilities that mature or are re-priced during a specified time period, does have an impact on the Bank's exposure to rate risk. In order to manage and mitigate such risks, ALCO reviews the re-pricing of assets and liabilities on a monthly basis. The Bank's rate risk is limited due to the business model adopted where customer deposits have been taken on the basis of sharing actual profits and losses earned.

However, rate risk is monitored by measuring the impact on rate sensitive maturity gaps with yield curve shifts of parallel and non-parallel nature.

	1 to 30 Days %	1-3 Months %	3-6 Months %	6-9 Months %	9-12 Months %	1-3 Years %	3-5 Years %	5-10 Years %	10-15 Years %	Over 15 Years %	Unclassified %
Scenario I	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Scenario II	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%
Scenario III	-1.50%	-1.50%	-1.25%	-1.25%	-1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Scenario IV	1.50%	1.50%	1.25%	1.25%	1.00%	-1.00%	-1.00%	-1.25%	-1.25%	-1.50%	-1.50%
Scenario V	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Impact of yield curve shifts on rate sensitive assets and liabilities on contractual and behavioural basis are given below based on the above scenarios:

2019				2018		
			Behavioural Basis			
Scenario	**Rate Risk (LKR million)**	**Impact on CAR**		**Scenario**	**Rate Risk (LKR million)**	**Impact on CAR**
Scenario I	(106.72)	-0.16%		Scenario I	(429.14)	-0.72%
Scenario II	116.93	0.18%		Scenario II	462.29	0.77%
Scenario III	(164.78)	-0.25%		Scenario III	(324.27)	-0.54%
Scenario IV	166.32	0.25%		Scenario IV	331.49	0.56%
Scenario V	(246.16)	-0.37%		Scenario V	(1,013.51)	-1.70%
			Contractual Basis			
Scenario	Rate Risk (LKR million)	Impact on CAR		Scenario	Rate Risk (LKR million)	Impact on CAR
Scenario I	(280.10)	-0.42%		Scenario I	(782.39)	-1.31%
Scenario II	608.49	0.92%		Scenario II	856.27	1.43%
Scenario III	(332.50)	-0.50%		Scenario III	(451.73)	-0.76%
Scenario IV	351.96	0.53%		Scenario IV	472.57	0.79%
Scenario V	(1,259.58)	-1.89%		Scenario V	(1,832.40)	-3.07%

The details of the impact of 1% increase in market rates on Economic Value of Equity (EVE) and Earnings at Risk (EaR) calculated based on Behavioural and Contractual maturities are given in the table below:

	2019	2018
Economic Value of Equity (EVE) - (100 bps shift)		
Behavioural - % of Total Capital	0.94%	1.93%
- Value in LKR million	(106.72)	(218.64)
Contractual - % of Total Capital	2.47%	3.52%
- Value in LKR million	(280.10)	(399.98)
Earnings at Risk (EaR) - (100bps shift)		
Behavioural - % of Total Capital	0.11%	-0.12%
- Value in LKR million	12.44	(13.09)
Contractual - % of Total Capital	0.67%	0.81%
- Value in LKR million	(75.83)	(92.39)

Maturity Gaps of Assets and Liabilities (Behavioural Basis) as at 31 December 2019

	Up to 3 Months LKR	3 - 12 Months LKR	1 - 3 Years LKR	3 - 5 Years LKR	Over 5 Years LKR	Total LKR	Sensitive to Rates
Assets							
Cash and Cash Equivalents	10,067,003,265	-	-	-	-	10,067,003,265	Yes
Balance with Central Bank of Sri Lanka	1,285,843,004	1,532,895,926	393,534,316	149,378,965	87,145,120	3,448,797,331	Yes
Placements with Banks	6,678,452,913	3,946,730,411	-	-	-	10,625,183,324	Yes
Placements with Licensed Finance Companies	12,053,159	-	-	-	-	12,053,159	Yes
Derivative Financial Assets	118,762,344	107,256,981	72,648	-	-	226,091,973	Yes
Financial Assets Measured at Fair Value through Profit or Loss	72,789,000	-	-	-	-	72,789,000	Yes
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	16,324,596,976	19,355,688,572	12,493,835,619	6,245,612,310	3,297,227,522	57,716,960,999	Yes
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	-	-	-	146,141,654	146,141,654	Yes
Other Assets - Financial	363,197,788	491,117,207	34,065,630	-	-	888,380,624	Yes
Property, Plant, Equipment and Right-of-Use Assets	-	-	-	-	2,505,901,129	2,505,901,129	No
Intangible Assets	-	-	-	-	237,074,723	237,074,723	No
Other Assets - Non Financial	542,433,384	63,006,686	27,753,182	-	-	633,193,251	No
Total Assets	35,465,131,832	25,496,695,782	12,949,261,395	6,394,991,276	6,273,490,148	86,579,570,432	
Liabilities							
Due to Banks	1,103,040,822	-	-	-	-	1,103,040,822	Yes
Derivative Financial Liabilities	32,710,194	23,768,463	-	-	-	56,478,657	Yes
Financial Liabilities at Amortised Cost - Due to Depositors	19,240,120,594	34,324,196,140	9,163,750,229	4,818,657,403	4,068,029,109	71,614,753,475	Yes
Other Liabilities - Financial	543,115,237	21,190	25,298,535	-	542,102,784	1,110,537,746	Yes
Current Tax Liabilities	-	402,511,650	-	-	-	402,511,650	No
Dividend Payable	6,891,441	-	-	-	-	6,891,441	No
Deferred Tax Liability	-	-	-	-	194,314,961	194,314,961	No
Retirement Benefit Liability	-	-	-	-	144,987,628	144,987,628	No
Other Liabilities - Non Financial	92,486,021	-	-	-	-	92,486,021	No
Total Liabilities	21,018,364,310	34,750,497,442	9,189,048,764	4,818,657,403	4,949,434,482	74,726,002,401	
Maturity Gap	14,446,767,522	(9,253,801,660)	3,760,212,631	1,576,333,872	1,324,055,666	11,853,568,031	

