

YOUR CHOICE
FOR GROWTH



UNION BANK

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ANNUAL REPORT 2011

YOUR CHOICE **FOR GROWTH**

**Your choice for integrity; your choice for accessibility;
your choice for innovation.**

Here at Union Bank, we give you the best options, and as an entity that believes in providing superior service, we strive to provide the greatest ways in which you can reach your highest potential. Through our personalised service, our focus on creating relationships with our customers and our own mission to develop continuously, we have become exemplary in the banking sector and have become the number one choice for your growth.





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Our Vision

To be the innovator of banking solutions especially to the Small, Medium and Personal segments and to be their Bank of choice, through professional and empowered people.

Our Mission

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

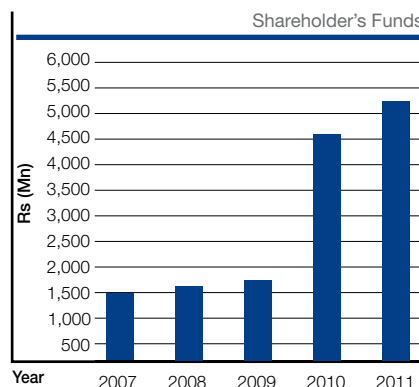
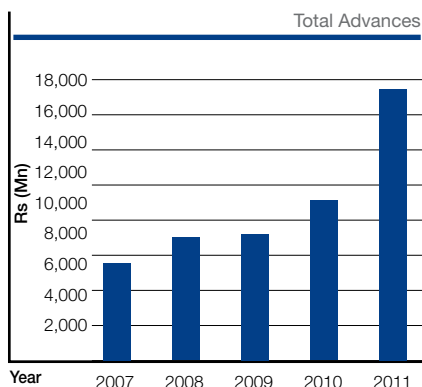
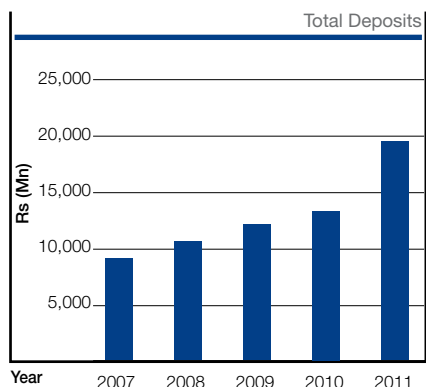
Our Values

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



Financial Highlights

| | Group 2011 | 2011 | Bank 2010 | Change |
|--|---------------|------------|--------------|---------|
| Results for the Year (Rs.000) | | | | |
| Income | 2,628,516 | 2,551,415 | 2,078,120 | 22.8% |
| Profit Before Financial VAT & Taxation | 524,877 | 529,871 | 412,842 | 28.3% |
| Profit Before Taxation (PBT) | 441,573 | 447,086 | 307,992 | 45.2% |
| Provision for Taxation | 142,625 | 138,691 | 158,195 | -12.3% |
| Profit After Taxation (PAT) | 298,947 | 308,394 | 149,797 | 105.9% |
| At the Year End (Rs.000) | | | | |
| Shareholders' Funds (Capital & Reserves) | 5,172,313 | 5,186,476 | 4,540,192 | 14.2% |
| Deposits | 19,598,886 | 19,345,367 | 13,193,559 | 46.6% |
| Gross Loans & Advances | 18,787,845 | 17,162,431 | 10,037,345 | 71.0% |
| Total Assets | 26,890,498 | 26,058,899 | 18,864,401 | 38.1% |
| Information per Ordinary share (Rs) | | | | |
| Earnings per Share - Basic/ Diluted | 0.85 | 0.88 | 0.64 | 37.5% |
| Net Assets Value | 14.81 | 14.85 | 13.62 | 9.0% |
| Market Value at the Year end | | 19.00 | N/A | |
| Ratios (%) | | | | |
| Return on Average Shareholders' Funds | 5.80% | 6.21% | 5.20% | 1.01 |
| Return on Average Assets | 1.25% | 1.41% | 0.92% | 0.22 |
| Price Earnings | | 21.59 | N/A | |
| Statutory Ratios (%) | | | | |
| Domestic Business Unit | N/A | 23.38% | 31.88% | (8.50) |
| Foreign Currency Business Unit | N/A | 25.27% | 26.88% | (1.61) |
| Capital Adequacy Ratios (%) | | | | |
| Tier I - Minimum Requirement (5%) | 24.22% | 25.26% | 34.82% | (9.56) |
| Tier II - Minimum Requirement (10%) | 24.45% | 23.99% | 35.11% | (11.13) |



About Union Bank

Who we are

Established in 1995 as the eighth indigenous Bank in the country, Union Bank of Colombo PLC (UBC) is envisaging its future, positioned as the preferred Bank for Small and Medium Enterprises and Retail sectors in Sri Lanka. As one of Sri Lanka's fastest growing Banks, UBC offers its diverse customer profiles a comprehensive range of financial solutions designed to support the development and growth of these sectors. Gaining immense credibility for its strong shareholder strength comprising high caliber local and foreign investors, the consistent financial stability and innovative range of technology driven products which are ably supported by superior service delivery, enables UBC to forge ahead as a key player in the banking industry of Sri Lanka.

In order to deliver the Bank's unique customer value proposition, UBC continues to enhance accessibility and reach, with its network of thirty branches which include seven branches in the North and East of the country as at end December 2011. A strategic branch expansion plan is envisaged for the next year and beyond. This expansive network is further complemented with the Bank's pragmatic channel strategy that includes the development of alternate channels such as Kiosk Banking.

Listed on the Colombo Stock Exchange in March 2011 post an Initial Public Offering (IPO) that became the highest oversubscribed IPO in Sri Lanka due to the overwhelming response, UBC's strong presence on the Colombo Bourse underlines the public confidence it has gained, positioning it as a rapidly progressive business entity with consistent performance growth.

Strategic diversification aligned to the financial services industry designed to compliment the core business of the Bank, saw the acquisition of 51% stake

in National Asset Management Limited, Sri Lanka's premier asset management company in February 2011. Subsequently in November 2011, 98% voting shares in The Finance & Guarantee Company Limited, were acquired with Shorecap, a strategic foreign investor. The Finance and Guarantee Company Limited, established in 1961 is one of Sri Lanka's oldest finance companies.

As an integral facet of the Bank's expansion plan, UBC remains very cognizant to entrenching the SME focus, thus making it a dedicated SME bank ably aided by building a corporate brand image among preferred customer segments aligned to this positioning. In addition, UBC is currently in the process of transitioning into a holding company structure, which will assuredly bring forth a quantum leap in growth through profitability. Subsidiary companies are being realigned with both macro and micro developments being focused on, while integrating an individuality and independent persona. However, the core values of UBC remain the overarching tenet in business growth overall and strategic transformations to the Corporate Brand through brand extensions are designed to leverage on the strengths of the Bank.

Our Vision

To be the innovator of banking solutions especially to the small, medium and personal segments and to be their Bank of choice, through professional and empowered people.

Our Customers



Small & Medium Enterprises (SME)

As the Bank's key focus segment, UBC offers a comprehensive range of financial solutions with flexibility and customisation to SME customers. This

strategy is designed to meet the growing needs of this customer profile and encompasses diverse industries including manufacturing, power, transportation and professional services. The Bank's product portfolio for the sector, delivered with superior and personalised service also includes Working Capital, Trade Finance, Import and Export Credit and Leasing.

Personal Customers

With the personal customer profile constantly transforming and evolving, it is imperative that UBC remains ahead of customer expectations and needs, developing innovative products to offer added value. These are added to with the delivery of superior and efficient banking services. The Bank's rapidly expanding branch network and alternate touch-point channels provides personal customers the necessary accessibility, while an extensive product portfolio including Savings and Deposit products, Current Accounts, Housing and Consumer Credit, Leasing, Pawning, Foreign Currency, Fund transfers, Unit Trust and Bancassurance deliver unique and competitive benefits and advantages.

Synonymous with introducing many firsts to the financial services sector, UBC's pioneering portfolio includes the first drive through ATM, a series of unique products such as the E-Cheque facility and Easy Plus (the first current account with no charges), same day cheque clearance and cheque acceptance till 4 pm. UBC is also the first Bank to offer a 'Pawning wipe-out' to its customers, enabling customers to redeem pawned articles free of charge.

Corporate Customers

UBC began operations in 1995 as a Bank serving second tier corporates and over 16 years, the experience and expertise it has garnered, positions the Bank with a strong portfolio of customers

representing diverse industries. Providing an extensive range of corporate banking products to engage with and meet this discerning customer segment, UBC's corporate banking solutions include money markets, treasury, foreign exchange services, leasing and bank guarantees supported by an exceptional relationship management team.

Our Products & Services

The extraordinary ability of combining technology prowess with in-depth knowledge, expertise and experience has undoubtedly led UBC to deliver a range of innovative financial products and services, with the added competitive edge required, to emerge as the preferred Bank for SME and retail banking in Sri Lanka. With the core values of client intimacy, nurturing relationships, innovation and quality forming the foundation to meeting its vision, UBC adds customer service excellence into the equation to ensure its continuous success.

SME

Working Capital
 Trade Finance
 Import & Export Credit
 Leasing

Personal

Savings and Deposit Products
 Foreign Currency
 Housing and Consumer Credit
 Leasing
 Pawning
 Trade Finance
 Fund Transfers
 Unit Trusts
 Bancassurance

Corporate

Money Markets
 Treasury
 Foreign Exchange Services
 Leasing
 Bank Guarantees

Our Network

The strategic expansion plan designed by UBC is one that is geared to create an accessible proactive stance for its preferred customer segments. Being focused on the SME platform, it is imperative that the Bank's presence is showcased in the apt geographic areas where potential SME industries show growth. As of end December 2011, the Bank had collated thirty branches under its umbrella including seven in the burgeoning North and East. The expansion plan for the future is conceptualised to ensure that the Bank's preferred customer segment does have the necessary access and delivery of services with minimum hassle and hence, will see new branches complimented with alternate touch-points being located with these imperatives in mind.



Branch Network

Colombo 03 (Head Office), Anuradhapura, Atchuwely, Badulla, Batticaloa, Chunnakam, Dambulla, Galle, Gampaha, Horana, JaEla, Jaffna, Kadawatha, Kandy, Kollupitiya, Kotahena, Kurunegala, Mannar, Matara, Moratuwa, Nawala, Negombo, Nugegoda, Old Moor Street, Pettah, Piliyandala, Ratnapura, Trincomolee, Vavuniya, Wattala, Wellawatte, Wennapuwa,

About Union Bank

Our People

It is the remarkable blend of innovative minds, proactive teams and pioneering visionaries that give UBC the competitive edge in the financial services industry, entrenching itself in the hearts and minds of its preferred customer segments. The Bank has congregated some of the best minds in the industry and trained and developed young blood to optimise their contribution towards the journey embarked in meeting the Bank's vision and objectives. UBC has firmly positioned itself as a preferred employer, notching a spot as being one of the best places to work, giving it an edge in attracting the right people for the right job. As at end 2011, the team comprised of 472 highly spirited and motivated individuals, who are geared towards customer service excellence, while optimising efficiencies and productivity.

Our Milestones

- 1995 - Bank Roaming, System Generated Deposit Slips, Unitel Phone Banking.
- 1996 - One day Cheque Clearance, Cheque Clearance Over The Counter.
- 1998 - ISO 9002, Cheque Commission, Email Inquiry Facility, Internet Banking.
- 1999 - National Best Quality Software Award for UBC Online
- 2004 - Ranwan Pawning Facility with ATM withdrawal.
- 2007 - Cut off time removed for cheque deposits, weekly interest payment initiated for Fixed Deposits.
- 2009 - E-Cheque System, Daily e-statements.
National Best Quality Software Award for E-Cheque System.
- 2010 - EasyPlus a Current Account with no charges.

- 2011 - UBC enters the Colombo Bourse creating history with the highest oversubscribed IPO in Sri Lanka.
 - Acquisition of 51% in National Asset Management Limited.
 - Acquisition of 98% voting shares of The Finance & Guarantee Company Limited, together with Shorecap, an international foreign investment fund.
 - 55Plus Senior Citizens Fixed Deposit launched with three months interest upfront.
- 2012 - Union Bank relocated its Head Office and Head Office Branch to a new state of the art premises.
 - Brand Finance rated Union Bank amongst the most valuable Brands in Sri Lanka.



Growth and progress always begins at the grassroots and Union Bank fully supports the work and entrepreneurial spirit of small and medium enterprises all over the island. By investing in their hopes and dreams for a brighter future, we are empowering people to rise up and take charge of their lives; all while fostering financial stability and innovation. That's why we're your choice for development.

Chairman's Review



We hold many plans to further strengthen our position as the preferred Bank for the SME sector and become a financial powerhouse in banking in Sri Lanka. We are optimistic that our strong financial position and investor portfolio will continue to support us to emerge even stronger in the year ahead.

It is my pleasure to present to you the annual report and financial statements of Union Bank and its subsidiaries for the financial year 2011/2012. The year 2011 has been significant for the Bank. In tandem with the positive economic outlook of Sri Lanka we successfully embarked on several initiatives to strengthen our position as the preferred Bank for the Small and Medium Enterprises (SME) and become one of the fastest growing banks in our nation.

Global economic trends

The global economy entered a dangerous new phase in 2011 with a barrage of challenges in the international economy against a backdrop of unresolved structural fragilities. Japan was struck by a devastating earthquake and tsunami, unrest swelled in some oil producing nations, the handover from public to private demand in the U.S. economy stalled, while the euro area encountered major financial turbulence mainly caused by the sovereign debt crisis.

Amidst these negative sentiments, Asia's track record during the crisis and recovery was enviable. Growth remained strong but moderated slightly in the first quarter of 2011 owing to the temporary disruption in supply chains caused by natural disasters in Japan. Some economies in emerging Asia also experienced a deceleration in export growth, although domestic demand continued to be supported by relatively accommodative policies, solid increase in credit and asset prices. Further, the volatility in U.S. and euro zone financial

markets impacted many Asian equity markets during 2011.

Rapidly growing Sri Lankan Economy

While many of the world's economies, were writhing in crisis, year 2011 in retrospect was period of steady growth and consolidation in all sectors for Sri Lanka. Our economy expanded at a faster pace, recording a GDP growth rate of 8.4 in the third quarter of 2011, emerging the fourth best in the world. Having recorded a GDP growth rate of over 8.0 percent for two consecutive years, our nation was ranked as one of the fastest growing nations in the world. Further, Sri Lanka was also graded among the biggest gainers in the world in the '2011 Index of Economic Freedom' conducted by The Wall Street Journal and The Heritage Foundation, Washington's pre-eminent think tank.

Inflation steadied at mid-single digit level while there was also a significant reduction in poverty during the year. For the first time the construction industry became a major contributor to the economy growing by 17.3 percent which was a record. The Mining and Quarry sector also grew by 19.6 percent, while the agriculture sector grew 6.2 percent in the third quarter up from 6.0 percent a year earlier.

External trade in 2011 remained strong with both exports and imports expanding. Overseas employment remittances increased by 27 percent year on year and were estimated to be around US \$

5.2 billion consequent to the migration of skilled labour, improved arrangements to channel remittances through banking sources, positive sentiments on the domestic environment and diversification in terms of employment destinations. Foreign capital inflows continued to be significant and picked up momentum with the fourth international sovereign bond in July 2011 being oversubscribed by 7.5 times. International reserves accumulated to historically high levels, and were allowed to decline towards the end of the year.

The country though marred by negative travel advisories earlier, also saw over 855,000 tourists visiting the country, which was an all time record, while National Geographic named Sri Lanka among 'Best Trips for 2012' destinations. The global ranking of Sri Lanka improved in many areas in 2011 with the Global Competitiveness Index increasing from 52nd to 62nd and the Doing Business Index going up to 89th from 98th. The Civic Engagement Index placed Sri Lanka at the seventh position.

The Banking Industry in Sri Lanka

Reflecting the country's steady and improved macroeconomic performance, the banking industry in Sri Lanka showed continued growth in 2011. The activities of banking institutions expanded as the nation's credit growth continued to accelerate during the year. Loan and advances increased by 32 percent to Rs. 2605 billion as at end December 2011 compared to a growth of 24 percent in the corresponding period of 2010. Except for

Chairman's Review

short term loans, loans and advances in all lending products including import bills, leasing and pawning rose appreciably.