Maturity Gaps of Assets and Liabilities (Contractual Basis) as at 31 December 2019

	Up to 3 Months LKR	3 - 12 Months LKR	1 - 3 Years LKR	3 - 5 Years LKR	Over 5 Years LKR	Total LKR	Sensitive to Rates
Assets							
Cash and Cash Equivalents	10,067,003,265	-	-	-	-	10,067,003,265	Yes
Balance with Central Bank of Sri Lanka	3,448,797,331	-	-	-	-	3,448,797,331	Yes
Placements with Banks	6,678,452,913	3,946,730,411	-	-	-	10,625,183,324	Yes
Placements with Licensed Finance Companies	12,053,159	-	-	-	-	12,053,159	Yes
Derivative Financial Assets	118,762,344	107,256,981	72,648	-	-	226,091,973	Yes
Financial Assets Measured at Fair Value through Profit or Loss	72,789,000	-	-	-	-	72,789,000	Yes
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	16,324,596,976	19,355,688,572	12,493,835,619	6,245,612,310	3,297,227,522	57,716,960,999	Yes
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	-	-	-	146,141,654	146,141,654	Yes
Other Assets - Financial	363,197,788	491,117,207	34,065,630	-	-	888,380,624	Yes
Property, Plant, Equipment And Right-of-Use Assets	-	-	-	-	2,505,901,129	2,505,901,129	No
Intangible Assets	-	-	-	-	237,074,723	237,074,723	No
Other Assets - Non Financial	542,433,383	63,006,686	27,753,182	-	-	633,193,250	No
Total Assets	37,628,086,158	23,963,799,856	12,555,727,079	6,245,612,310	6,186,345,028	86,579,570,432	
Liabilities							
Due to Banks	1,103,040,822	-	-	-	-	1,103,040,822	Yes
Derivative Financial Liabilities	32,710,194	23,768,463	-	-	-	56,478,657	Yes
Financial Liabilities at Amortised Cost - Due to Depositors	33,207,893,316	27,388,756,219	6,881,806,819	2,614,043,012	1,522,254,109	71,614,753,475	Yes
Other Liabilities - Financial	543,115,237	21,190	25,298,535	-	542,102,784	1,110,537,746	Yes
Current Tax Liabilities	-	402,511,650	-	-	-	402,511,650	No
Dividend Payable	6,891,441	-	-	-	-	6,891,441	No
Deferred Tax Liability	-	-	194,314,961	-	-	194,314,961	No
Retirement Benefit Liability	-	-	144,987,628	-	-	144,987,628	No
Other Liabilities - Non Financial	92,486,021	-	-	-	-	92,486,021	No
Total Liabilities	34,986,137,032	27,815,057,522	6,907,105,354	2,614,043,012	2,403,659,482	74,726,002,401	
Maturity Gap	2,641,949,127	(3,851,257,666)	5,648,621,725	3,631,569,299	3,782,685,546	11,853,568,031	

Maturity Gap Analysis for Local Currency Denominated Assets and Liabilities as at 31 December 2019

	Up to 1 Month LKR	1 - 3 Months LKR	3 - 6 Months LKR	6 - 9 Months LKR	9 - 12 Months LKR	1 - 3 Years LKR	3 - 5 Years LKR	Over 5 Years LKR	Total LKR
Inflows									
Cash in Hand	2,153,117,514	-	-	-	-	-	-	-	2,153,117,514
Balance with Central Bank of Sri Lanka	1,189,413,815	356,801,348	397,314,326	302,634,054	384,110,635	565,432,882	109,197,023	159,103,249	3,464,007,331
Balances Due from Other Banks	8,759,781	-	1,000,000,000	500,000,000	2,400,000,000	-	-	-	3,908,759,781
Investments	218,930,654	-	-	-	-	-	-	-	218,930,654
Overdrafts	389,227,176	389,227,176	389,227,176	389,227,176	389,227,176	1,081,186,599	1,081,186,599	1,081,186,599	5,189,695,675
Financing and Receivables to Other Customers	5,902,631,526	5,887,968,349	3,749,761,277	2,391,836,846	2,554,585,331	9,097,607,895	5,132,208,563	10,566,078,019	45,282,677,806
Non Performing Advances	-	-	-	-	420,656,011	-	-	1,261,968,033	1,682,624,044
Inter Branch Transactions	26,415,537	-	-	-	-	-	-	-	26,415,537
Other Assets	565,645,395	154,407,716	40,176,338	26,379,078	473,029,745	159,725,972	-	2,376,168,953	3,795,533,197
Total (a)	10,454,141,397	6,788,404,588	5,576,479,117	3,610,077,154	6,621,608,899	10,903,953,348	6,322,592,184	15,444,504,852	65,721,761,538
Outflows									
Demand Deposits	1,782,318,756	881,140,907	440,570,454	183,571,022	110,142,613	-	-	367,142,045	3,764,885,798
Savings Deposits	4,233,699,922	4,029,247,735	3,252,970,158	1,652,862,897	1,051,055,641	2,449,045,448	2,407,559,512	3,498,601,563	22,575,042,876
Balance Due to other Banks	800,000,000	300,000,000	-	-	-	-	-	-	1,100,000,000
Time Deposits	1,792,672,403	3,758,840,559	5,960,035,486	5,516,688,479	8,171,566,771	11,289,319,849	245,608,767	-	36,734,732,313
Profit Payable	68,817,321	95,801,463	109,855,389	85,489,349	109,970,059	163,815,537	31,636,237	41,717,139	707,102,496
Provisions Other than for Financing Losses and Depreciation in the Value of Investment Portfolio	396,827,639	7,823,504	19,517,904	85,195,371	12,518,523	17,360,506	81,232,207	445,143,452	1,065,619,105
Other Liabilities	8,598,411,736	-	-	-	-	-	-	-	8,598,411,736
Unutilised Portion of Overdraft, Financing and Receivables to Other Customers	398,536,796	797,073,592	1,195,610,387	1,195,610,387	1,195,610,387	-	-	-	4,782,441,550
Letters of Credit/ Guarantees/Acceptances	177,387,884	378,829,623	537,976,230	360,653,780	459,098,966	496,074,498	3,681,573	-	2,413,702,553
Repo/Bills Rediscounted/ Swaps/Forward contracts	(7,762,392,278)	(195,790,196)	7,713,750,000	4,265,250,000	6,071,175,000	1,361,250,000	-	-	11,453,242,527
Others	-	-	-	-	-	-	-	11,333,902,357	11,333,902,357
Total (b)	10,486,280,178	10,052,967,187	19,230,286,009	13,345,321,287	17,181,137,960	15,776,865,838	2,769,718,296	15,686,506,556	104,529,083,312
Gap = (a) - (b)	(32,138,782)	(3,264,562,600)	(13,653,806,892)	(9,735,244,133)	(10,559,529,062)	(4,872,912,490)	3,552,873,889	(242,001,704)	(38,807,321,774)
Cumulative Gap	(32,138,782)	(3,296,701,382)	(16,950,508,273)	(26,685,752,407)	(37,245,281,469)	(42,118,193,959)	(38,565,320,070)	(38,807,321,774)	