Total deposits stood at Rs. 3,069 billion as at end December 2011, recording a growth of 18.7 percent compared to 15.9 percent in 2010. The asset quality improved significantly with both the gross and net non-performing loan ratios declining to 3.8 percent and 2.1 percent, respectively, at end December 2011. On account of reduced interest margins and non-interest income, profitability declined marginally. The banking sector remained well capitalised, with the predominant capital component being high quality core capital. The regulatory framework governing the banking sector was strengthened with several guidelines being introduced to limit the credit exposure of banks to the stock market, the Investment Fund Account (IFA) and Customer Charter of Licensed Banks to name a few.

Becoming a fastest growing bank in Sri Lanka

In this favorable economic backdrop, Union Bank was strategically positioned to embark on an aggressive growth strategy and its expansion plan to become a Financial Power House in tandem with the ambitious strategic plan rolled out in 2010. Within a short span we rapidly expanded our branch network and entered into related diversifications, with the acquisition of Sri Lanka's premier Asset Management Company, National Asset Management Limited (NAMAL) and The Finance and Guarantee Company Ltd, a pioneering finance company established in 1961. These acquisitions fitted in well with our expansion policy to increase focus and growth in the SME sector and earmark as value additions to our channel strategy to further penetrate the Small Enterprises segment. We amplified our branch

network by opening up 09 branches in strategic locations increasing the total to 30 islandwide. This enabled us to reach a wider spectrum of consumers by offering a range of banking solutions with a key focus on the SME sector.

Milestones

I am proud to mention that the Bank's Initial Public Offering (IPO) received the highest over subscription which was oversubscribed by an astounding 417 times in the public category and 215 times in the customer category. Confirming the Bank's stability, healthy capitalisation as well as adequate funding and liquidity positions, RAM Ratings Lanka assigned BBB and P3 rating with a stable outlook to our Bank.

Our performance

All these initiatives enabled us to achieve an outstanding performance during the financial year under review. The Bank's profit after tax rose by a staggering 109.8 percent; from Rs.150 million to Rs. 314 million for the twelve months ended 31 December 2011, whilst pre-tax profits increased by 45.1 percent to Rs.447 million, year on year. Net interest income was up by Rs.223 million highlighting a 28.8 percent increase over the preceding year. Gross loans and advances increased by a whopping 71.0 percent to Rs.17 billion as at end December 2011, whilst total deposits increased to Rs. 19 billion, up 46.6 percent year on year. Gross non performing advances ratio improved to 4.07 percent from 8.11 percent in December 2010. Overall, the group highlighted an after tax profit of Rs.306 million.

Our future plans

Leveraging on the emerging economic prospects in post war Sri Lanka, we hold many plans to further strengthen our position as the preferred Bank for the SME sector and become a financial

powerhouse in banking in Sri Lanka. We are optimistic that our strong financial position and investor portfolio will continue to support us to emerge even stronger in the year ahead. We will use our solid financial presence to offer a range of innovative tailor made products to our growing customer base. In tandem with our ambitious strategic plan we will continue with our aggressive branch expansion strategy by opening at least a further 10 new branches island wide in the upcoming year. We will also continue to focus on acquisitions and mergers as well as strategic partnerships as a part of the overall strategic intent. Information technology would be a key area of focus even as we maintain our position as a pioneer in introducing many innovative products and e-based delivery channels to the banking industry in Sri Lanka. In order to enhance the service provided to our customers a core banking system will be implemented during the year. While striving to further improve our operational and financial performance, we aim to achieve even higher standards in areas such as corporate governance, risk management and internal audit. We plan to embark on several human resources development initiatives to make Union Bank one of the most sought after employers in our country.

Appreciation

In closing, I would also like to extend my appreciation to our highly supportive and dynamic Board for their guidance and invaluable contribution. A special thank you to our Management and staff for their dedication and tireless pursuits at all times which enabled the Bank to achieve laudable results. I wish to specially thank the CEO for his inspired leadership.

Sincere appreciation to our customers and shareholders for their continued confidence and loyalty to the Bank over the years. My appreciation goes out

the Minister of Finance, the Governor of the Central Bank of Sri Lanka and his officials and to regulatory authorities for the support extended to the Bank throughout the year.

We look forward to an exciting new year that holds many plans to further strengthen our position as the preferred Bank for the SME sector and a Financial Powerhouse in banking. As a public listed company we will forge ahead, strategically aligning our goals and expectations with the emerging needs of our rapidly growing nation, creating value to all our stakeholders.

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Ajita de Zoysa
Chairman
Union Bank of Colombo PLC

20th March 2012

Leadership Forum



Mr Anil Amarasuriya | *Director /Chief Executive Officer*

We are able to present an expansive portfolio of total financial solutions to our clients. Our team remains one step ahead of customer expectations and customer service remains above norm

When we decided to differentiate our Bank and create for ourselves a niche that we believed we had a very strong advantage in, we were most optimistic that UBC will become our customers' preferred choice for growth. Positioning ourselves as a Bank that will fuel growth within the SME and retail sector, our focus has been to therefore, put in place the necessary attributes and characteristics that would make us the SME and retail customer's choice. The rudiments are in place; for example our strong focus on building and strengthening relationships,

our aggressive stance on innovation, our constantly improving benchmark of customer service excellence and continuous endorsement of governance, integrity and accountability. These are the founding features of our Bank, features that have formed the nucleus upon which we have evolved and placed ourselves to be a partner in our stakeholders' journey.

The year 2011 therefore has been a period in which we began establishing the advantages and competitive

edge we possess, concentrating on developing our skills further to exceed our customers' expectations. But it is not a process that can be worked on a stringent timeline, but rather a process that will remain in continuous transition, because as customers grow, so will their needs and aspirations, triggering us to up the bar and gear ourselves to present even more advanced solutions to meet these requirements.

Macro Overview

From an industry perspective, the country remained upbeat throughout the year resulting from the optimistic feel of emerging from a thirty year war and ensuing accelerated development plans. The country exceeded US \$59 Bn GDP and achieved its 8% GDP growth as expected, which in fact was the first time in history where over 8% growth has been recorded in two consecutive years. Reviewing the period until December 31st 2011, all other KPIs were met as well due to the fundamentals remaining as envisaged; inflation remaining at mid-single digits closing the year at 4.9%, comparatively low interest rate milieu, savings and investments displaying a steady growth path, buoyant external trade, lowest unemployment rate of 4.3%, debt to GDP ratio at 78% and stable exchange rate.

The Government also presented a vision to place Sri Lanka as the 'South Asian Economic Hub', in which five key growth hubs, namely Aviation, Energy, Maritime, Commercial and Knowledge areas were identified as being the drivers of this vision. As industries, tourism,

construction and agriculture saw significant growth, which also resulted in a noteworthy emergence of ancillary and related entrepreneurial, micro and SME ventures around the country. From a country ratings perspective, the country's sovereign ratings and rankings in global indices gained an affirmative nod, with Fitch Ratings giving Sri Lanka a stable BB-outlook and Standard & Poors B+ Positive, while the Global Competitiveness Index pushed Sri Lanka up by ten places to 52, the Ease of Doing Business Index improved the ranking to 89 and the Civic Engagement Index placed the country in 7th place.

UBC and the SME Nexus

What is most significant in our SME focus, is that nationwide, there is significant fillip being given to the SME sectors, with emphatic maps being charted to boost local entrepreneurship and create employment generation. This aptly aligns our path of progress to that of the national one where an inclusive growth policy fuels our task of balanced regional development through pragmatic and astute growth paradigms. We are also very aware that in boosting the SME sector, there is a considerable positivity in the macro vista, given that we will fuel not only sustainable income platforms, but also increase productivity, community empowerment, betterment of lifestyles and reduce poverty levels.

The raison d'être for our entry into the SME sector was constructed on both qualitative and quantitative facets emerging from the fact that, in an industry that has a plethora of large banks, UBC

would have to play against these large banks that already have a significant advantage in catering to the high-end corporate customer. Having analysed the current industry vista, we observed that there was less concentration on the SME segment, while UBC had the appropriate elements and fundamentals already ingrained to make its mark and contribute significantly towards this customer segment. We were focused and very deliberate in making this decision, as it also gives us space to grow, enabling us to develop our inherent corporate stewardship role of empowering communities, while developing a segment of the population that can contribute greatly to national wealth.

Operating Environment

With the country poised for enhanced development and the ensuing growth curve spiraling upwards, the pie that's available tends to expand considerably. The macro environment therefore remained extremely conducive to a positive growth as was seen in the demand for advances, in which UBC was able to take full advantage. Similarly, there was also significant upward momentum in the savings environment, which prompted the demand for service levels being more discerning too.

However, for a bank like UBC, the prospects also lie in gaining full advantage from this external environment before reaching its optimum critical mass. This encouraged us to look at our expansion plans in a prudent yet strategic manner, implementing expansion with medium

term growth as the focus and not as immediate profit centers. Having begun the year with twenty one branches, we expanded with nine more in strategic locations that were perceived as the most beneficial in our forward journey. We placed ourselves in SME 'hot spots', creating for ourselves an image and presence that would make us a catalyst and an integral player for potential and existing SMEs. To us, this addition of branches and in turn, the aggressive product development and acquisition of new state of the art software as well as training and developing a focused team, are investments for the future. Because unless we increase our critical mass in a timely manner, we will not benefit in the medium to longer term.

Gearing for Change

When we began the transition to that of working on our business mix of 70% SME and retail business and 30% corporate, our immediate focus was to begin from the fundamentals. Gaining the expertise of external consultants, we first analysed our strengths, worked on a plan to alleviate our weaknesses, identified our opportunities and began implementing the basics in order to fulfill the gaps. This was an astute plan which worked very well, given that we were making the transition at a comfortable pace but with a focused eye on the external environment around us. Our in depth communication process with our customer segments have been very helpful giving us a deep insight into the solutions required and what is expected of our team.

Leadership Forum

SMEs require customised solutions and with UBC displaying immense flexibility due to size and stature, we have a definite competitive advantage. This has been the catalyst in creating an empowering space for our team as well. The agility and flexibility in employing our key strategies therefore, whether in branch expansion, infusion of IT, application of know-how or in developing and empowering an expert team, all evolve on our focus of becoming the preferred bank for the SME and retail sector.

The HR Evolution

The SME and retail customer is a unique personality, deemed with characteristics that need continuous interaction and proactive solutions. These solutions too must be tailor-made as every customer is different, his needs diverse and therefore the solution, individualised. This also means moving away from traditional banking mindset and spurring a mindset that is geared to this customer profile. Hence, while hardware and software on the lines of branch expansion and IT processes were infused into the daily operations to aid our SME customers, our team began intense training and development activities in order to compliment this journey upon which we had embarked.

It is imperative that our team remains one step ahead of customer expectations and that our customer service remains above the norm. With the concerted efforts in training and development we employed through the year, product development initiatives, productivity, innovation and customer service levels have seen immense improvement. With our strategic expansion plans, there also remains a need for recruitment as well as a well thought out career advancement plan, which we have begun instituting. The recruitment will infuse the imperatives of young blood to fuel new ideas and innovation, while career advancement will

add fillip to honing leadership tenets, 'out of the box' thinking and more productive paradigms. Our IT systems too are currently being developed, a process improvement that began in the latter of 2011, to create the apt environment where our team can live, learn and grow.

Our team remains vibrant, dynamic and highly motivated, given that they work in a knowledge gaining culture that hones leaders and rewards achievement. We have seen a marked improvement in the proactive stance taken by our team when dealing with customers, the immediate responses to challenges based on feedback and the novel initiatives they have introduced to ensure an enhanced customer experience. Hence, the good results we have seen this year should be attributed to the team and I am most appreciative of the role they have played in making UBC the preferred choice for growth among our stakeholders.

Providing Total Financial Solutions

The acquisition of National Asset Management Limited and The Finance & Guarantee Company Limited have opened doors of opportunity. We are now able to present an expansive portfolio of total financial solutions to our clients, which would have been limited if we confined ourselves to being an entity within the banking industry alone.

With the strengths of The Finance & Guarantee Company Limited a registered finance company in the micro-finance sector, the group intend to offer solutions to this vital area of economic growth, as it ties in well with UBC's focus on SMEs and retail customers, expanding our presence thus into the micro-finance sector as well. Similarly, NAMAL's prowess in investment and managing wealth spreads our wings to give our customers a portfolio of products and services that are normally not mandated for a Bank.

Financial Performance in a Nutshell

The combination of a conducive macro environment and the assertive growth stance adopted by UBC saw a noteworthy financial performance posted by the Bank. Our operating profits improved tremendously, in fact showcasing 54.8% growth to stand at Rs 558.56 Mn compared to Rs. 360.92 Mn last year. Similarly, PBT and PAT too was in upward momentum, with PBT showcasing an increase of 28.3% and PAT inclining 105.9%. PBT this year is at Rs 529.87 Mn while PAT is Rs 308.39 Mn. The contributing positivity of a relatively stable interest regime saw our advances grow by 71%, posted at Rs 17,162 Mn this year from last year's Rs 10,037 Mn, which is certainly commendable. This incline was mostly fueled by our emphasis on growing our SME portfolio which added significantly to the advances portfolio.

2012 and beyond

We have had a good year but I observe 2012 as one that will see a consolidation of these growth factors. The unabated growth seen on the credit front, which has compelled the Central Bank to place a restriction on credit growth will undoubtedly pose challenges and have an impact on our bottom line. We may have to re-look at our branch expansion plans, chartering a new course which might be more aligned to this new diktat, as the existing branches will most definitely meet the maximum credit level, placing the new branches in a quandary and certainly unable to operate at optimum capacity.

We have also observed rumblings externally especially in the oil-rich Middle East and euro zone could have a permeating effect on exchange rates, interest rates and inflation. We would have to make ready for this situation as well.

With systems and processes being aligned to create an empowering environment for our team and stakeholders, we have continued to observe all stringent governance tenets, seeking to create an entity that is beyond compliance. This is a process that requires constant focus and improvement. One new area of compliance that we must be ready for this year is the compliance to IFRS, which while being a challenge to us will surely be met and take us closer to our goal of being beyond compliant.

From a macro perspective, we remain optimistic for the future as Sri Lanka is poised for growth. The economy will grow at over 7% as declared by the Central Bank of Sri Lanka and given the pragmatic policies of the government to develop infrastructure around the country and to infuse a culture of inclusivity among all geographic areas, our business prospects look good. This opens up a large population that have no access or limited access to specialised banking and gives us the opportunity of gaining inroads into this un-banked population and incorporating them into the banking mainstream.

Appreciations

My heartfelt appreciation to the Chairman and Board of Directors of UBC who have placed extraordinary confidence in me to lead this Bank in an era of growth. I appreciate the leadership, direction and guidance proffered to me at all times in ensuring that we achieve our vision and meet our goals. In accordance with the governance Diktats, we will see the retirement of our Chairman Mr. Ajita de Zoysa and two other directors Mr. Ajith Wijesekera and Mr. Ananda Atukorala, who have served on the UBC Board for the mandatory period of nine years and thank them for their contribution in both expertise and professional counsel.

My thanks are extended to the Governor and officials of the Central Bank of Sri Lanka who have continuously been a guiding light to our efforts and been available for consultation and advice, whenever the need arose.

To my management and team, I wish to place on record that you have truly made UBC what it is today. Congratulations, your efforts have been rewarded and I hope that in the year to come, you will continue to display similar levels of commitment and dynamism to help us achieve our goals. I am also appreciative of the support extended by our valued business partners and our customers; thank you for your continued confidence and loyalty and we assure you of our commitment in nurturing the relationship we have now built with you.

Leadership Forum



Mr A N de Silva | *Chief Operating Officer*

We are acutely conscious that innovative and quality service delivery is the key differential to success in this highly competitive banking environment.

Our strategic focus is to identify ourselves primarily with Small and Medium Enterprises (SMEs) in line with our vision to be the “Preferred Bank” of such sectors, and our operations and growth would be aligned to this vision.

Operationally, we are pursuing this objective through a series of measures which includes branch expansion with emphasis on provincial presence, by products, services and changes to our organisational structure to enhance affordability and accessibility and provide

dedicated facilities and services to the SME sector. A key development which occurred during 2011 was the establishment of a dedicated SME Banking Division with suitably empowered leadership teams to focus on business development.

The above initiatives have borne fruit and we increased the Branch network to 30 branches with a very significant growth of 25.5% in our customer base during 2011. Similarly, the contribution from the SME/ Retail sectors towards the Bank’s

overall deposits improved to 85%, whilst for loans and revenue it was about 55%, which is a clear indicator of the Bank’s sectoral emphasis, towards its preferred customer segment. A further 10 branches planned to be opened during 2012, once again mainly in provincial towns, will add further growth momentum. Corporate Banking also accounted significantly to the growth achieved in 2011 with a total contribution of about 45% for revenue.

Our Bank has an exclusive range of credit products in Sri Lankan Rupees and foreign currency as well as services to cater to its key customer segments, namely SMEs, Individuals and Corporates. Credit facilities are available to business enterprises for working capital, trade finance, expansion activities, project financing, agriculture, fisheries and for personal customer requirements such as housing, vehicle financing, personal credit, etc. Apart from traditional credit trade financing products, the Bank also offers, leasing, hire purchase, factoring, commercial paper discounting and guaranteeing, Treasury products, foreign exchange facilities and Pawning services, long term housing loans and the “Dynamic Overdraft” which is a unique Union Bank products.

We offer attractive deposit products in Sri Lankan Rupees and foreign currencies and are committed to mobilizing savings as part of the National endeavour. We have introduced several value added deposit products such as “Piyawara” Children’s Savings Account, “Ultra Saver” High Yielding Savings Account,

“Ruwatthi” ladies Savings Account, “55+” Senior Citizens Fixed Deposits, in addition to the existing traditional fixed deposits, savings accounts, certificates of deposit, NRFC and RFC accounts.

In our endeavour to reach out to more personal customers, we introduced a novel current account styled “Easy Plus” which does not place an obligation on the Account Holder to maintain a minimum credit balance.

We are acutely conscious that innovative and quality service delivery is the key differential to success in this highly competitive banking environment. Towards this end, we have provided our valued customers with several unique facilities such as the fastest utility bill payment service, extended banking hours upto 4.00 pm on all working days, Saturday banking, and a very extensive “Cirrus” enabled ATM network, local and overseas money remittance services such as “Western Union” of which we are proud to be a Principal Agent.

We are also the only Bank in Sri Lanka which offers its customers cheque clearing facilities on “T + 1” in our entire branch network upto 4.00 pm on all working days.

Our Bank has also successfully launched a free Advisory Service to assist SMEs in business development and gain access to finance.

We concentrate closely on maintaining the quality of our assets and controls over our operational activities. As a result of

aggressive recovery efforts consequent to a revamping of the Recovery Divisions of the Bank, we succeeded in limiting our NPAs to 4.07 % of the loan book, in line with industry averages. Furthermore, we succeeded in making direct recoveries of hard-core delinquent advances of the past to a substantial value during 2011.

Our Bank constantly focuses on further enhancing our technology related capabilities and is currently finalising the upgrading and enhancing the core banking functionalities to meet the growth requirements.

During the year under review our Bank took several steps to put in place a framework for management of operational risk, keeping in line with Basel II requirements. Relevant policies were put in place and an Operational Risk Management Committee was formed. This Committee which meets periodically takes up operational issues at a tactical level. Where immediate solutions could be found, the decisions are implemented by the relevant units. Any major concerns are reported to higher levels, including the Board Risk Committee and the Board of Directors. Operational loss data were collected on a continuous basis, in readiness to input data to systems to be purchased shortly, for computation of a capital charge on account of operational risk. The Operational Risk Management Unit also worked closely with the Internal Audit Division and the Compliance Unit, in order to mitigate any unresolved risk events. It is also of significance to state that Union Bank was the first Bank to introduce live AML software in operations.

Staff training is a priority for the Bank’s progression and facilities for training have been significantly improved with the establishment of a modern Training Centre under an experienced Training Manager.

The Bank’s overall management and strategic planning process involves the functioning of several committees comprising of key management personnel and others. These include the ALCO, Risk Management, Credit, Deposit Mobilization and the Executive Management Committees which meet regularly for decision making and strategising.

Leadership Forum



Mr Beverley Labrooy | *Vice President - International & Business Development*

The underlying ethos of ensuring customer service excellence is intertwined exceedingly with the Bank's brand building and development efforts.

Trade, Treasury, Marketing

In pursuit of growth and having instituted integrity, accessibility and innovation for our stakeholders, Trade, Treasury and Marketing sustained its growth curve aligned to the trends of the year, while also pursuing avenues of opportunity that would give the Bank the required impetus to meet its earmarked objectives.

Resultant to an incline seen in documentary credits and collections, import volumes saw an increase of 32%,

while export finance echoed similar paradigms, increasing 51% primarily due to packing credit and bill discounting in US dollars, as well as securing additional funding from correspondent banks overseas. The Trade Department also created a landmark in etching a Global Finance Agreement with the International Finance Corporation (IFC), which will see IFC guaranteeing Banks that conform to UBC Letters of Credit, while providing UBC with the required funding to spur trade. In addition, IFC has committed towards conducting comprehensive

training and development programmes for UBC's sales and operations teams.

In similar vein, Treasury performed admirably this year, circumventing the challenge posed within fixed income operations, which resulted in a negative growth in that segment of business. Thus, Treasury posted an increase in income of 25.04% from the collated figures obtained from foreign exchange and fixed income securities. Of note is the growth of 62.78% seen in foreign exchange earnings, which gave the necessary boost in propping the negative growth of 96.5% posted in fixed income to ultimately showcase the positive growth figure. The latter negativity is primarily due to market losses resulting from higher interest rates reflective of the liquidity shortage seen in the market in the fourth quarter of 2011.

The underlying ethos of ensuring customer service excellence is intertwined exceedingly with the Bank's brand building and development efforts. The young, dynamic characteristics of the brand which are unequivocally blended into the focus in SME and retail customer segments is leveraged on the commitment to superior value that will eventually spearhead the Bank being the customer's choice for growth. Marketing is tasked with creating the apt dynamics to drive the brand to reach its full potential and contribute towards its growth prospects. In tandem, Marketing monitors the permeating impact the brand has on KPIs and the initiatives required to ensure increasing market share, customer base and profitability.

Aligned to the strategic direction which embedded the need for a new look and feel to the brand, UBC is now very representative of a truly Sri Lankan brand having entrenched the core values of flexibility, innovation and openness into its brand identity and image. Having initiated the brand building and development agenda on these founding pillars, the quantitative results of the initiatives were very evident in UBC's record-breaking IPO which was the most oversubscribed IPO in Sri Lanka's banking history. This success endorsed stakeholder confidence while etching a path of sustained and consistent growth for the Bank in the financial services landscape.

The distinctive niche carved by UBC through its unique and innovative value propositions has placed the Bank in the enviable platform of the preferred bank for SME and retail sectors, augmented by value additions, technological innovations, infrastructure and network expansion and above par service delivery. In a bid to increase both deposits and the customer base, 2011 saw the launch of a pioneering product, Easy Plus with no fees or charges levied for current account holders and two promotions, Mega Dinum Stage 2, designed as a savings promotion offering a car with two years worth of free fuel and Save and Win which presented Rs 1 million in cash to one hundred winners.

In this milieu of ensuring brand longevity, it is imperative that subsidiaries and the product portfolio reflect a continuing thread of the brand tenets. Aligned to

macro and micro developments, NAMAL and The Finance & Guarantee Company which were acquired by UBC to further augment its strategic journey, are already incorporating similar brand values, promise and delivery into its overall fabric. The re-branding of NAMAL which brings it under the larger umbrella of UBC but retains the positive facets of its identity and corporate image, was completed this year. It is crucial that these acquisitions build on the brand and the association with UBC to create for themselves a distinctive positioning within the industry, use the positives of these distinct characteristics to grow the overall customer base and leverage on the prevalent synergies to fuel the service excellence platform that remain at the foundation of our business.

Leadership Forum



Mr Ravi Divulwewa | *Vice President – Credit*

The next year will see us further strengthen the founding platform we have already established, growing our credit portfolio in a prudent albeit pragmatic manner.

Credit Operations

We are positioning ourselves as the preferred bank for SMEs and retail customers with one of the significant advantages we have, being our flexibility. This flexibility requires our team to be equipped and empowered to make informed decisions where necessary, aided by systems and processes to extend an above par customer service delivery, efficiently and with minimum hassle. Given that the UBC Bank branch network now has an expansive thirty plus branches under its umbrella, it became

imperative that a focused centralised approach was instituted for credit approvals.

The Credit Operations division of the Bank is the axis upon which SMEs will fuel growth. The overarching SME focus has seen our branches and teams trained and geared to work with SME customers, encouraging them to benefit from the competitive advantages UBC can present to them in furthering their businesses. The branches examine the ensuing credit requests for conformity,

upon which, an evaluation is carried out and the proposals are then forwarded to the dedicated SME unit or the Corporate Banking Unit, located at the Head Office. Once recommendations are made, final approval is given taking into account, conformance to strict credit guidelines and sustainability of the venture.

With the country seeing noteworthy growth indicators throughout 2011, UBC's credit performance too took advantage of the stable interest rates and permeating optimism that ensued. We showcased 71% growth, which is significantly above industry average. The remarkable performance is primarily attributed to the restructuring and reorganisation process, which included centralising the disbursement process introduced within the Bank and branches, in order to optimise the opportunities we observed emerging in this milieu of accelerated growth. The strategic branch expansion and focused approach to growing SME business which is the overarching tenet of the Bank and the streamlined processes which naturally enhanced processing speed, was also instrumental in fuelling this advantageous growth pattern.

We also saw pawning recording a massive improvement of over 100%. This too is synonymous with our changed mindset, where we took on a proactive stance in envisaging emerging trends, emerging challenges and were prepared for the latent opportunities. Leasing business too saw an increase of 86% due to our team being more aware of marketing our products and services more effectively.

Our team was trained extensively to take maximum advantage of this burgeoning market, while being assisted with the launch of a dedicated leasing department within UBC. Similarly, it is significant that our NPL ratio remained on par with industry average. This too is due to our aggressive recovery stance adopted during the year and the stringent monitoring and controls we have enacted due to the restructuring process.

The next year will see us further strengthen the founding platform we have already established, growing our credit portfolio in a prudent albeit pragmatic manner. However, we do observe some volatility in interest rates that may come into effect in the first quarter of 2012 and a limiting of credit growth imposed by the Central Bank of Sri Lanka to stem the galloping credit growth seen in 2011. This will surely pose quite a major challenge to our stipulated targets although, we do believe that in this event, we should concentrate on high yielding facilities and decrease the momentum in other areas.

Leadership Forum



Mr Malinda Samaratunga | *Chief Financial Officer*

UBC remains a pragmatic entity, having constantly worked on a strong foundation that envisages trends and challenges and transforms these into opportunities.

Reflecting on the year of 2011, UBC has truly demonstrated that it is 'Your choice for growth', where integrity, accessibility, innovation and diverse multiple options coupled with customer service, truly strives to give you the best. Observe our record breaking achievements for the year: UBC has posted the highest ever profit in our entire history; a remarkable 105% increase in post tax profits and advances seeing a noteworthy upward curve of 71%. In addition, we also marked this year with a listing on the Colombo Bourse with a milestone IPO,

that not only raised Rs 375 Mn, but also created history in the market by being the only IPO oversubscribed by more than 200 times.

Complimenting these features is the fact that UBC continues to show a strong and stable foundation, which naturally permeates to further solidifying our firm belief that we are 'Your choice for growth', displaying the best Capital Adequacy Ratio among local commercial banks in Sri Lanka. Strategic acquisitions added fillip to our growth paradigm with UBC

acquiring 51% ownership of National Asset Management Limited (NAMAL) in February 2011 and 81.27% of The Finance & Guarantee Company Limited (FGCL) in November 2011. These initiatives were further augmented with a strategic expansion plan which saw UBC establish itself in nine new locations, enhancing reach and accessibility.

Operating Environment

The year on the whole was good for the banking industry due to the country pushing for dynamic growth in all sectors, a paradigm that began in 2010 immediately after the end to the war. However, the unabated growth patterns that ensued did see some challenges emerge in the financial milieu, which prompted a lack of liquidity, rising costs and interest rates which had remained stable prior, taking a turn upwards. This naturally impacted the banking industry considerably.

In January 2011, the Central Bank of Sri Lanka revised its policy rates from 7.25% to 9% and 7% to 8.5%, taking into account the benign inflation outlook. The surplus liquidity position prevailing in 2010, began declining due to strong credit growth, net foreign exchange sales, repayment of foreign loans and liquidity management measures, including the increase in the Statutory Reserve Ratio from 7 percent to 8 percent in April 2011. Inter-bank call money rates moved upwards with the decline in surplus liquidity, but remained within the policy rate corridor during most of the year. CBSL increased purchase of Treasury bills to add the imperative liquidity to the

market. Recently, however, overnight rates have moved above the range on some occasions reflecting the further tightening of liquidity. All these factors collated to a narrowing of margins, clearly seen in 4.93% in the first quarter to the last quarter standing at 4.56%.

The stock market, having gunned its way to be named as one of the top performing markets in the world in 2010, portrayed volatility during the year, cascading to a weak performance in the equity portfolio, with equity price indices moving downwards. This was primarily due to credit restrictions imposed by brokers, exposure limits on bank lending being introduced and continued net foreign capital outflows. The declining indices also resulted in a price correction, which was a reflection of tightening market liquidity. However, due to monetary mandates and positive sentiment that continued to permeate the market, the number of companies gaining a listing on the Bourse increased. The current market Price to Earnings Ratio (PER) remains aligned to company earnings. The upsurge in IPOs and Rights Issues saw a considerable amount of funds mobilised from the market although, the Colombo Stock Exchange continues to remain considerably small by regional standards, with its market capitalisation equivalent to 35% of GDP.

UBC's Strategy in the Current Milieu

UBC remains a pragmatic entity, having constantly worked on a strong foundation that envisages trends and challenges and transforms these into opportunities.

The macro trends became very clear to us and it became apparent that we cannot become yet another bank in the larger financial circle, but rather a niche bank that identifies its primary customer segment and develops a product mix that would give that customer segment a competitive advantage. This prompted UBC to seek the right fit, both in customer choice and product mix.

Strategic direction prompted us to venture towards the SME customer, a segment that has immense potential but has thus far been given limited focus in general by the financial services industry. We also know that we have the apt synergies to leverage into the SME area and thus, our focus was emphasized on developing the right product mix that will be the ideal fit for our customer profile. However, it is imperative that product profitability continues to be closely monitored to ensure that we are investing strategically to innovate and develop an apt product mix.

The Balanced Scorecard which is now used bank-wide to monitor performance management has infused numerous rewards into our processes and operations. This 'Strategic Chart of Accounts' which captures both the financial and non-financial elements of an organisation's strategy, discusses and analyses the impact that relationships have on driving results. Having begun using the Balanced Scorecard, which in fact is a catalyst in the management process, presents UBC for the first time with the option of using key indicators

and emerging trends to map its journey ahead, instead of analysing past indicators.

Infusing IT into the Equation

Working on a strategy of driving UBC to become a fully technology driven bank which will truly add the necessary stimulus into our SME focus, initiatives to continuously innovate and develop IT processes and systems is in constant motion. Manned by an expert professional team who are extremely conversant with IT trends, innovations and developments, over 2011 UBC automated and introduced many systems to be competitively on par, reducing manual input and increasing automation for better efficiencies, speed and productivity.

One of our most significant achievements this year was the pioneering Anti-Money Laundering System, which is a first for Sri Lanka. We also introduced virtualisation to bring in cost efficiency coupled with excellent performance. Another unparalleled feature unique to UBC is the concept of Barefoot Banking which takes the concept many steps beyond conventional mobile banking. In the UBC concept of barefoot banking, a customer has a triad of options when availing banking services including the concept of backpack banking which takes all banking services to the customer's doorstep and kiosk banking. This is designed to empower our customers and given our focus on SMEs, will ensure that banking is made easy, hassle-free and efficient, taking customer service levels to the next realm.

Leadership Forum

Aligned to our technology drive, our Core Banking Solution is to be upgraded to augment efficiency and productivity. All systems and processes encompassing and complimenting the Core Banking System will be aligned to this upgrade.