Maturity Gap Analysis for U.S. Dollar Denominated Assets and Liabilities as at 31 December 2019

	Up to 1 Month USD	1 - 3 Months USD	3 - 6 Months USD	6 - 9 Months USD	9 - 12 Months USD	1 - 3 Years USD	3 - 5 Years USD	Over 5 Years USD	Total USD
Inflows									
Cash in Hand	873,288	-	-	-	-	-	-	-	873,288
Balance with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-
Balances Due from Other Banks	39,845,621	36,000,000	-	-	-	-	-	-	75,845,621
Investments	-	-	-	-	-	-	-	-	-
Overdrafts	6,731	6,731	6,731	6,731	6,731	18,697	18,697	18,697	89,746
Financing and Receivables to Other Customers	6,208,996	9,145,889	5,501,985	3,148,931	4,747,435	1,314,523	52,777	2,681	30,123,217
Non Performing Advances	-	-	-	-	20,046	-	-	60,138	80,183
Inter Branch Transactions	-	-	-	-	-	-	-	-	-
Other Assets	6,302	804,656	-	-	-	-	-	-	810,957
Total (a)	46,940,937	45,957,276	5,508,716	3,155,662	4,774,212	1,333,220	71,474	81,515	107,823,013
Outflows									
Demand Deposits	830,984	-	-	-	-	-	-	-	830,984
Savings Deposits	8,544,615	2,638	5,852	1,241	3,260	31,856	17,549	98,309	8,705,321
Balance Due to other Banks	-	-	-	-	-	-	-	-	-
Time Deposits	1,777,672	15,900,253	5,029,951	4,447,696	4,396,943	114,950	-	-	31,667,465
Net Inter-Branch Transactions	145,540	-	-	-	-	-	-	-	145,540
Profit Payable	59,080	133,012	36,996	32,684	32,326	1,079	129	722	296,028
Provisions Other than for Financing Losses and Depreciation in the Value of Investment Portfolio	6,832	-	-	-	-	33,105	-	-	39,936
Other Liabilities	48,068,068	-	-	-	-	-	-	-	48,068,068
Unutilised Portion of Overdraft, Financing and Receivables to Other Customers	-	-	-	-	-	-	-	-	-
Letters of Credit/Guarantees/ Acceptances	9,064,220	12,560,893	748,968	59,500	140,000	90,000	130,000	-	22,793,581
Repo/Bills Rediscounted/ Swaps/Forward contracts	42,649,279	1,078,734	(42,500,000)	(23,500,000)	(33,450,000)	(7,500,000)	-	-	(63,221,987)
Others	-	-	-	-	-	-	-	3,422,217	3,422,217
Total (b)	111,146,289	29,675,529	(36,678,232)	(18,958,878)	(28,877,471)	(7,229,011)	147,678	3,521,248	52,747,152
Gap = (a) - (b)	(64,205,352)	16,281,746	42,186,949	22,114,541	33,651,683	8,562,231	(76,204)	(3,439,733)	55,075,861
Cumulative Gap	(64,205,352)	(47,923,606)	(5,736,657)	16,377,884	50,029,566	58,591,798	58,515,594	55,075,861	

Sensitivity Analysis for Local Currency Denominated Assets and Liabilities as at 31 December 2019

	Up to 1 Month LKR	1 - 3 Months LKR	3 - 6 Months LKR	6 - 12 Months LKR	1 - 2 Years LKR
Inflows					
Cash in Hand	-	-	-	-	-
Balance with Central Bank of Sri Lanka	-	-	-	-	-
Balances Due from Other Banks & Financial Institutions	8,759,781	-	1,000,000,000	2,900,000,000	-
Investments	-	-	-	-	-
Overdrafts	5,189,695,675	-	-	-	-
Financing and Receivables to Other Customers	5,433,128,047	6,377,710,787	4,492,860,986	7,220,447,096	6,587,402,143
Non Performing Advances	-	-	-	-	178,428,096
Fixed Assets	-	-	-	-	-
Net Inter-branch Transactions	-	-	-	-	-
Accrued Profit	-	-	-	-	-
Other Assets	-	-	-	-	-
Total (a)	10,631,583,502	6,377,710,787	5,492,860,986	10,120,447,096	6,765,830,239
Outflows					
Demand Deposits	-	-	-	-	-
Savings Deposits	4,233,699,922	4,029,247,735	3,252,970,158	2,703,918,538	1,251,545,389
Time Deposits	1,792,672,403	3,758,840,559	5,960,035,486	13,688,255,250	11,182,361,653
Other Deposits	-	-	-	-	-
Other Borrowings	800,000,000	300,000,000	-	-	-
Profit Payable	-	-	-	-	-
Provisions (Others)	-	-	-	-	-
Capital	-	-	-	-	-
Reserves	-	-	-	-	-
Retained earnings	-	-	-	-	-
Others (Liabilities)	-	-	-	-	-
FRAs	(7,762,392,278)	(195,790,196)	7,713,750,000	10,336,425,000	1,361,250,000
Total (b)	(936,019,953)	7,892,298,099	16,926,755,644	26,728,598,788	13,795,157,042
Gap = (a) - (b)	11,567,603,456	(1,514,587,312)	(11,433,894,658)	(16,608,151,692)	(7,029,326,802)

2 - 3 Years LKR	3 - 4 Years LKR	4 - 5 Years LKR	5 - 7 Years LKR	7 - 10 Years LKR	10 - 15 Years LKR	15 - 20 Years LKR	Non Sensitive LKR	Total LKR
-	-	-	-	-	-	-	2,153,117,514	2,153,117,514
-	-	-	-	-	-	-	3,464,008,493	3,464,008,493
-	-	-	-	-	-	-	-	3,908,759,781
-	-	-	-	-	-	-	218,930,654	218,930,654
-	-	-	-	-	-	-	-	5,189,695,675
4,956,816,036	3,991,225,627	2,111,840,568	1,766,096,504	793,638,966	522,992,099	44,030,713	-	44,298,189,573
-	-	697,483,304	363,042,492	-	-	-	243,852,275	1,482,806,167
-	-	-	-	-	-	-	2,148,744,452	2,148,744,452
-	-	-	-	-	-	-	26,415,537	26,415,537
-	-	-	-	-	-	-	1,184,306,110	1,184,306,110
-	-	-	-	-	-	-	1,646,788,746	1,646,788,746
4,956,816,036	3,991,225,627	2,809,323,872	2,129,138,996	793,638,966	522,992,099	44,030,713	11,086,163,781	65,721,762,701
-	-	-	-	-	-	-	3,671,420,448	3,671,420,448
1,197,500,059	1,204,815,353	1,202,744,159	983,500,971	1,388,904,706	178,244,358	947,951,529	-	22,575,042,876
106,958,196	245,608,767	-	-	-	-	-	-	36,734,732,313
-	-	-	-	-	-	-	93,465,350	93,465,350
-	-	-	-	-	-	-	-	1,100,000,000
-	-	-	-	-	-	-	707,206,606	707,206,606
-	-	-	-	-	-	-	847,159,545	847,159,545
-	-	-	-	-	-	-	4,397,041,007	4,397,041,007
-	-	-	-	-	-	-	(5,633,624)	(5,633,624)
-	-	-	-	-	-	-	6,942,494,975	6,942,494,975
-	-	-	-	-	-	-	(8,379,952,175)	(8,379,952,175)
-	-	-	-	-	-	-	-	11,453,242,527
1,304,458,255	1,450,424,120	1,202,744,159	983,500,971	1,388,904,706	178,244,358	947,951,529	8,273,202,131	80,136,219,848
3,652,357,781	2,540,801,507	1,606,579,713	1,145,638,025	(595,265,739)	344,747,741	(903,920,816)	2,812,961,650	(14,414,457,146)

Sensitivity Analysis for U.S. Dollar Denominated Assets and Liabilities as at 31 December 2019

	Up to 1 Month USD	1 - 3 Months USD	3 - 6 Months USD	6 - 12 Months USD	1 - 2 Years USD
Inflows					
Cash in Hand	-	-	-	-	-
Balance with Central Bank of Sri Lanka	-	-	-	-	-
Balances Due from Other Banks & Financial Institutions	-	36,000,000	-	-	-
Investments	-	-	-	-	-
Overdrafts	-	-	-	-	-
Financing and Receivables to Other Customers	3,823,510	9,146,376	5,502,715	7,897,582	2,141,914
Non Performing Advances	-	-	-	-	167
Fixed Assets	-	-	-	-	-
Net Inter-Branch Transactions	-	-	-	-	-
Accrued Profit	-	-	-	-	-
Other Assets	-	-	-	-	-
Total (a)	3,823,510	45,146,376	5,502,715	7,897,582	2,142,082
Outflows					
Demand Deposits	-	-	-	-	-
Savings Deposits	8,544,615	2,638	5,852	4,501	9,183
Time Deposits	1,777,672	15,900,253	5,029,951	8,844,638	114,950
Other Deposits	-	-	-	-	-
Other Borrowings	-	-	-	-	-
Net Inter-branch Transactions	-	-	-	-	-
Profit Payable	-	-	-	-	-
Provisions (Others)	-	-	-	-	-
Capital	-	-	-	-	-
Reserves	-	-	-	-	-
Retained earnings	-	-	-	-	-
Others (Liabilities)	-	-	-	-	-
FRAs	42,649,279	1,078,734	(42,500,000)	(23,500,000)	(33,450,000)
Total (b)	52,971,566	16,981,625	(37,464,197)	(14,650,860)	(33,325,867)
Gap = (a) - (b)	(49,148,056)	28,164,751	42,966,912	22,548,442	35,467,949