Financial Performance

As was highlighted earlier, UBC's performance this year has been quite remarkable. We have seen all our Key Performance Indicators display noteworthy rises, as is seen in PBT increasing 28.3% to stand at Rs. 530 Mn in 2011 compared to Rs. 413 Mn in 2010. The primary factors for this growth momentum is attributed to the increase of 28.8% in net interest income, which in fact was achieved amid shrinking interest margins in the industry and also an incline in non-interest income by 46.3%.

Meanwhile, PAT increased by 105.9% to Rs. 308 Mn, mainly due to the reduction in financial VAT from 20% to 12% and the decrease from 35% to 28% in Corporation Tax.

Overall, interest income grew 18.7% to Rs 2,104 Mn from the 2010 figure of Rs 1,772 Mn. Fund-based operations proved positive with a growth of interest income on loans and advances seeing upward momentum of Rs 360 Mn, which is 27.1% due to the credit growth of 71%. Interest income on trust certificates too saw noteworthy gain to Rs 21 Mn compared to last year's Rs 5 Mn, while overall interest income improved by 18.7% to Rs 2,104 Mn.

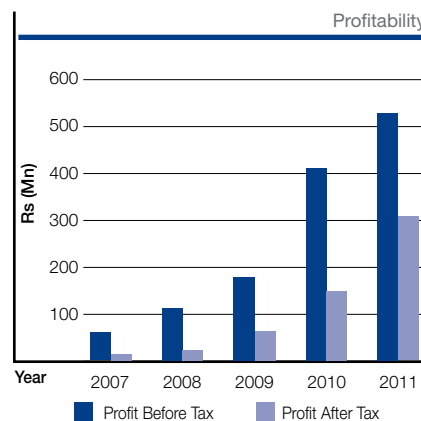
There was also a 10.9% increase in overall interest expense from the 2010 figure of Rs 998 Mn to Rs 1,107 Mn. Interest expense on deposits increased by a marginal 8% despite a gain observed in deposits by Rs.6,152 Mn, which is due to the reduced interest rates offered during the year. However, interest expense on Money Market Instruments and

Borrowings under Refinancing Schemes increased by 283%.

In this landscape, it is noted that the interest margin which stood at Rs 774 Mn last year, increased 28.8% to Rs 997 Mn in 2011.

Fee based income which comprises in the main, foreign exchange and other income, saw a considerable increase of 61.6% to Rs 77,882 Mn from Rs 48,205 in 2010, primarily due to the favourable impact the SLR devaluation of 3% as mandated by the Fiscal Budget 2011 had on the foreign exchange income across the board.

Other income also saw a 43.4% collated through the Rs 7 Mn dividend received from subsidiary NAMAL, the sale of 38 Mn shares of UBC's subsidiary FGCL which resulted in a capital gain of Rs 95 Mn and an increase in fees and commission income by Rs 57 Mn. Other income therefore is posted at Rs 370 Mn compared to the 2010 figure of Rs 258 Mn.



Operating Expenses

Having embarked on an accelerated expansion plan this year in order to be more accessible and in creating an environment of higher productivity and efficiency, our personnel costs did

see an increase, which we deem as an investment rather than an expense. The number of employees which increased to 470 from 383 in 2010 are trained professionals, who will undoubtedly be an asset to the Bank and are ideally equipped to drive our objectives ahead. The personnel costs therefore saw an increase of 32.2% this year, posted at Rs 334 Mn compared to last year's Rs 253 Mn.

The nine new branches which came under our umbrella this year as a result of our strategic expansion plan saw an incline of 60.6% in the Premises, Equipment & Establishment expenditure. The Rs 209 Mn increase from Rs 130 Mn in 2010 is due to overhead charges which is a result of the new branches and an increase in depreciation due to the additions of Rs 309 Mn to Property, Plant & Equipment.

Financial VAT on Profit

Financial VAT expense dropped by 21%, from Rs 105 Mn to Rs 83 Mn due to the reduction in rates. This 8% saving on VAT on Financial Services and 5% saving on Corporation tax, was utilised to create an investment fund account. This Investment Fund Account will be used as a lending tool, granting only long term loans at a lower interest rate, while the interest on investment will be exempted from Income Tax.

Loan Loss Provisions

General loan loss provision saw a decline of 51.3% to Rs 5 Mn compared to Rs 9 Mn in 2010, while the provision for Performing and Overdue Loans was reduced to 0.5% from 0.9%. Specific provisions also saw a decline of 45.8%, by Rs 10 Mn to Rs 12 Mn, significantly impacted due to concerted efforts in recovery detailed at 553.3% in 2011.

Return on Assets and Return on Equity

ROA increased to 1.14% compared to 0.92% in 2010, due to the combination of the Bank's improved performance and the decrease of financial VAT and corporate tax rates.

ROE also meanwhile improved to 6.20% from the 2010 posted 5.20%, despite the increase of Rs 646 Mn in shareholders' funds.

Business Volumes

A concerted effort was made in deposit mobilisation during the year which reaped in the desired results seeing deposit volume increase by Rs.6,152 Mn or 46.6%, reaching Rs.19,345 Mn as at year end.

Fixed deposits recorded a significant growth of Rs. 5,045 Mn as well, attributed primarily to the increase observed in interest rates in the latter part of the year.

As always, UBC reacted astutely to market changes, making timely decisions and instituting initiatives that saw positive results being showcased, especially during the latter of 2011. It is noteworthy hence that performance in the last two financial quarters of 2011 were significantly better than Q1 and Q2.

Advances meanwhile also increased a substantial 71%, reaching Rs.17,162 Mn in contrast to Rs.10,037 in 2010, mainly due to increases in Term Loans, Overdrafts, Pawning and Leasing business.

Geographically, UBC's concentration of deposits remained with the Western Province which contributed 86% of total deposits, amounting to Rs 16,632 Mn,

while advances too saw the Western Province remain the largest with Rs 14,311 Mn. The North Western Province ranked in next meanwhile, contributing Rs 1,167 Mn in deposits and Rs 877 Mn in advances.

| Region | Total Deposits | Total Advances |
|---------------|----------------|----------------|
| | Rs.Mn | Rs.Mn |
| Central | 483 | 338 |
| Eastern | 170 | 267 |
| North Central | 34 | 3 |
| North Western | 1,167 | 877 |
| Northern | 242 | 817 |
| Sabaragamuwa | 14 | 0 |
| Southern | 604 | 548 |
| Western | 16,632 | 14,311 |
| | 19,346 | 17,161 |

Total Assets

The total asset base increased 39.7% to stand at Rs 26,059 Mn in 2011, up from Rs 18,864 Mn, most of which is due to the expansion strategies effected during the year.

Liquidity Position and Asset Ratio

Liquidity position in the DBU sat at end of year at Rs 4,334 Mn compared to Rs 4,376 Mn, while the FCBU's position was Rs 222 Mn from Rs 156 Mn posted in 2010. The DBU Liquid asset ratio for this year is 23.38%, while the FCBU ratio is 25.27%.

Credit Quality

A significant improvement was seen in the Gross Non-Performing Advances ratio this year with the Bank's concerted recoveries and collection efforts bearing fruit, improving to a remarkable 4.07% from 8.11% in 2010. This is further augmented with recoveries increasing to

Rs 20 Mn, which is a 553.3% increase compared to Rs 3 Mn last year.

Equity

The historic UBC IPO resulted in a capital infusion of Rs 375 Mn, increasing capital standing to Rs 4,980 Mn, while Retained Earnings grew by 233% compared to the accumulated loss of Rs. 87 Mn showcased in 2010.

The Investment Fund Account saw a reserve of Rs. 53 Mn being transferred as a result of the taxation savings reflective of diktats of the Fiscal Budget of 2011.

Capital Adequacy Ratio

Both the core and total Capital Adequacy Ratios fell to 25.26% and 23.98% from 34.82% and 35.11% in 2010, mainly due to credit growth of 71% during the year.

Cost to Income Ratio

Pre-tax profit per staff member increased by 4.6% to Rs 1 Mn compared to Rs 1 Mn last year, while the accelerated deposit mobilisation efforts saw deposits per staff member also increase to Rs. 41 Mn or by 19.5% and advances per staff member also showing similar patterns, increasing to Rs. 37 Mn, which is a growth percentage of 39.3% compared to Rs. 26 Mn in 2010.

Group Performance

The Group recorded a pre-tax profit of Rs. 525 Mn and a post tax profit of Rs. 299 Mn.

Leadership Forum

Quarterly Performance 2011

| Summary of Quarterly Performance | | | | | |
|--|--------------|-----------|-----------|-----------|-----------|
| | <i>Rs.Mn</i> | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 |
| Net Interest Income | | 237 | 248 | 252 | 260 |
| Less: Non - Interest Expenses | | 195 | 196 | 207 | 272 |
| Operating Profit Before Corporate Tax | | 100 | 107 | 98 | 142 |
| Operating Profit After Corporate Tax | | 60 | 69 | 63 | 117 |
| Total Gross Loans and Advances | | 11,724 | 12,869 | 15,709 | 17,162 |
| Net Loans and Advances | | 11,232 | 12,380 | 15,235 | 16,674 |
| Total Deposits | | 14,067 | 14,815 | 16,416 | 19,345 |
| Equity Capital & Reserves | | 4,943 | 5,012 | 5,069 | 5,186 |
| Regulatory Capital Adequacy | | | | | |
| Core Capital Adequacy Ratio, % of Risk Weighted Assets <i>(Minimum Requirement, 5%)</i> | | 36.52% | 32.78% | 27.99% | 25.26% |
| Total Capital Adequacy Ratio, % of Risk Weighted Assets <i>(Minimum Requirement, 10%)</i> | | 36.78% | 33.08% | 28.28% | 23.98% |
| Assets Quality | | | | | |
| Gross Non-Performing Advances Ratio <i>(Without Interest in Suspense)</i> | | 7.17% | 6.05% | 4.65% | 4.07% |
| Net Non-Performing Advances Ratio <i>(Net of Interest in Suspense & Provision)</i> | | 5.51% | 4.59% | 3.51% | 2.98% |
| Profitability (Annualized) | | | | | |
| Interest Margin | | 4.93% | 4.83% | 4.73% | 4.56% |
| Return on Assets (After tax) | | 1.25% | 1.28% | 1.23% | 1.41% |
| Return on Equity | | 5.12% | 5.31% | 5.03% | 6.21% |
| Regulatory Liquidity | | | | | |
| Statutory Liquid Assets Ratio <i>(Minimum Requirement, 20%)</i> | | | | | |
| Domestic Banking Unit | | 48.41% | 28.56% | 22.42% | 23.38% |
| Off-Shore Banking Unit | | 27.67% | 26.57% | 28.62% | 25.27% |

Future Focus

Being a Bank that has been grounded on best practices, UBC continues to be cognizant of the transforming financial landscape and the regulations and diktats that ensue both locally and internationally. We are already in preparedness for the SLFRS conversion, which is mandatory in 2012. Leveraging on our advantages, we have also identified significant areas that will be impacted and have begun laying the groundwork to optimise on the opportunities that will emerge. Similarly, we are also aware of ensuing challenges and the exposure that the Bank may be subjected to. This is detailed in table on page 28.

Major impact areas - IFRS

| Major impact areas | Major heads where LKAS 32 & 39 differs from current accounting treatment | Balance as at 31 st December 2011 | |
|---|---|---|---|
| | | | Rs.'000 |
| Loans and advances | <ul style="list-style-type: none"> Under LKAS 39, loans and receivables are initially recognised at their fair values. Under LKAS 39 Impairment provision are subject to judgmental / qualitative and quantitative analysis. | Bills of exchange Loans & advances Staff Loan Specific provision General provision Interest in suspense Total | 289,032 16,092,365 189,941 (178,958) (72,196) (226,566) 16,093,618 |
| Lease Receivables | <ul style="list-style-type: none"> Under LKAS 39 Impairment of leases is based on judgmental / qualitative and quantitative analysis. General provisions to be based on historical experience / flow rate analysis under LKAS 39 versus a % bucketing approach under the current accounting practice | As of 31 st December 2011; Net Receivables more than one year Net Receivables less than one year Total | 396,243 183,862 580,105 |
| Fee Income Recognition | <ul style="list-style-type: none"> Fees income (Ex: Commission) relating to lending transaction need to be recognized as part of the EIR computation as against upfront recognition. Up front recognition of fee income will be permitted only if it is related to completion of a specific service, represents fair compensation for that service and does not subsidise a related lending transaction | Commissions on Letters of credit Acceptance Bills sent on collection Guarantees | 24,128 15,132 13,273 44,367 |
| Deep Discounted Bond | <ul style="list-style-type: none"> Initial recognition at fair value Classification either AFS or Loans & receivables Impairment- performed when there is a objective evidence of loss event and event would have significant effect on future cash flows. (changes in NPA recoveries) | As of 31 st December 2011 Deep Discounted Bond | 2,195,923 |
| Treasury bills, bonds and other eligible bills | <ul style="list-style-type: none"> Subsequent measurement will vary based on the category the asset is classified Fair value should be determined using the published Bid prices. | Held to Maturity Treasury Bills Treasury Bond Total Held to Trading Treasury Bills Treasury Bond Total | 199,027 380,122 579,149 168,008 108,881 276,888 |

Leadership Forum

| Major impact areas | Major heads where LKAS 32 & 39 differs from current accounting treatment | Balance as at 31 st December 2011 | |
|---|--|---|-------------------------------------|
| | | | Rs.'000 |
| Reverse Repurchase Bills | <ul style="list-style-type: none"> Should be classified as Loans & Receivables, since there is no active market | Held to Maturity Reverse Repo Bills Total | 245,000 245,000 |
| Repurchase Government Securities | <ul style="list-style-type: none"> Classified as Other Liabilities Initial recognition at fair value Subsequently measured at amortized cost using EIR. | Repo Govt. Securities Total | 127,987 127,987 |
| Investment Securities | <ul style="list-style-type: none"> Initial recognition at fair value Classification into AFS category. Subsequent measurement/valuation – Unrealized gain should be recognised in Equity for AFS investments. Impairment- performed when there is a objective evidence of loss event and event would have significant effect on future cash flows. | Investment Securities Total | 61,318 61,318 |
| Dealing Securities | <ul style="list-style-type: none"> Transaction costs should be expensed to profit or loss when incurred. | Dealing Securities Total | 149,622 149,622 |
| Off Balance Sheet Items | <ul style="list-style-type: none"> All derivatives recorded on balance sheet at fair value. Marked to market gain loss will be recognised in profit or loss. | Off Balance Sheet items Total | 7,944,516 7,944,516 |
| Deposits and Borrowed Funds | <ul style="list-style-type: none"> Classified as Other Liabilities Initial recognition at fair value Subsequently measured at amortized cost. | Deposits & Borrowed Funds Total | 19,850,330 19,850,330 |

Group Structure

| | National Asset Management Ltd (NAMAL) | | The Finance & Guarantee Ltd (FGCL) | |
|----------------------------------|---|--|---|--|
| | December-11 Rs.Mn. | March-11 Rs.Mn. | December-11 Rs.Mn. | March-11 Rs.Mn. |
| Total Assets | 182 | 189 | 2,192 | 1,702 |
| Total Liabilities | 11 | 19 | 1,837 | 3,254 |
| Net Assets | 171 | 170 | 355 | -1,552 |
| | 9 months ended 31 st Dec 2011 | 12 months ended 31 st Mar 2011 | 9 months ended 31 st Dec 2011 | 12 months ended 31 st Mar 2011 |
| Total Revenue | 54 | 76 | 71 | 174 |
| Profit/Loss before Tax | 19 | 38 | -724 | -921 |
| Profit/Loss after Tax | 16 | 22 | -724 | -921 |
| Earnings/Loss per Share (Rs.) | 1.62 | 2.23 | (0.86) | (614) |

National Asset Management Limited (NAMAL)

The pioneering Unit Trust management company in Sri Lanka, NAMAL was established in 1991. It launched the first Unit Trust licensed in Sri Lanka, the National Equity Fund and the first listed Unit Trust, NAMAL Acuity Value Fund. In 19 years, it has etched a successful track record in Sri Lankan equity and fixed income markets, operating eight Unit Trusts offering private portfolio management for institutional investors. Manned by a highly experienced and professional management team with widespread experience in domestic and international capital markets, NAMAL is now a subsidiary of Union Bank PLC and its shareholders include DFCC Bank and Ennid Capital (Pvt) Limited.