	2 - 3 Years USD	3 - 4 Years USD	4 - 5 Years USD	5 - 7 Years USD	7 - 10 Years USD	10 - 15 Years USD	15 - 20 Years USD	Non Sensitive USD	Total USD
	-	-	-	-	-	-	-	873,288	873,288
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	39,845,621	75,845,621
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	887,624	426,900	52,777	-	-	-	-	-	29,879,398
	-	-	-	-	-	-	-	73,671	73,839
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	481,824	481,824
	-	-	-	-	-	-	-	810,954	810,954
	887,624	426,900	52,777	-	-	-	-	42,085,359	107,964,924
	-	-	-	-	-	-	-	741,129	741,129
	22,673	10,560	6,989	17,057	19,261	1,606	60,385	-	8,705,321
	-	-	-	-	-	-	-	-	31,667,465
	-	-	-	-	-	-	-	89,854	89,854
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	145,540	145,540
	-	-	-	-	-	-	-	296,601	296,601
	-	-	-	-	-	-	-	39,936	39,936
	-	-	-	-	-	-	-	(1,770,010)	(1,770,010)
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	5,192,227	5,192,227
	-	-	-	-	-	-	-	46,659,982	46,659,982
	(7,500,000)	-	-	-	-	-	-	-	(63,221,987)
	(7,477,327)	10,560	6,989	17,057	19,261	1,606	60,385	51,395,260	28,546,058
	8,364,951	416,340	45,788	(17,057)	(19,261)	(1,606)	(60,385)	(9,309,902)	79,418,866

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner without incurring high cost.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, manage cost of funds, and to enable business units to continue to generate revenue, even under adverse circumstances.

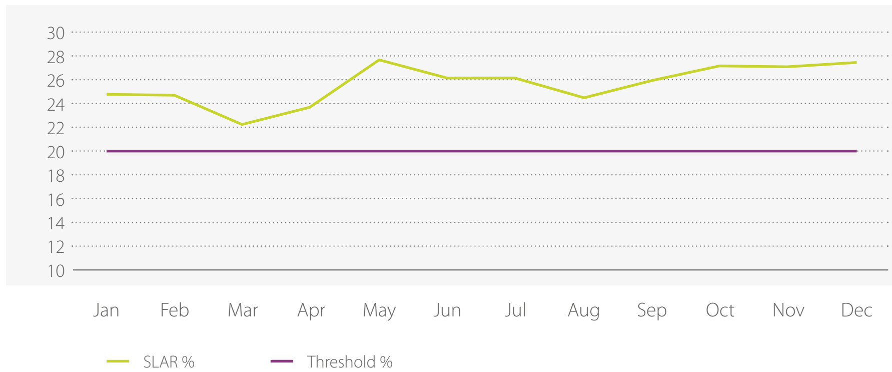
Liquidity risk is managed within the framework of policies and limits that are approved by the BOD. The BOD receives reports on risk exposures and performance against approved limits. ALCO provides senior management oversight of liquidity risk and meets at least monthly to discuss the Bank's liquidity profile.

Adequate liquid assets are maintained by the Bank to ensure that the Statutory Liquid Assets Ratio (SLAR) is maintained in accordance with the regulatory requirements. Liquid assets defined for purposes of the liquidity ratio mainly include cash holdings, bank balances and short-term interbank deposits. The maintenance of SLAR is given below:

Liquid Assets to Liabilities Ratios

	2019	2018
Year-end	27.74%	22.98%
Minimum	22.01%	20.86%
Maximum	27.98%	23.68%

SLAR 2019 (%)



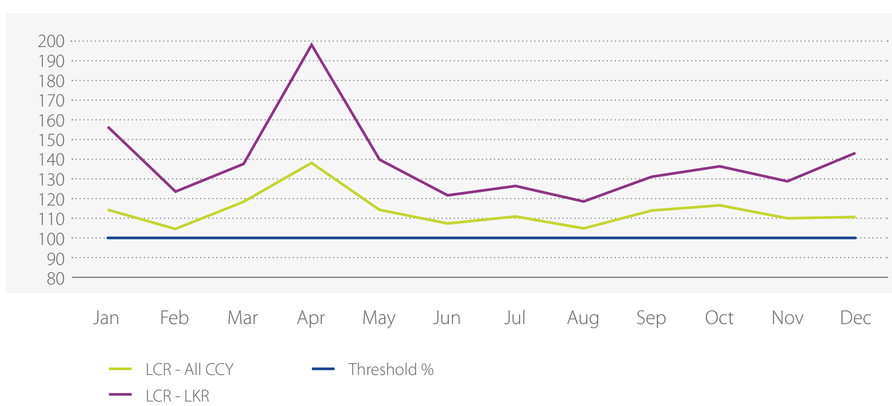
Liquidity Coverage Ratio (LCR)

Regulations require banks to maintain LCR in respect of Rupee Liquidity for local currency operations and All Currency Liquidity for overall operations. This ratio was introduced under Basel III Liquidity Standards and CBSL expects banks to maintain a minimum ratio of 100% in 2019 (2018: 90%).

During 2019, the Bank adequately maintained its LCR above the minimum requirement.

	2019		2018	
	ALL CCY	LKR	ALL CCY	LKR
Year-end	110.04%	142.92%	117.54%	141.83%
Minimum	103.65%	117.64%	94.28%	91.99%
Maximum	139.25%	199.62%	144.81%	162.64%