The Finance & Guarantee Company Limited (FGCL)

Incorporated in 1961 under Companies Ordinance No. 51 of 1938 (now regulated under the Companies Act No. 07 of 2007), FGCL is a Registered Finance Company operating under the Finance Companies Act No. 78 of 1988. The Company's core business is in leasing, hire purchase, housing loans, property development and real estate, while also possessing a pawn broking license and being authorised to mobilise funds through public deposits excluding current and foreign currency accounts). Since November 2011, UBC holds a total shareholding of 81.27% of the Company.

GRI Compliance Index

About the Sustainability Report

Banks in Sri Lanka comply with several regulatory and voluntary reporting frameworks when preparing the sustainability report. Due to the growing popularity and the wider use of the Global Reporting Initiatives (GRI), Union Bank adopted its guidelines in preparing a suitable report in 2010.

The GRI views sustainability reporting as the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards sustainable development. We believe that this framework helps us to summarize the contents of this annual report based on key areas such as materiality, stakeholder inclusiveness, strategic planning and performance review, completeness and ease of use.

Report Scope and Boundary

The scope of this annual report focuses on the Bank's performance with respect to the strategic objectives for the 12 months ending 31st December 2011. The financial statements have been prepared in accordance with the guidelines of the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka.

We believe that sustainability reporting encompasses the Bank's corporate duty of measuring performance against pre-determined goals and disclosing the performance and its activities during the period. It also enables the Bank to maintain a high level of accountability to its internal and external stakeholders. The discussions of the Leadership Forum of this annual report provides a balanced and reasonable representation of the performance of the organisation, highlighting both positive and negative attributes of the Bank for the period of review as well as its future outlook.

The Reviews of the Chairman and Chief Executive Officer, and the Leadership Forum highlight the macro environment, its impact on the Bank's activities and the Bank's overall performance in each of its business lines whilst the financial statements are prepared in accordance to the set regulatory standards and have been audited by the Bank's external auditors. The data presented were compiled from actual data bases of the Bank and external data was derived from various Government and Non-Government institutions.

The head office of the Bank is the contact point for any inquiries or clarifications regarding the contents of the GRI Index and is situated at 64, Galle Road, Colombo 03, Sri Lanka.

Stakeholder Involvement

As aptly identified and elaborated under our mission statement, the Bank recognizes its existing and future customers, shareholders and other fund providers, employees, the community, suppliers and regulators as the main stakeholders. The Bank's strategic objectives are based on the expectations of these stakeholders and we believe that the success of the Bank is dependent on achieving the objectives set out in the mission statement.

| 1. Strategy and Analysis | | | |
|---------------------------|--|----------|---|
| Index # | Description | Reported | Relevant Chapter |
| 1.1 | Statement from the most senior decision-maker of the organisation | Yes | Chairman's Review Leadership Forum |
| 1.2 | Description of key impacts, risks and opportunities | Yes | Leadership Forum Managing Risk at Union Bank Integrated Risk Management Committee Report |
| 2. Organisational Profile | | | |
| Index # | Description | Reported | Relevant Chapter |
| 2.1 | Name of the organisation | Yes | About Union Bank Investor Relations |
| 2.2 | Primary brands, products and / or services | Yes | Leadership Forum About Union Bank |
| 2.3 | Operational structure of the organisation | Yes | Leadership Forum About Union Bank |
| 2.4 | Location of organisation's headquarters | Yes | Investor Relations |
| 2.5 | Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report | Yes | Corporate Information Branch Network |
| 2.6 | Nature of ownership and legal form | Yes | Corporate Information Investor Relations |
| 2.7 | Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries) | Yes | Leadership Forum |
| 2.8 | Scale of the reporting organisation | Yes | Leadership Forum |
| 2.9 | Significant changes during the reporting period regarding size, structure or ownership | Yes | About Union Bank Investor Relations |
| 2.10 | Awards received during the reporting period | | None |
| 3. Report Parameters | | | |
| Index # | Description | Reported | Relevant Chapter |
| 3.1 | Reporting period | Yes | Chairman's Review Report of External Auditors Financial Statements Sustainability Report |
| 3.2 | Date of most recent report | Yes | Sustainability Report |
| 3.3 | Reporting cycle (annual, biennial, etc.) | Yes | Sustainability Report |
| 3.4 | Contact point for questions regarding the report or its contents | Yes | Sustainability Report Investor Relations Corporate Profile |
| 3.5 | Defining report content | Yes | Sustainability Report |
| 3.6 | Boundary of the report | Yes | Sustainability Report |
| 3.7 | Any specific limitations on the scope or boundary of the report | Yes | Sustainability Report |

GRI Compliance Index

| 3.8 | Basis for reporting on joint ventures, Subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations | Yes | About Union Bank Notes to Financial Accounts |
|--|---|----------|--|
| 3.9 | Data measurement techniques and the bases of calculations | Yes | Sustainability Report Notes to Financial Accounts |
| 3.10 | Explanation of the effect of any re-statement of information provided in earlier reports | Yes | Notes to Financial Accounts |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report | | None |
| 4. Governance, Commitments and Engagement | | | |
| Index # | Description | Reported | Relevant Chapter |
| 4.1 | Governance structure of the organisation | Yes | Corporate Governance |
| 4.2 | Indicate whether the chair of the highest governance body is also an executive officer | Yes | The Chairman is a Non-Executive Director (Refer section on Board of Directors) |
| 4.3 | The number of members of the highest governance body that are independent and /or Non-Executive Members | Yes | Board of Directors |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body | Yes | Corporate Governance |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers and executives | Yes | Corporate Governance |
| 4.6 | Processes in place for the highest governing body to ensure conflicts of interests are avoided | Yes | Corporate Governance |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics | Yes | Corporate Governance |
| 4.8 | Internally- developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation | Yes | About Union Bank Brand Building Initiatives & Events |
| 4.9 | Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance | Yes | Corporate Governance Leadership Forum Brand Building Initiatives & Events |
| 4.10 | Processes for evaluating the highest governance body's own performance | Yes | Corporate Governance |
| 4.11 | Precautionary approach | Yes | Managing Risk at Union Bank |
| 4.12 | Externally developed economic, environmental social charters and principles | | Not Applicable |
| 4.13 | Membership in industry/Business association | Yes | Union Bank is a member of the Chamber, the Lanka Clear, SLIPs, SWIFT, Institute of Bankers |

| 4.14 | List of stakeholders engaged by the organisation | Yes | About Union Bank Leadership Forum Human Resource Policy |
|-------------|--|----------|---|
| 4.15 | Basis for identification and selection of stakeholders | Yes | About Union Bank Leadership Forum |
| Economic | | | |
| Index # | Description | Reported | Relevant Chapter |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change | Yes | Chairman's Review Leadership Forum |
| EC3 | Coverage of the organisation's defined benefit plan obligations | | Not Applicable |
| EC4 | Significant financial assistance received from government | | None |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation | | Not Applicable |
| EC6 | Policy, practices and proportion of spending on locally- based suppliers at significant locations of operation | | Not Applicable |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation | Yes | Leadership Forum Human Resource Policy |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial in- kind or pro bono engagement | Yes | Brand Building Initiatives & Events |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts | Yes | Leadership Forum Managing Risk at Union Bank |
| Environment | | | |
| Index # | Description | Reported | Relevant Chapter |
| EN2 | Percentage of materials used that are recycled input materials | | Not Applicable |
| EN3 | Direct energy consumption by primary energy source | | Not Applicable |
| EN4 | Indirect energy consumption by primary source | | Not Applicable |
| EN5 | Energy saved due to conservation and efficiency improvements | | Not Applicable |
| EN6 | Initiatives to provide energy -efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives | | Not Applicable |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved | | Not Applicable |

GRI Compliance Index

| | | | |
|------|---|--|----------------|
| EN8 | Total water withdrawal by source | | Not Applicable |
| EN9 | Water sources significantly affected by withdrawal of water | | Not Applicable |
| EN10 | Percentage and total value of water recycled and reused | | Not Applicable |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, to protected areas and areas of high biodiversity value outside protected areas (if applicable) | | Not Applicable |
| EN12 | Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | | Not Applicable |
| EN13 | Habitats protected or restored description of significant impacts of activities ,products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | | Not Applicable |
| EN14 | Strategies, current action and future plans for managing biodiversity | | Not Applicable |
| EN15 | No. of IUCN red list species and national conservation list species with habitats in areas affected by operations | | Not Applicable |
| EN16 | Total direct and indirect greenhouse gas emissions by weight | | Not Applicable |
| EN17 | Other relevant indirect greenhouse gas emissions by weight (reported in carbon footprint) | | Not Applicable |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved (Reported in carbon footprint) | | Not Applicable |
| EN19 | Emissions of ozone-depleting substances by weight | | Not Applicable |
| EN20 | NO, SO and other significant air emissions by type and weight | | Not Applicable |
| EN21 | Total water discharge by quality and destination | | Not Applicable |
| EN22 | Total weight of waste by type and disposal method | | Not Applicable |
| EN23 | Total number of and volume of significant spills | | Not Applicable |
| EN24 | Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel convention of the annex I, II, III and VIII, and percentage of transported waste shipped internationally | | Not Applicable |

| | | | |
|------|---|--|----------------|
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff | | Not Applicable |
| EN26 | Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation | | Not Applicable |
| EN27 | Percentage of products sold and their packaging materials reclaimed | | Not Applicable |
| EN28 | Monetary value of significant fines and total no. of non monetary sanctions for non-compliance with environmental laws and regulations | | None |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce | | Not Applicable |
| EN30 | Total environmental protection expenditures and investments by type | | Not Applicable |

Society


| Index # | Description | Reported | Relevant Chapter |
|---------|---|----------|------------------|
| S002 | Percentage and total number of business units analysed for risks related to corruption | | Not Applicable |
| S003 | Percentage of employees trained in organisation's anti-corruption policies and procedures | | Not Applicable |
| S004 | Actions taken in response to incidents of corruption | | Not Applicable |
| S005 | Public policy positions and participation in public policy development and lobbying | | Not Applicable |
| S006 | Total value of financial and in-kind contributions to political parties , politicians and related institutions by country | | Not Applicable |
| S007 | Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes | | Not Applicable |
| S008 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | | Not Applicable |

Labour

| Index # | Description | Reported | Relevant Chapter |
|---------|---|----------|---|
| LA01 | Total workforce by employment type, employment contract and region | Yes | Leadership Forum Human Resource Policy |
| LA02 | Total number and rate of employee turnover by age group, gender and region | Yes | Leadership Forum Human Resource Policy |
| LA03 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations | Yes | Human Resource Policy |

GRI Compliance Index

| | | | |
|------|--|-----|---|
| LA04 | Percentage of employees covered by collective bargaining agreements | | None |
| LA05 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements | | Not Applicable |
| LA06 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes | | Not Applicable |
| LA07 | Rates of injury, occupational deceases , lost days and absenteeism, and number of work-related facilities by province | | Not Applicable |
| LA08 | Education, training, counselling ,prevention of diseases and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases | | Not Applicable |
| LA09 | Health and safety topics covered in formal agreements with trade unions | | Not Applicable |
| LA10 | Average hours of training per year per employee by employee category | Yes | Human Resource Policy |
| LA11 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Yes | Human Resource Policy |
| LA12 | Percentage of employees receiving regular performance and career development reviews | Yes | Human Resource Policy |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity | Yes | Human Resource Policy |
| LA14 | Ratio of basic salary of men to women by employee category | | The Bank does not discriminate remuneration on gender |

| | | 2002 In Accordance | C | C+ | B | B+ | A | A+ |
|------------------|---------------------|--------------------|---|----------------------------------|---|----------------------------------|---|----------------------------------|
| Mandatory | Self declared | |  | Report externally assured | | Report externally assured | | Report externally assured |
| Optional | Third party checked | | | | | | | |
| | GRI checked | | | | | | | |

Corporate Governance

Corporate governance is “the system by which companies are directed and controlled”. It involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. It also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

Well defined and enforced corporate governance provides a structure that works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws.

Financial Crisis of the world, if analyzed will demonstrate that one of the significant factors contributed was the failure of sound corporate governance culture. Spate of corporate scandals has undermined the confidence of investors in financial markets and company boards resulting in a strong demand for new

regulations and rapid implementation that would pave the way for sound corporate governance culture within organisations, safeguarding the depositor the key figure in the banking industry.

Thus the endeavor of the Union Bank is to maintain a high degree of commitment to Corporate Governance and is firmly committed to the highest standards of corporate governance and complies with the corporate governance practices recommended by various regulatory bodies. The Board of Directors ensures that the activities of the Bank are at all times conducted according to the highest ethical standards and in the best interest of all its stakeholders.

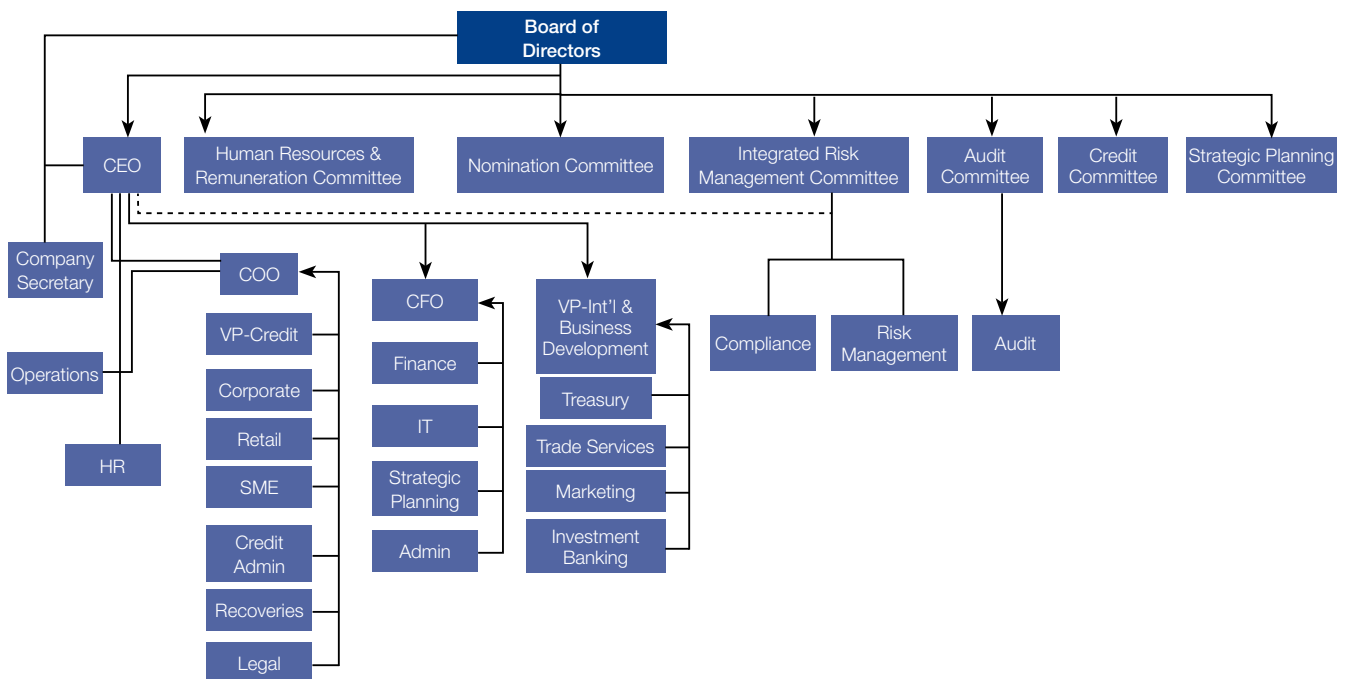
Governance Frame work at Union Bank is fore mostly base on following principles

- Assuming responsibility and accountability in respect of management of the affairs
- Ensuring the oversight through board appointed sub committees

- Determining the best structures of management for the bank to achieve its business objects
- Evaluating the business activity and prudent risk management policies of the bank thus ensuring the safety and soundness of Union Bank
- Infusing and accommodating new ideas and maintaining cordial relationship at board level and the management
- Overseeing systems of internal control systems including internal audit, compliance and risk management functions independent of the business lines

Further Union Bank as an integral part of its governance strategy considers economic, social, environmental are key elements of its long term sustainability and thus have aligned these component to its business strategies

Corporate Governance Structure



Corporate Governance

Board Composition and Responsibilities

The Board of Union Bank comprises of thirteen Directors, four of whom are Independent Non-Executive Directors, and CEO of the Bank is the only Executive Director. Filling of vacancies are done by the Board made on the recommendations of the Nominations Committee who ensures actions that such Directors are persons of repute who would be able to contribute significantly towards the benefit of the Bank to achieve its strategies objectives and goals.