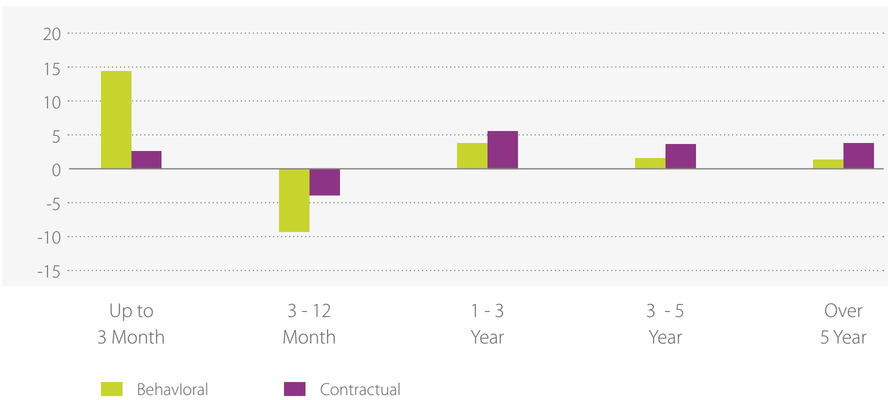
LCR 2019 (%)



Asset and Liability Maturity Gaps

The contractual and behavioural assets and liability maturity gaps as at end of year are indicated below:

Asset and Liability Maturity Gaps (LKR Bn)



Stress Testing

Stress testing is carried out based on Board approved stress testing guidelines and the results are reviewed by BIRMC and ALCO regularly. Stress testing is carried out for areas in relation to exchange exposure, equity portfolio and liquidity to ascertain the impact if the markets faced stressed situations.

i. Foreign Exchange

Amāna Bank's foreign exchange exposure has been stress tested using three scenarios which are based on LKR appreciating/depreciating by 10%, 15% and 20% respectively, in order to assess adverse rate movements of exchange rates, for which the result would impact upon the Capital Adequacy Ratio (CAR). The stress testing results of exchange exposures as of 31 December 2019 are given below:

Particulars	Scenario 1	Scenario 2	Scenario 3
Adverse Change in Exchange Rate (%)	10	15	20
Net Exposure (LKR)	176,655,728	176,655,728	176,655,728
Exchange Loss (LKR)	17,665,573	26,498,359	35,331,146
Capital Funds - Dec 2019 (LKR)	11,833,327,210	11,833,327,210	11,833,327,210
Capital Adjusted for Loss (LKR)	11,815,661,637	11,806,828,850	11,797,996,064
Risk Weighted Assets - Dec 2019 (LKR)	70,073,498,604	70,073,498,604	70,073,498,604
Adjusted Risk Weighted Assets (LKR)	70,055,833,031	70,047,000,245	70,038,167,458
Revised Capital Adequacy Ratio (%)	16.87	16.86	16.85
Capital Adequacy Ratio as at 31 December 2019 (%)	16.89	16.89	16.89
Decline in CAR (%)	0.02	0.03	0.04

ii. Equity Portfolio

Amāna Bank's equity portfolio has been stress tested using three scenarios which are based on a 10%, 20% and 30% reduction in equity prices, in order to assess adverse price movements of equities, for which the result would impact upon the CAR. The stress testing results of the equity portfolio as of 31 December 2019 is given below:

Particulars	Scenario 1	Scenario 2	Scenario 3
Adverse Change in Equity Price (%)	10	20	30
Market Value of Equity Portfolio (LKR)	215,937,654	215,937,654	215,937,654
Revaluation Loss (LKR)	21,593,765	43,187,531	64,781,296
Capital Funds - Dec 2019 (LKR)	11,833,327,210	11,833,327,210	11,833,327,210
Capital Adjusted for Loss (LKR)	11,811,733,444	11,790,139,679	11,768,545,914
Risk Weighted Assets - Dec 2019 (LKR)	70,073,498,604	70,073,498,604	70,073,498,604
Adjusted Risk Weighted Assets (LKR)	70,051,904,838	70,030,311,073	70,008,717,308
Revised Capital Adequacy Ratio (%)	16.86	16.84	16.81
Capital Adequacy Ratio as at 31 December 2019 (%)	16.89	16.89	16.89
Decline in CAR (%)	0.03	0.05	0.08

iii Liquidity

The Bank's ability to maintain regulatory liquidity requirements is undertaken based on stress testing due to the concentration of liquidity which could lead to the impact of large outflows due to customer withdrawals.

OPERATIONAL RISK MANAGEMENT

Management of Operational Risk at Amāna Bank

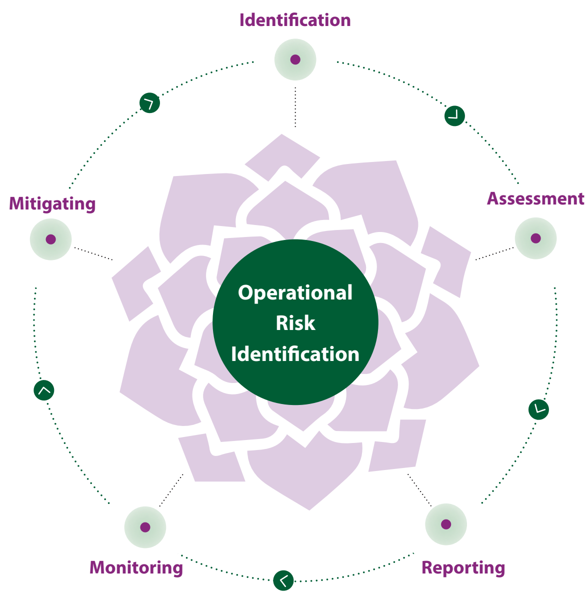
Operational Risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, which includes legal risk. This definition excludes Strategic and Reputation Risks. Therefore, in line with the Basel's risk management framework and leading practices, operational risk in the Bank comprises of the following risk types: operations risk, legal risk, regulatory compliance risk, financial crime risk, people risk, property risk, technology risk, vendor risk, financial risk and environmental risk. While the overall Operational Risk management responsibility is with RMD, different departments such as Legal, Compliance, IT manages the individual risks, which can be classified as operational risk.

Operational Risk exposure is managed through a comprehensive set of internal controls and management processes that include risk assessment (identification, description and estimation), risk evaluation, reporting, mitigation, residual risk reporting and monitoring and control associated with the Bank's business operations as an on-going activity. Operational Risk is recognised as a distinct risk category, which the Bank strives to manage within acceptable levels through sound operational risk management practices. The Bank's approach to managing Operational Risk is to adopt practices that are fit and prudent to suit the organisational maturity and relevant business environments.

Managing Operational Risk forms part of the day to day responsibilities of management at all levels. The objectives in managing Operational Risk are to increase the efficiency and effectiveness of the Bank's resources, minimise losses and optimise opportunities. The Bank's framework defines the minimum requirements for Operational Risk management and is supported by specific policies and procedures. Business units implement the Bank's framework, policies and procedures but may customise these to better suit the Bank's unique model.

Business unit/line management as the first line of defence is ultimately responsible for managing risks that arise within the scope of their respective areas. Both centralised and decentralised Operational Risk management functions are independent from business line management and work in partnership as the second line of defence. Their role is to monitor, manage and report on risks to ensure Operational Risk exposure remains within the policy parameters as mandated by the BOD and Senior Management. These independent functions are also responsible for developing and implementing the Operational Risk management framework and for promoting sound risk management practices across the Bank. Internal Audit is the Bank's third line of defence and performs an independent review of the Operational Risk management framework, policies and practices to ensure that Operational Risk practices are adequate, comprehensive, consistent and efficiently implemented.

Operational Risk Identification



As shown in the above diagram, risk management starts with risk identification. Risks that have the potential to affect the Bank are identified through analysis of internal factors, such as key control lapses and external factors such as environmental threats.

The Bank has established different processes that identify the nature and types of Operational Risk and their causes along with resulting effects on the Bank. Proper Operational Risk identification supports the reporting and maintenance of capital for Operational Risk exposure and events, facilitates the establishment of mechanisms to mitigate or control the risks, and ensures that management is fully aware of the sources of emerging Operational Risk loss events.

Risk identification is performed at all levels of units in the Bank. Risks that have the potential to impact the Bank is identified through analysis of internal factors and external factors. Risk identification takes into consideration the following:

- risks arising from control lapses
- risks identified through root cause analysis of operational events in a timely manner
- risks arising from potential infrequent but severe events
- risks arising from change initiatives (example: new products and projects)
- external events with risk implications to the Bank

The Bank uses the following tools for Operational risk identification:

Risk Control and Self-Assessments

Risk Control and Self-Assessment (RCSA) is a structured means for a business line, supporting unit, product line or process to identify and assess its own risks and introduce measures aimed at improving risk control. It focuses on Operational Risks. In addition, the ownership of key risks - and measures introduced to mitigate unacceptable risk exposure - is clearly defined.

RCSA is conducted by staff of the Bank's unit being assessed (i.e., those who know the process best) with the guidance of the Operational Risk Management Unit. As a consequence, RCSA has been introduced to all Business and Supportive units of the Bank, which is regarded as an effective Operational Risk Management tool. Further, Operational Risk Management Unit continues to provide RCSA training to respective Operational Risk Coordinators of the entire Branch Network.

RCSAs will assist business and support units to self-identify and assess operational risks for certain key processes for which they are responsible. RCSA will also help to address those risks by evaluating the effectiveness of controls and, if necessary, establishing action plans to address any identified process gaps.

Since the business units have expertise in their functions and the process, Operational Risk coordinators of respective units, conduct the RCSA which is reviewed and evaluated by RMD along with the heat map for escalation to the Management and Board Sub-Committees for their comments and suggestions.

Key Risk Indicators

The function of Key Risk Indicators (KRI) is to allow the early detection of Operational Risk before actual failure occurs. It is an early warning indicator of risks and not losses.

Data collection, analysis and presentation of key risk indicators are carried out on a monthly basis along with root cause identification and follow-up on corrective actions. In the event of a threshold breach, it is escalated to ORMC to oversee and control the risk and subsequently to BIRMC for its review. New KRIs are identified on analysis based on the historical data and potential risk exposures. Further, a KRI dash board prepared monthly is circulated to the BIRMC for its review.

Internal Operational Risk Events and Losses

Departments report all Operational Risk events and losses to the Operational Risk Management Unit which maintains a centralised database on all internal risk events and losses (both historical and current). This data is then classified into various risk categories.

Loss event database is maintained in line with Basel regulations and CBSL requires the Bank to identify operational loss trends from internal loss data collection and prepare analysis for management reporting. Root cause of operational losses to facilitate control/process/system improvements are identified and monitored for resolution.

External Risk Events Data

External events which have Operational Risk implication to the Bank are monitored as a source of potential Operational Risk.

New/Change Initiatives Risk Analysis

Operational risks are identified and assessed in the evaluation and implementation of new/change initiatives such as new products, strategies, strategic partnerships and projects.

In line with Amāna Bank's goal towards Digitalisation of customer servicing tools, the Bank has set up a dedicated team to drive Digital Banking Projects. Thus digitalisation enables upgraded service delivery network to the customer. Since Cyber Risk and Technology Risk have emerged as significant risks in the recent past in the industry, Operational Risk Management Unit is closely working with Information Technology and Digital Banking Team to understand and minimise the vulnerability to Cyber Risk and Technology Risk.

Operational Risk Assessment

All risks identified are assessed using the Operational Risk grading matrix. Risks are assigned risk grades (high, medium and low) based on the assessments of likelihood and impact of the risks. Impact is assessed qualitatively and quantitatively against the Operational Risk tolerance and limits set for the five dimensions of impacts: financial, reputational, regulatory, human resources and business disruption. The use of the said dimensions ensures a comprehensive assessment of the impact.