Board Sub Committees and Management Committees

Keeping in line with the regulatory requirements Union Bank has established the Audit Committee, Integrated Risk Management Committee, Human Resources and Remuneration Committee and the Nomination Committee. Responsibilities, functions and activates during the financial year of these committees are presented separately. In order to ensure the effective functioning and the achievement of strategic objectives the Board has delegated powers to several management committees. Functions and responsibilities of these committees are detailed in the Risk Report. In addition the Bank has also established the Credit Committee and the Strategic Planning Committee for better Organisational Management.

Report on the Status of Compliance

Direction No 11 of 2007 – Corporate Governance for Licensed Commercial Banks

| Section | Rule | Level of Compliance |
|------------------|---|--|
| 3 (1) | The Responsibilities of The Board | |
| 3 (1) (i) | The Board Shall Strengthen The Safety and Soundness of The Bank By Ensuring The Implementation of The Following | |
| | (a) Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank | <p>Our vision is "To be the innovator of banking solutions especially to the small, medium and personal segments and to be their Bank of choice, through professional & empowered people".</p> <p>Board has approved strategic objectives and corporate values. Approving and overseeing the Bank's strategic objectives and corporate values are performed via monthly and special Board meetings.</p> <p>Communicating the same throughout the Bank is via the key management personnel.</p> |
| | (b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years | <p>Board has approved an overall three year business strategic plan. Such plan includes measurable goals for three years.</p> <p>Board approved the Integrated Risk Management policy which includes the appropriate systems to manage the risks which is prudent and duly implemented.</p> |
| | (c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently; | <p>Identifying and implementation of the principal risks and implementation are performed via Board appointed integrated Risk Management Committee.</p> <p>Terms of Reference of the IRMC stipulates that minutes of IRMC meetings are submitted to the Board periodically.</p> |
| | (d) Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, share-holders and borrowers | <p>The Board ensures effective two way communication with all stakeholders via its corporate management.</p> <p>Board approved formal policy of communication with all Stakeholders, including depositors, creditors & shareholders and borrowers at the bank will be in place.</p> |
| | (e) Review the adequacy and the integrity of the bank's Internal control systems and management information systems | <p>Review of the adequacy and integrity of Bank's internal control systems relating to financial reporting is done by the Audit Committee and minutes together with any recommendations are submitted to the Board for review and ratification.</p> |

Corporate Governance

| Section | Rule | Level of Compliance |
|---------|--|---|
| | (f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: <ul style="list-style-type: none"> (i) Significantly influence policy (ii) Direct activities and (iii) Exercise control over business activities, operations and risk management | Board has designated the Board and the Corporate Management as Key Management Personnel (KMP) for the Bank. Identification is in accordance as defined in Sri Lanka Accounting Standards. |
| | (g) Define the areas of Authority and key responsibilities for the Board Directors themselves and for the key management personnel | Articles of the Bank define areas of authority and responsibilities for the Board and mentions matters that cannot be delegated and that are reserved exclusively to the Board. Terms of References, Charters, policies and manuals approved by the Board delegates specific authorities and responsibilities to Board Subcommittees and Management Committees. Further Areas of authority and key responsibilities of key management personnel are also included in the respective job descriptions. Any other area that is not covered would be specifically under the authority and the responsibility of the Board. |
| | (h) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with Board policy; | Board meets Key Management Personnel on a regular basis to explain matters relating to their areas and to ascertain whether the bank affairs of the bank are consistent with Board Policies. This will be formalised by the proposed internal code of Governance in 2012 |
| | (i) Periodically assess the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary; | <ul style="list-style-type: none"> • Self assessment of directors has been obtained for the year 2011 • At present management of conflicts of interest is in practise. • Board has delegated the functions of selection, nomination, and election of directors to the Nomination Committee This will be formalised by the proposed internal code of Governance in 2012 |
| | (j) Ensure that the bank has an appropriate succession plan for key management personnel; | Documented succession plan is in place for CEO and Corporate Management |
| | (k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives; | Board meet Key Management Personnel on a regular basis to explain matters relating to their areas. This will be formalised by the proposed internal code of Governance in 2012 |
| | (l) Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators; | Board identify the regulatory environment via monthly compliance reports submitted by the Compliance Officer and ensure that an effective relationship with the regulators are maintained by way of active participation at meetings with the regulators by the CEO and relevant Heads of Divisions |
| | (m) Exercise due diligence in the hiring and oversight of external auditors. | Terms of reference of Board Audit Committee includes the functions of hiring and overseeing external auditors. |

| Section | Rule | Level of Compliance |
|--------------|--|---|
| 3 (1) (ii) | The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions. | The Board has appointed the Chairman and the Chief Executive Officer and approved the Functions |
| 3 (1) (iii) | The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible. | Board has met 12 times during the year at regular monthly intervals. |
| 3 (1) (iv) | The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank. | All Board members are given equal opportunity in this regard where such proposals relate to the promotion of business and the management risk of the bank. This will be formalised by the proposed internal code of Governance in 2012 |
| 3 (1) (v) | The Board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other Board meetings, reasonable notice may be given. | Regular monthly meetings are informed to the Directors prior to 7 days giving them the opportunity to attend. This will be formalised by the proposed internal code of Governance in 2012. |
| 3 (1) (vi) | The Board procedures shall ensure that a director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the directors' meeting through an alternate director shall, however, be acceptable as attendance. | Situation not arisen during the year. Participation of all the directors in accordance with the direction |
| 3 (1) (vii) | The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988 whose primary responsibilities shall be to handle the secretariat service to the Board and shareholder meeting and to carry out other functions specified in the statutes and other regulations. | The Board has appointed a Company Secretary in compliance with section 43 of the Banking Act No 30 of 1988. Her primary responsibilities are handling secretariat services to the Board and Shareholder meeting and to carry out the other functions specified in the statutes and other regulations. |
| 3 (1) (viii) | All directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. | All the Directors has equal opportunity to access the Company Secretary. This will be formalised by the proposed internal code of Governance in 2012 |
| 3 (1) (ix) | The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director. | Minutes of Board meeting are maintained by the Company Secretary and can be inspected by any director with reasonable notice. This will be formalised by the proposed internal code of Governance in 2012 |

Corporate Governance

| Section | Rule | Level of Compliance |
|-------------|--|---|
| 3 (1) (x) | <p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.</p> <p>The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following:</p> <ul style="list-style-type: none"> (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions. | <p>The Company Secretary maintains the minutes of Board meetings with sufficient details in accordance with the direction.</p> |
| 3 (1) (xi) | <p>There shall be a procedure agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.</p> <p>The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.</p> | <p>Board of Directors can seek professional advice to assist the Directors to discharge their duties effectively. This will be formalised by the proposed internal code of Governance in 2012</p> |
| 3 (1) (xii) | <p>Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations or related parties. If a director has a conflicts of interest in a matter to be consider by the Board, which the Board has determined to be material the matter should be dealt with at a Board meeting, where independent Non-Executive Directors who have no material interest in the transaction are present. Further, a director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.</p> | <p>Interests are disclosed to the Board at the beginning of the Board meeting and director concern would abstain from voting in such situation and he/she is not counted to the quorum. This will be formalised by the proposed internal code of Governance in 2012</p> |

| Section | Rule | Level of Compliance |
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| 3 (1) (xiii) | The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority. | Articles of the Bank define areas of authority and responsibilities for the Board and mentions matters that cannot be delegated and that are reserved exclusively to the Board |
| 3 (1) (xiv) | The Board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action. | Board approved Liquidity policy has stated the work plan for informing such situation. Further monthly reports submitted to the Board indicate the status of the bank to the Board. |
| 3 (1) (xv) | The Board shall ensure that the bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds. | The Bank has duly complied with Capital Adequacy requirements and requirements under other prudential groups. |
| 3 (1) (xvi) | The Board shall publish in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions. | Board has published its report on compliance with section 3 of this Direction in the Annual Report of 2011. |
| 3 (1) (xvii) | The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments. | Self assessment of Directors has been obtained for the year 2011 and is in the custody of the company secretary |
| 3 (2) | Boards Composition | |
| 3 (2) (i) | The number of directors on the Board shall not be less than 7 and not more than 13. | The Board Comprise of 13 Directors |
| 3 (2) (ii) | (A) The total period of service of a director other than a director who holds the position of Chief Executive Officer shall not exceed nine years, and such periods in office shall be inclusive of the total period or service served by such director up to 01 January 2008 | Service period has not exceeded nine years for any of the Directors. |
| 3 (2) (ii) | (B) A director who has completed nine years as at January 01 2008, or who completes such term at any time prior to December 31, 2008, may continue for further maximum period of 3 years commencing January 1, 2009 | Please Refer 3(2) (ii) (A) |
| 3 (2) (iii) | An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-third of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the bank. | Complied There is only one-Executive Director on the Board; the number does not exceed the 1/3 of the Board. |

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| 3 (2) (iv) | <p>The Board shall have at least three Independent Non-Executive Directors or one third of the total number of directors, whichever is higher. This sub-direction shall be applicable from January 1, 2010 onwards</p> <p>A Non-Executive Director shall not be considered independent if he/she:</p> | <p>By the end of the reporting year 2011 the Board comprise of five Independent Non-Executive Directors which represents one third of the total number of Directors</p> <p>Details of Independent and Non Independent Directors are given in page 66-69.</p> |
| | a) Has direct and indirect shareholdings of more than 1% of the Bank | |
| | b) Currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank; | |
| | c) Has been employed by the Bank during the two-year period immediately preceding the appointment as Director | |
| | d) Has a close relation who is a Director of Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependent child; | |
| | e) Represents a specific stakeholder of the Bank; | |
| | f) If an employee or a Director or a material shareholder in a company organization: <ul style="list-style-type: none"> (i) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank, or (ii) In which any of other Director of the Bank are employed or are material shareholders; or (iii) In which any of other Directors of the Bank has a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the Bank | |
| 3 (2) (v) | In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director. | Independent Directors had not appointed alternates during the year 2011 |
| 3 (2) (vi) | Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. | Nominations committee has a procedure in place to appoint Non-Executive Directors, who possess skills and experience |
| 3 (2) (vii) | A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. | Complied |

| Section | Rule | Level of Compliance |
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| 3 (2) (viii) | The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non – Executive Directors, Non Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report. | Complied. Please refer pages 64-69. |
| 3 (2) (ix) | There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the board. | Nomination committee has a procedure in place to appoint Directors |
| 3 (2) (x) | All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. | All Directors appointed to fill casual vacancies are subject to election at the first Annual General meeting after their appointment. Please refer page 170. |
| 3 (2) (xi) | If a Director resigns or is removed from office, the Board shall: (a) announce the director's resignation or removal and the reasons for such removal or resignation; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | All resignations are disclosed in the Annual Report. Please refer page 102. |
| 3 (2) (xii) | A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank. | None of the present Directors or an employee act as a Director of any banks. Nominations Committee shall ascertain at the time of selection of Directors for such appointment of their fit and propriety in accordance with the Banking Act and other regulations by the CBSL |
| 3 (3) | Criteria to Assess The Fitness and Propriety of Directors | |
| | In addition to provisions of Section 42 of the Banking Act No 30 of 1988 the criteria set out below shall apply to determine the fitness and propriety of a person who serve as a Director of a Bank. Non compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected to nominated as a Director or to continue as a Director | |
| 3 (3) (i) | The age of a person who serves as Director shall not exceed 70 years (A) In this connection, the following general exemption shall apply: A director who has reached the age of 70 years as at January 01, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 01, 2009 | Complied |

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| 3 (3) (ii) | <p>A person shall not hold office as a director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the bank.</p> <p>Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.</p> <p>(A) In this context, the following general exemption shall apply If a person holds posts of director in excess of the limitation as above, such person shall within a maximum period of three years from 1 January 2009 comply with the above mentioned limitation and notify the Monetary Board accordingly.</p> | Complied |
| 3 (4) | Management functions delegated by the Board | |
| 3 (4) (i) | The directors shall carefully study and clearly understand the delegation arrangements in place. | Directors are aware of the delegation arrangements |
| 3 (4) (ii) | The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions. | The Board has delegated powers to the sub committees, CEO and the Key management personnel without hindering their ability to discharge functions |
| 3 (4) (iii) | The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank. | The delegated powers are reviewed periodically to ensure that they are remaining relevant to the needs of the bank. |
| 3 (5) | The Chairman and Chief Executive Officer | |
| 3 (5) (i) | The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual. | Roles of Chairman and CEO are held by two individuals appointed by the Board. |
| 3 (5) (ii) | The Chairman shall be a Non-Executive Director and preferably an independent director as well. In this case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report. | An independent Non-Executive Director has been appointed as Senior Director of the Bank. Designation of the Senior Director disclosed in page 66. |
| 3 (5) (iii) | The Board shall disclose in its Corporate Governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationship among members of the Board | <p>Identity of the Chairman and the CEO are disclosed in the Annual Report ref page 66.</p> <p>Directors interests in Contracts with the Bank have been separately disclosed in the Annual report of 2011. Please ref page 104.</p> <p>There are no financial, business, family or other material / relevant relationships between, Chairman, CEO and among Directors.</p> |

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| 3 (5) (iv) | The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the board in a timely manner. | Functions & Responsibilities of the Chairman approved by the board includes the requirements stipulated |
| 3 (5) (v) | The chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary | The agenda for each Board Meeting is finalised by the Company Secretary after consulting the CEO and agenda has been approved by the Chairman. |
| 3 (5) (vi) | The Chairman shall ensure that all directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner. | The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings. |
| 3 (5) (vii) | The Chairman shall encourage all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the board acts in the best interests of the bank. | The Board has a self evaluation process to encourage all directors to make full and active contribution |
| 3 (5) (viii) | The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors. | The Board has a self evaluation process to encourage all directors to make full and active contribution by Non Executive Directors. |
| 3 (5) (ix) | The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever. | Chairman is a Non-Executive Director. The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties. |
| 3 (5) (x) | The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. | Functions and responsibilities of the Chairman stipulates requirements. Adequate time is allocated to the shareholders to raise any questions at shareholders meetings. All queries are answered by the Chairman, CEO or the Management of the Bank. In addition queries raised by shareholders through written communications at other times are also responded to. |
| 3 (5) (xi) | The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the bank's operations and business. | The Chief Executive Officer is in charge of the day-to-day management of the Bank's operations and business and is supported by the Corporate Management. |
| 3 (6) | Board Appointed Committees | |
| 3 (6) (i) | Each bank shall have at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, record, etc., under the supervision of the Chairman of the committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting | Complied The following mandatory Board Sub-Committees have been appointed by the Board requiring each such committee to report to the Board: (1) Human Resources and Remuneration Committee (2) Integrated Risk Management Committee (3) Nomination Committee (4) Audit Committee All committees have a secretary appointed Reports of each Board Committee is presented in the Annual Report Ref Page 57, 58, 59 & 63. |

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| 3 (6) (ii) | The following rules shall apply in relation to the Audit Committee: | |
| | (a) The Chairman of the Committee shall be an independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit. | Board Audit Committee Chairman is Non-Executive and independent and is a Fellow of The Institute of Chartered Accountants of Sri Lanka. |
| | (b) All members of the Committee shall be Non-Executive Directors. | Complied |
| | (c) The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. | Terms of reference of Audit Committee Charter require the matters stipulated to be performed by Audit Committee |
| | (d) The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices. | Independent Auditors' Report on the financial statements of the bank for the year 2011 indicates that the audit is carried out in accordance with SLAuS. |
| | (e) The Committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines, in doing so; the Committee shall ensure that the provision by an External Auditor of non audit service does not impair the External Auditor's Independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision non audit services, the Committee shall consider, <ul style="list-style-type: none"> (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor | Board approved Policy on the engagement of an external auditor to provide non audit services in accordance with relevant is in place |

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| | (f) The Committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit , including (i) an assessment of the Bank's compliance with the relevant Direction in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved. | The signed Letter of Engagement contains the agreed nature and scope of the audit, to be performed in accordance with SLAuS. |
| | (g) Check that the Committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit. | Approved Terms of Reference of the Audit Committee require the matters stipulated to be performed by AC. |
| | (h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary. | Complied |
| | (i) The Committee shall review the external auditor's management letter and the management's response thereto. | Complied |