The risk grades of the assessed risks reflect the status of adherence to the risk appetite of the Bank. Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

Operational Risk Mitigation and Control

All risks must have mitigation plans established to reduce the inherent risks within the risk appetite of the Bank. Actions to mitigate or control identified risks are prioritised based on assessed impact of the risks, and are directed at the root cause of the risk. All action plans are assigned to owners. Mitigation plans are captured and progress is monitored. Risk grades are reassessed periodically to appropriately reflect changes in the environment and the progress of the mitigation plans.

There are different levels of operational controls in the Bank. The following levels of control are distinguished in this respect:

- Individual level
- Management control
- Assessments carried out by specialist units such as Internal Audit, Sharia Audit and Compliance.
- Assessments carried out by external parties (External Auditors and Supervisory Authorities).

Together, these four levels of risk control form the basis for the Operational Risk control system.

The Banking industry uses insurance as a highly developed operational risk management and mitigation tool. Insurance (Takaful) policies of the Bank are reviewed on a periodic basis and the same process is monitored by Operational Risk Management through RCSA as the use of insurance helps to transfer the risk on low frequency and high severity losses that might occur as a result of events such as fire, theft, damage to physical assets by natural disaster, etc.

Operational Risk Monitoring

The final step of the risk management process is to monitor unresolved risks until the point when the risk exposures are within the risk appetite of the Bank. This involves periodic reassessment of risk grades to capture changes in environment that may increase or decrease potential impact of the risks.

Risk reviews on new products, processes and external suppliers including outsourced service providers are undertaken by the Bank. Outsourced activities are carried out based on CBSL guidelines from the Direction on Outsourcing of Business Operations of Licensed Commercial Banks. A report on outsourced activities is submitted to CBSL on a periodical basis.

Details of Outsourced Activities

To be the catalyst for alternate banking industry in Sri Lanka, the Bank has focused its efforts on its strengths and therefore is constantly exploring ways to refine its operations whilst outsourcing non critical areas wherever possible. With a view to streamline the processes and activities of the Bank and to facilitate transactions that would give a competitive advantage, the Bank continued to seek outsourcing options. This process is guided by a well-defined policy on outsourcing functions and falls under the purview of Administration function of the Bank.

The implementation of the Outsourcing Policy is monitored to ensure compliance with CBSL Directive No.7 of 2010 on Outsourcing of Business Operations of Licensed Commercial Banks and related guidelines. Under the provisions of the policy, the below mentioned areas are some of the outsourced activities of the Bank.

Service	Basis of Payment
Cheque Book Printing	Per cheque book
Supply of ATM Consumables	Per card
Data Entry of Mandate Details	Per document
All Cash Sorting & Transport	Transport - Per agreed rate according to the distance & counting - Per bundle
Tax Consultancy Services	Per service transaction / Per assignment
Actuarial Services	Per assignment
Security Service	Number of shifts
Courier Service	Per courier
Vehicle Hire	Per Km
Janitorial Services	Number of shifts
Archival of Documents	Per carton
Central Mail Room Management	Number of mails processed
Secretarial Services	Monthly fee
Processing of Salaries	Monthly fee
SLFRS Consultancy Service	Assignment fee

The Bank conducts detailed KYC and due diligence tests prior to selecting a new service provider or renewing an existing contract. A comprehensive report on all such outsourced activities is annually submitted to CBSL for their review.

Managing Operational Risks in New Product Development

A process is in place to identify the operational risks of new products along with possible mitigates prior to launch of such products and a similar process is followed during the annual review of existing Product Programmes. Risk management is a key aspect of product development, as the Bank thrives on innovation to deliver new products that would cater to the growing and evolving needs of the consumer, SME and corporate customers. These Product Programmes are approved by all stakeholders.

Information Security Risk

Information Security Risk is the Risk of exposure to a threat, which arises due to the existence of vulnerabilities in information assets. Bank has initiated the holistic "Data Protection" programme covering Data Classification, Data Leakage Prevention, Encryption, Network Access Control, Mobile Device Management, Rights Management and Database Security solutions to protect key customer data and to prevent breaches that adversely affect the business and customers. The Bank has implemented numerous risk mitigation techniques to maintain and improve its brand value and strengthen business. The Bank has also invested on Data Protection programmes in strengthening the trust of relevant stakeholders.

Business Continuity Management (BCM)

As an integral component of the risk management framework, the Bank has deployed a Business Continuity Policy which enables it to plan the Business Continuity in a desired manner while identifying the critical Business units and Support units, formulating key roles with required responsibilities in order to act upon adequately in the event of a disaster. This planning is done annually fulfilling the requirement of regulatory guidelines and the best practices in BCM. The Bank's Business Continuity Plan (BCP) is structured to ensure centralised monitoring and reporting and decentralised execution, and is supported by a robust governance process.

The BCPs developed are backed by infrastructure to support key services, Core Systems and Critical Business Functions.

The BIRMC approves the plan and its implementation is coordinated via the BCM Team of the Bank. The Bank's Executive Risk Management Committee (ERMC) acts as a BCM Steering Committee that establishes appropriate policies, standards, strategies and processes for continuity of the Bank. The BCM Working Committee is appointed by the BCM Steering Committee to implement the BCM Policy.

The Bank gives primary importance to ensuring safety of its stakeholders. In this regard, the Bank has setup the Crisis Management Team and Emergency Response Team to support affected stakeholders. The Bank's BCP is periodically reviewed to accommodate organisational changes and is subjected to regular Drills and testing as well.

BCP Testing/Activation Drills

The BCM team of the Bank identified alternative locations for selected units / functions and successfully conducted BCP / Disaster Recovery (DR) Testing in May 2019 from such locations in respect of its Critical Business Functions and adherence to the regulatory requirement.

Report on results of the BCP/DR Drill with business and support units, issues encountered, lessons learnt and risk mitigation measures adopted during the testing process were reported to the Regulator with the review and recommendations of BIRMC and approval of the BOD well within stipulated deadlines of the Regulator.