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| | (j) The Committee shall take the following steps with regard to the internal audit function of the bank: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the committee is appraised of resignations of senior staff members of the Internal Audit Department; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care; | (i) The Committee has reviewed the scope, functions and resources of the Internal Audit division. (ii) Approved terms of reference of Internal Audit Charter contain the matters stipulated. Committee reviewed the progress report on internal audit (Audit Plan 2011) (iii) Performance appraisal of chief internal auditor & senior staff members has been evaluated by AC (iv) Complied (v) Complied (vi) Approved Terms of Reference of Audit Committee Charter stipulate that the AC ensures the independence of the activities of the internal audit department Head of Internal Audit directly reports to the Audit Committee. |
| | (k) The Committee shall consider the major findings of internal investigations and management's responses thereto; | Complied |
| | (l) The Chief Finance Officer, the Chief Internal auditor and a representative of the External Auditor may normally attend meetings, other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present. | Committee conducts the meeting with the Chairman and the Head of Internal Audit. D/CEO attends meeting by invitation. Committee has met with the external auditors once without the Executive Director being present. |
| | (m) The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. | Approved terms of reference of Audit Committee Charter contain the matters stipulated. |
| | (n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities. | Complied |

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| | (o) The Board shall disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings. | Please ref page 57 & 112. |
| | (p) The secretary of the committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings. | Complied |
| | (q) The Committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the external auditor. | Complied |
| 3 (6) (iii) | The following rules shall apply in relation to the Human Resources and Remuneration Committee: | |
| | (a) The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to directors, Chief Executive Officer (CEO) and key management personnel of the bank. | Board approved Remuneration policy for Directors and Consultants is in place Policy will be amended to cover the Key Management Personnel |
| | (b) The Committee shall set goals and targets for the directors, CEO and the key management personnel. | Policy approved by the Board and targets and goals for the Directors CEO and KMPs will be set accordingly. |
| | (c) The Committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives. | Evaluation has been performed for CEO and other KMP periodically. |
| | (d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed. | Complied |
| 3 (6) (iv) | The following rules shall apply in relation to the Nomination Committee: | |
| | (a) The Committee shall implement a procedure to select/appoint new directors, CEO and key management personnel. | Complied |
| | (b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. | Complied |

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| | (c) The Committee shall set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions. | Committee shall set criteria in 2012. |
| | (d) The Committee shall ensure that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes. | Complied |
| | (e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and key management personnel. | Documented succession plan is in place for key management personnel Succession of the retiring directors will be done as and when the necessity arises. |
| | (f) The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation. | Chairman of NC is an independent director CEO has attended NC meetings by invitation. |
| 3 (6) (v) | The following rules shall apply in relation to the Integrated Risk Management Committee: | |
| | (a) The Committee shall consist of at least three Non-Executive Directors, chief executive officer and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel very closely and make decision on behalf of the Board within the framework of the authority and responsibility assigned to the Committee. | Terms of reference of the committee were approved by the Board and meetings were convened for approvals of the Board. The Committee consists of three Non-Executive Directors, Chief Executive Officer and the key management personnel responsible for different types of risk within the Bank. |
| | (b) The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis. | Framework is in place to assess risk as per Terms of Reference of the integrated Risk Management committee. Providing monthly information with appropriate risk indicators to the committee commenced with effect from January 2011. Group risk management will be initiated in 2012 |
| | (c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee. | Risk Committee reviews the functions of the other relevant committees through quarterly reports submitted. The limits set are monitored and breaches, if any, are reported to the Board for ratification. |
| | (d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements. | Committee identifies specific risks through periodical reports submitted to them and gives advice on a need basis to mitigate such risks. |
| | (e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans. | Complied. |

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| | (f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision. | Any officers who are responsible for not identifying risks as notified to the IRMC. Towards this the Bank will be establishing a disciplinary code |
| | (g) The Committee shall submit a risk assessment report within a week of each meeting to the board seeking the Board's views, concurrence and/or specific directions. | The Board has been kept informed periodically on proceedings of the committee. |
| | (h) The Committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically. | Compliance Function is in place. A monthly report on statutory and mandatory requirements and the status of compliance is submitted to the Board by the Compliance Officer. A quarterly independent compliance review is submitted to the committee |
| 3 (7) | Related party Transactions | |
| 3 (7) (i) | The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purpose of this direction (a) Any of the bank's subsidiary companies; (b) Any of the bank's associate companies; (c) Any of the directors of the bank; (d) Any of the bank's key management personnel; (e) A close relation of any of the bank's directors or key management personnel; (f) A shareholder owning a material interest in the bank; (g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest. | The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties Related Party Transaction Policy of the Bank has been approved by the Board and is implemented. This has been reviewed during the year and will be strengthened on a continuous basis. |
| 3 (7) (iii) | The Board shall ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the bank carrying on the same business. | Please refer 3.7 (i) |
| 3 (7) (iv) | A Bank shall not grant Any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well. | Please refer 3.7 (i) All such accommodation has to be approved at the Board level meetings with not less than 2/3 of the number of directors other than the director concerned, voting for such accommodations granted |

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|-------------|--|--|
| 3 (7) (v) | <p>(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.</p> <p>(b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier</p> <p>(c) Any director who fails to comply with the above sub-directions shall be deemed to have vacated the office or director and the bank shall disclose such fact to the public</p> <p>(d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was granted under a scheme applicable to all employees of such bank.</p> | The Bank didn't encounter such situation during the year |
| 3 (7) (vi) | A bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above. | <p>No accommodation has given to employees on a favourable basis other than the general schemes applicable to all employees of the Bank, such as staff loan facilities</p> <p>Please refer 3.7 (i)</p> |
| 3 (7) (vii) | No accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect. | The Bank didn't encounter such situation during the year |

| Section | Rule | Level of Compliance |
|--------------|--|--|
| 3 (8) | Disclosures | |
| 3 (8) (i) | The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English | (a) Complied (b) Complied |
| 3 (8) (ii) | The Board shall ensure that the following minimum disclosures are made in the Annual Report: (a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (b) A report by the Board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. (c) The external auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31 December 2008. (d) Details of directors, (i) including names, fitness and propriety, (ii) transactions with the bank and (iii) the total of fees/remuneration paid by the bank. (e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital. (f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration. | Please ref page 100-101 Please ref page 60 & 61 Please ref page 62 Please ref page 99-111 & 154 Details of the accommodations outstanding are disclosed in page 154 Please ref page 154 |

Corporate Governance

| Section | Rule | Level of Compliance |
|---------|---|---|
| | (g) The external auditor's certification of the compliance with these Directions in the annual corporate governance reports published after 01 January 2010. (h) A report setting out details of the compliance with (i) prudential requirements, regulations, laws and (ii) internal controls and (iii) Measures taken to rectify any material non-compliance. (i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns. | The Bank has obtain External Auditor's certification on this Corporate Governance Report and it does not contain any significant deviations. Please ref page 105 & 106 (i) There is no such non compliance issues pointed out by the Director of Bank Supervision to be disclosed to the Public |

Audit Committee Report

Composition and performance

The Audit Committee ('AC') constitutes of three Non-Executive Directors and is chaired by an independent director.

Mr. Aslam Omar (Chairman)
 Mr. Ananda W. Atukorala
 Mr. Alexis Lovell (Mr. Ashan de Zoysa - Alternate Director)

Mr. A. G. Ranawake, Chief Internal Auditor functioned as the Secretary to the AC for the year ended 31st December 2011. The Director/Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and other Senior Managers have attended meetings by invitation, in order to brief the Audit Committee on specific matters. The External Auditors too, have by invitation, attended meetings when necessary.

The Audit Committee had eight formal meetings during the year under review, with the External Auditors attending three of these by invitation.

Audit Committee Charter

Audit Committee Charter was last revised in August 2011 with the concurrence of the Board.

The role of the Audit Committee

Financial reporting

The Committee reviewed and discussed with management, the internal auditors and the external auditors, the critical accounting policies and practices and any changes thereto, alternative accounting treatments, major judgmental areas, material audit adjustments, compliance with accounting standards, the going concern assumption, financial reporting controls and compliance with applicable laws and regulations that could impact the integrity of the Bank's financial statements, its annual report and its quarterly financial statements prepared for publication.

The Committee also discussed the operations and future prospects of the Bank with management regularly and satisfies itself that all relevant matters have been taken into account in the preparation of the financial statements and that the financial statements are reliable and presents a true and fair view of the state of affairs of the Bank.

Internal Controls

The Committee reviewed with management and the internal auditors the reports from the internal auditors on audits and investigations. In this process it assessed the adequacy and effectiveness of the internal controls and the processes for controlling business risks and ensuring compliance with laws and regulations. The Committee ensures that appropriate action is taken by management on the recommendations of the internal auditors.

Internal Audit

The Committee reviewed the structure, resources and performance of the Bank's internal audit department at the year end. In this process, the Committee discusses with the internal auditors the overall scope of work and the annual internal audit plan, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of the internal audits. The annual internal audit plan takes into consideration the views of management and the external auditors.

During the year, committee reviewed 71 audit reports relating to branches and associated operating units including special audit assignments and investigations.

External Audit

The Committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the

external auditors on their own policies and procedures regarding independence.

Before the audit commences, the Committee discussed with the external auditors their general approach, nature and scope of their audit and reporting obligations including, in particular, major judgmental areas, compliance with accounting standards and other applicable laws and regulations.

During the finalisation of the Bank's financial statements, at its separate meeting with the external auditors the Committee ascertained whether there have been any improprieties, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditors wished to discuss with the Committee. The Committee reviewed the external auditor's management letter and management's responses thereto.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31st December 2012 subject to the approval of shareholders at the next Annual General Meeting.



Aslam Omar
 Chairman-Board Audit Committee

28th March 2012

Integrated Risk Management Committee Report

The IRMC, which is a Board sub-committee formed keeping in line with Banking Act Direction No.11 of 2007 Corporate Governance for Licensed Commercial Banks in Sri Lanka, constitutes of three Non-executive Directors and is chaired by an independent Senior Director. The following are members of the committee representing the Board of Directors:-

Mr. Asoka de Silva (Chairman)
Dr. Harsha Cabral
Mr. Nigel Bartholomeusz

The Chief Executive Officer, Chief Operating Officer, Chief Finance Officer, Chief Internal Auditor, Assistant Vice President – Risk Management and the Compliance Officer are the other permanent members. The Company Secretary who attends the meeting by invitation acts as the Secretary to the Committee.

Role of the IRMC

The role of the committee is one of supervision. The committee supervises the broad risk categories and bank operations, namely, Credit, Market, Liquidity and Operational Risk. The role of the committee could be summarized as follows:-

- Work closely with the key management personnel and make decisions on behalf of the board within the framework of the authority and responsibilities assigned to the committee
- Assess Credit, Market, Operational, Liquidity and Strategic Risks of the Bank on a monthly basis through appropriate risk indicators and management information and keep Board informed.
- Review the adequacy and effectiveness of all management level committees and deal with specific

risks and manage those risks within quantitative and qualitative risk limits as specified by the Board/Committee.

- Assess Bank's policies, regulatory and supervisory requirements and take corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels.

The committee reviews in detail matters discussed at other sub-committees namely, Executive Risk Management Committee (ERMC), Asset/Liability Committee (ALCO), Operational Risk Management sub-Committee (ORMC) and the Executive Credit Committee. These committees held routine periodic meetings during the year under review. The IRMC also reviewed the Compliance Program and Compliance Report submitted by the Compliance Officer, in addition to the monthly Compliance Reports submitted to the Board.

During the year under review the committee met four (4) times and reviewed risk components such as the quality of the portfolio, liquidity position of the Bank, Operational Risk Management process and the status of the Business Continuity Plan. Committee also closely followed up on the position of Basel II compliance and kept the Board informed of resource requirements to implement the guidelines. Following each meeting, a summary of matters discussed was submitted to the Board for information and further guidance.



Asoka de Silva
Chairman – Integrated Risk Management Committee

Human Resource and Remuneration Committee Report

The Human Resource and Remuneration Committee comprised of 3 Directors namely Mr. Asoka de Silva, Mr. Ajith Wijeyesekera and Mr. Ananda Atukorala. Mr. Jit Warnakulasuriya served as the Advisor to the Committee. The Committee held 12 meetings during the year.

The Human Resource and Remuneration Committee Charter was approved by the Board of Directors on 25th March 2011. The objectives of the Committee are as follows;

- Establish and maintain performance and market oriented Remuneration Policy in relation to Directors, Chief Executive Officer, Key Management Personnel and Staff.
- Determine goals and targets for the Directors, Chief Executive Officer and Key Management Personnel and evaluate performance against the laid out goals.
- Corporate governance matters in relation to the Committee
- Succession Planning

Following were few initiations implemented by the Committee to upgrade and manage the Human Resources of the Bank during the year 2011.

The Bank implemented a Human Resource Policy to broad base its scope of activities and its geographical presence. The policy emphasises HR planning, Recruitments and Selection, Compensation Management, Performance Management, Training and Development, Health, Safety and Welfare, Employee services and Industrial Relations. With this focus the Bank broadly emphasizes the need to provide the correct practices of Human Resources Management within the organization with the prime task of ensuring a competent, committed and a contented workforce at all times.

The Directors performances are self evaluated annually. A Remuneration policy for Directors and Consultants were introduced in January 2011. The principle objective of this policy was to establish a sound governance process with sustained and long term value creation for the stakeholders. The Committee implemented Terms of Reference for setting of Targets and Goals for Performance Evaluation of Chief Executive Officer and Key Management Personnel.

The Committee has advised and initiated to strengthen the Second layer of the Management Grade of the Bank by promoting the existing staff members and recruiting new staff members whenever necessary. The Committee also took measures to obtain consultancy services to conduct a salary survey in order to be competitive in the industry. Further, to better optimize human resources a Human Resource Information System was invested on which implementation would be completed by mid 2012.



Asoka de Silva
Chairman, Human Resources and Remuneration Committee

Directors' Report on the Bank's Internal Control System

Responsibility

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of system of internal controls of Union Bank of Colombo Limited ("the Bank"). However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying in reviewing the design and effectiveness of The Internal Control System on Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal audit are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the Bank reviews internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 57.
- In assessing the internal control system, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis.
- Comments made by the external auditors in connection with internal control system will be dealt with in the future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the statement by External Auditors

The external auditors have reviewed the above Directors' Statement on Internal Control included in the annual report of the Bank for the year ended 31st December 2011 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank.

By order of the Board

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Ajita de Zoysa
Chairman

.....
Anil Amarasuriya
Director / Chief Executive Officer

.....

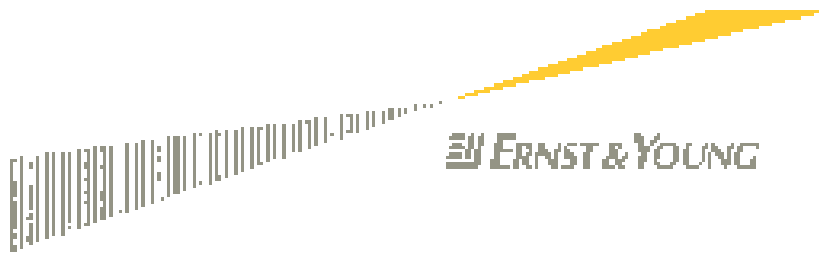
Nirosha Kannangara
Company Secretary

.....

Aslam Omar
Chairman – Board Audit Committee

30th March 2012

Assurance Report on Internal Control



ERNST & YOUNG

Chartered Accountants

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APAG/BV/ABN/TW

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF UNION BANK OF COLOMBO PLC

Introduction

We were engaged by the Board of Directors of Union Bank of Colombo PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2011.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(2000b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

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

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

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

Our conclusion

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


30 March 2012
Colombo

Nomination Committee Report

The Board Nomination Committee was reconstituted on 29th December 2010 to be in compliant with Corporate Governance Direction No. 7 of 2007 of Central Bank of Sri Lanka and revised Listing Rules of Colombo Stock Exchange. The Committee comprised of the following members during the year 2011.

Dr. L.J.S. Harsha Cabral P.C-Chairman
Mr. Ajita de Zoysa
Mr. Asoka de Silva
Mr. Ananda Atukorala

The primary purpose of the Nomination Committee is to provide assistance to the Board in relation to functions of appointing Directors, Chief Executive Officer and Key Management Personnel to the Bank.

The other Functions stipulated in the Terms of Reference of the Committee are as follows;

- (1) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel according to the regulations and directions imposed by the Monetary Board.
- (2) The Committee shall consider and recommend or not recommend the re-election of current directors, taking into account the performance and contribution made by the directors concerned towards the overall discharge of the board's responsibilities.
- (3) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.

(4) The Committee shall ensure that Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and set out in the Statutes.

(5) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

(6) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.

The Committee met thrice during the year 2011.

The Committee works closely with the Board of Directors and the Senior Management to achieve the goals and targets of the Committee and to implement the Corporate Governance practices in the Bank.



Dr. Harsha Cabral PC
Chairman, Nomination Committee

Board of Directors



Ajita de Zoysa
Chairman/Non-Executive Director



Alexis Indrajit Lovell
Deputy Chairman/Non-Executive Director



Bodahandi Asoka Keerthi de Silva
*Senior Director/Independent
Non-Executive Director*



Anil Suneetha Amarasuriya
Chief Executive Officer/Executive Director



Ajith Wijeyesekera
Non-Executive Director



Ananda Wijetilaka Atukorala
Independent Non-Executive Director



**Dr Liyanamohottige Joseph
Sri Harsha Cabral**
Independent Non-Executive Director



Kin Leong Chong
Non-Executive Director



Yiu Joe Toh
Non-Executive Director



Priyantha Fernando
Independent Non-Executive Director



David Nigel Bartholomeusz
*Alternate Director to H R H Prince Faisal Al
 Abdullah Al Faisal Al Saud*



Ms Lee Sian Goh
*Alternate Director to Gerard Ewe
 Keng Lim*



Edgar Gunatunge
Advisor to the Board



Ms Niroscha Kannangara
Chief Manager-Legal/Board Secretary

Absent:

- H R H Prince Faisal Al Abdullah Al Faisal Al Saud - *Non-Executive Director*
- Gerard Ewe Keng Lim - *Non-Executive Director*
- Aslam Omar - *Independent Non-Executive Director*
- Ashan Suresh De Zoysa - *Alternate Director to Alexis Indrajit Lovell*
- King Tak Blondel So - *Alternate Director to Yiu Joe Toh*
- Ms Sow Lin Chiew - *Alternate Director to Kin Leong Chong*
- D A Jitendrakumar Warnakulasuriya - *Advisor to the Board*

Profiles of the Board of Directors

Ajita de Zoysa

Chairman/Non-Executive Director

Mr. Ajita de Zoysa was appointed to the Board as Chairman/Non-Executive Director in 2003. He has over 40 years of experience in diverse industries including manufacturing, trading, leisure and insurance. He is the Chairman of Associated Electrical Corporation Limited, ADZ Insurance Brokers (Pvt) Limited, AEC Properties (Pvt) Limited and a host of other related companies. He is also a Non-Executive Director of Trelleborg Lanka (Pvt) Limited and Royal Palms Beach Hotels PLC. He has held many leadership roles in both the government and private sectors. He is also the Chairman of Namal Asset Management Limited and The Finance and Guarantee Company Limited.

Alexis Indrajit Lovell

Deputy Chairman/ Non-Executive Director

Mr. Lovell was appointed to the Board in 2007 as a Non-Executive Director and was appointed as the Deputy Chairman in December 2010. He counts over thirty years of experience in Finance and Investment Banking. Mr. Lovell is a Chartered Management Accountant, UK and holds a post graduate degree in Business Administration. He was awarded the MBE (Most Distinguished Order of the British Empire) by Her Majesty the Queen of England for services to Investment Banking.

Bodahandi Asoka Keerthi de Silva

Senior Director/Independent Non-Executive Director

Mr. de Silva was appointed to the Board as an Independent Non- Executive Director in 2008. He served as the Deputy Chairman of the board from December 2008 until December 2010 and was appointed as a Senior Director in January 2009. He has worked in the banking industry for over 35 years and

is the former Chief Executive Officer and General Manager of People's Bank, Sri Lanka. He holds a B.A. Hons (Ceylon) and is a Fellow of the Certified Institute of Professional Management (FCPM), Sri Lanka. Mr. de Silva, an alumni of the Harvard Business School (AMP 163) is also an Honorary Fellow of the Institute of Bankers, Sri Lanka.

He holds a management development certificate awarded by the Post Graduate Institute of Management, University of Sri Jayewardenepura and also holds project analysis and project management certificates awarded by the Arthur D. Little School of Management (Massachusetts-USA). Mr. de Silva is presently a member of the faculty board (Faculty of Management and Commerce) of the University of Sri Jayewardenepura.

He was a former Director of CRIB - Credit Information Bureau of Sri Lanka, Institute of Bankers of Sri Lanka (member of the governing body), People's Leasing Company Ltd, Peoples Travels (Pvt) Ltd, People's Merchant Bank PLC and was also a Director of Sarvodaya Economic Enterprise Development (Guarantee) Ltd.

He is a former Vice Chairman of Sri Lanka Banks' Association (Guarantee) Ltd as well as Deputy Chairman of Lanka Financial Services Bureau Ltd. He was also a committee member of the Financial Sector Cluster of the National Council for Economic Development, National Payment Council and Steering Committee of the financial market program for private sector development during his tenure as CEO/GM in the People's Bank.

Anil Suneetha Amarasuriya

Chief Executive Officer/Executive Director

Mr. Amarasuriya was appointed to the

Board in January 2009. A veteran banker and former Managing Director/Chief Executive Officer of Sampath Bank, Mr. Amarasuriya was appointed as the Chief Executive Officer of UBC with effect from 05 October 2010. His association with UBC dates back to 2003 when he spearheaded its restructure, when Sampath Bank and a group of investors infused capital to the Bank. Since 2009, as a Director/Consultant of UBC, he has been instrumental in the Bank's business re-engineering process through a new strategic direction to reposition UBC as the preferred Bank for the SME and Retail Banking Sectors.

His tenure as Managing Director/Chief Executive Officer of Sampath Bank with which he was associated from 1989 to 2008 saw it progressing rapidly both in terms of expansion of its branch network as well as business growth and profitability. He was also primarily responsible for Sampath's acquisition of a sizable stake in Vanik Bangladesh and its subsequent restructure and re-branding as Lanka Bangla Finance Ltd which is today a highly profitable venture quoted in the Dhaka and Chittagong Stock Exchanges.

Mr. Amarasuriya's vision is for UBC to emerge as a powerhouse in the Sri Lankan banking sector leveraging on the emerging economic prospects in post war Sri Lanka. Consequent to the recent successful capital infusion of Rs 2 billion by both local and foreign investors, he plans to enhance the Bank's brand image by strategically increasing its presence throughout Sri Lanka as well as by value additions to existing products, introduction of new products and services and alternate delivery channels supported by state of the art systems. He is a Fellow of the Institute of Chartered Accountants, Sri Lanka and the Chartered Institute of Management Accountants, UK and an Honorary Fellow of the

Institute of Bankers, Sri Lanka. He was a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board. Mr. Amarasuriya is a former Chairman of the Sri Lanka Banks' Association and Financial Ombudsman Sri Lanka Guarantee Limited. He also served as a Director of Sampath Surakum Ltd, SC Securities Ltd, Sampath Trade Services (HK) Ltd and Lanka Bangla Finance Ltd. He is a Director of National Asset Management Company Ltd (NAMAL)

Ajith Wijeyesekera
Non-Executive Director

Mr. Ajith Wijeyesekera was appointed to the Board as a Non-Executive Director in 2003. He is a renowned entrepreneur/business leader with over 30 years experience in business management. An eminent personality in the Sri Lankan apparel industry, he is the Founder Chairman/Managing Director of Union Apparels (Pvt) Limited, a well established manufacturer of garments for export markets, consisting of 05 manufacturing units with a turn over of Rs. 4 billion and a workforce of over 3500. He is also the Founder Chairman/Managing Director of Union Resorts, the owning company of the Blue Water, Wadduwa, a luxury five star resort hotel, North Star Holdings an investment company, Union Industrial Washing (Pvt) Limited and the elite fashion store, Dilly's Fashions (Pvt) Ltd.

Ananda Wijetilaka Atukorala
Independent Non-Executive Director

Mr. Atukorala was appointed to the Board as an Independent Non- Executive Director in 2003. He had previously worked for 20 years with Grindlays and the ANZ Banking Group, in Sri Lanka and Overseas and was Deputy General Manager, Colombo Branch at the time of leaving the bank. He was then the Country Manager for Mashreq Bank psc, in Sri Lanka. After which, he was an Advisor in the Ministry of Policy Development and Implementation.

He was a Member, Advisory Board of TIPS (Technology Initiative for the Private Sector) - a USAID sponsored project with the Ministry of Industrial Development, a Former Director, CRIB – Credit Information Bureau of Sri Lanka and a Former Director - Sri Lanka Banks Association (Guarantee) Ltd. He was also a Member of the working committee, on the commercial banking sector - for the Presidential Commission on Finance and Banking in the early 1990's, and a member of the IT / Financial sector of CINTEC. Mr. Atukorala has a B.Sc from Leeds University - UK , a MTT from North Carolina State University - USA and a MBA.

H R H Prince Faisal Al Abdullah Al Faisal Al Saud

Non-Executive Director
 H R H Prince Faisal Al Abdullah Al Faisal Al Saud was appointed to the Board as a Non-Executive Director in 2007. Prince Faisal Al Saud is a member of the Royal family of Saudi Arabia. He has a Bachelor of Science degree in Business Administration from American University, California State, and he holds a diploma in Criminal Justice from California State University of Fullerton, United States of America. He is the CEO of Exsab International Holding Company for Trading Development and also the Chairman of SAFOOD International Catering LLC and in several other Middle Eastern Corporations.

Dr Liyanamohottige Joseph Sri Harsha Cabral

Independent Non-Executive Director
 Dr. Cabral, a President's Counsel was appointed to the Board as an Independent Non-Executive Director in 2008. Dr. Cabral counts over twenty three years of experience as a lawyer specializing in Company Law, Intellectual Property Law, Commercial Law, International Trade Law and Commercial Arbitration and

holds a PhD in Corporate Law from the University of Canberra, Australia.

He was a Member of the Advisory Commission in Company Law, Sri Lanka and was a key member in drafting the new Companies Act No. 07 of 2007. He was also a Member of the National Council for Economic Development/ Legal Cluster, Sri Lanka and a Member of the Ministerial Committee appointed to reform the Law on Commercial Arbitration and a member of the Law Commission of Sri Lanka.

Dr. Cabral is a Member, Board of Studies of the Council of Legal Education in Sri Lanka and a Member, Board of Studies and Corporate Governance Committee of the Institute of Chartered Accountant in Sri Lanka. He has been a lecturer and an Examiner in University of Wales, UK, University of Colombo and Sri Lanka Law College. In addition to the above he is the Vice President of Business Recovery and Insolvency Practitioners Association of Sri Lanka.

Kin Leong Chong
Non-Executive Director

Mr. Chong was appointed to the Board as a Non-Executive Director in 2010. He is also the Executive Vice President-Finance of Genting Berhad, the holding company of Vista Knowledge Pte. Ltd. He began his career with an international accounting firm in Kuala Lumpur in 1981 and joined Sime Darby Berhad, in 1985 before leaving to join the Rashid Hussain Berhad group of companies ("RHB Group") in 1993. He left the RHB Group in 2003, to join Genting Berhad. He holds a Bachelor of Accounting (Honours) degree from the University of Malaya and is a Member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Profiles of the Board of Directors

Gerard Ewe Keng Lim *Non-Executive Director*

Mr. Lim was appointed to the Board as a Non- Executive Director in 2010. He is the General Manager of Kien Huat Realty Sdn Bhd, an investment holding company and a substantial shareholder of Genting Berhad. Prior to that, he worked with various listed companies in the Genting Group and Genting Hong Kong Ltd. He holds a Bachelor of Science degree in Chemical Engineering from the University of Birmingham and an MBA from the University of Aston in UK.

Yiu Joe Toh *Non-Executive Director*

Mr. Toh was appointed to the Board as a Non- Executive Director in December 2010. He is the Executive Vice President of Genting Hong Kong Limited and has over 25 years experience in the financial services sector in the areas of international private banking and investment management. Prior to joining Genting Hong Kong Limited, he was a senior banker in Bank Pictet & Cie (Asia) and spent over 20 years in the fund management industry in private equity and venture capital. Mr. Toh is a member of the Institute of Chartered Accountants of Australia.

Aslam Omar *Independent Non-Executive Director*

Aslam Omar's ties with the Brandix Group go back a long way – to 1979 when he first entered the family business, which was known as Firoze Limited.

Aslam Omar, recognized that to remain competitive strategic alliances were important. This broad-based line of thinking continues to be the force behind his success. He monitored the smooth transition of Brandix Textiles becoming a part of Kuruwita Textiles Mills PLC which is a company quoted on the stock exchange.

Aslam Omar also spearheaded collaboration with American & Efird (USA), which led to the establishment of joint venture namely, American & Efird Lanka (Private) Limited and a collaboration with Mainetti and Brandix Hangars Limited – which companies now enjoy premium standing as trim suppliers to the apparel industry.

Today, Aslam Omar plays a vital dual role, functioning as the Chief Executive Officer of Phoenix Ventures Limited, the holding company of Brandix Lanka Limited and the Managing Director of Phoenix Industries, which enjoys the distinction of being a household name as the largest manufacturer of plastic products in Sri Lanka. He is also a Director of Brandix Lanka Limited. Aslam is a fellow member of the Institute of Chartered Accountants, Sri Lanka, a member of the Governing Council of the Academy of Financial Studies and serves as a Director of Union Bank of Colombo PLC.

Priyantha Fernando *Independent Non-Executive Director*

Mr. Fernando has more than 35 years of experience in the banking sector. He was attached to the Central Bank of Sri Lanka serving in senior and diverse capacities. He was the Deputy Governor of the Central Bank in 2010-2011 in charge of the Financial System Stability and the Corporate Service cluster. Mr Fernando has extensive experience and expertise in the fields of Banking and Financial Sector regulation, Information technology, national accounting and statistics, finance and fund management. At the Central Bank he was the chairman of the Financial Stability Committee, member of the monetary policy Committee, member of the Risk Management Committee, Chairman National Payment Council.

He was an ex-officio board member in several regulatory organisations namely the securities Exchange Commission,

the Insurance Board of Sri Lanka, the Chairman of the Credit Information Bureau, institute of Bankers –Sri Lanka and Board Member at Employers Trust Fund, Lanka Clear Pvt Ltd and Lanka Financial Services Bureau.

During his career he has initiated and spearheaded several key projects of national importance, especially in the area of the national payments and settlement system.

Mr. Fernando has served a number of committees at national level covering a range of subjects representing the Central Bank.

Ashan Suresh de Zoysa *Alternate Director to Mr. Alexis Indrajit Lovell*

Mr. Ashan de Zoysa was appointed to the Board as an Alternate Director to Mr. Alexis Indrajit Lovell in 2009. He serves on the Board of Associated Electrical Corporation PLC and Union Assurance PLC. He was Director/Group General Manager of Associated Motorways Ltd and previously worked in the fields of IT and Derivatives/Commodity Trading in Australia. He holds a Bachelor of Commerce (Accounting & Finance) degree from the University of New South Wales, Sydney.

David Nigel Bartholomeusz *Alternate Director to H R H Prince Faisal Al Abdullah Al Faisal Al Saud*

Mr. Bartholomeusz was appointed to the Board as an Alternate Director to H.R.H. Prince Faisal Al Abdullah Al Faisal Al Saud in December 2008. He is also a Director of Associated Electrical Corporation Limited and AEC Properties (Pvt.) Limited. Mr. Bartholomeusz is an Attorney-at-Law of the Supreme Court of the Democratic Socialist Republic of Sri Lanka. He has practiced as an Attorney-at-Law in the Chambers of Mr. K. Kang-Isvaran President's Counsel for 14 years, prior

to which he simultaneously completed a year of apprenticeship under Mr. Kanaglsvaran President's Counsel, and with the Attorney General's Department.

Mr. Bartholomeusz has now set up his own Chambers and practices in the Appellate and Original Court in Corporate Law, Commercial Law, Insurance, Telecommunications Law, Intellectual Property, and Banking and Finance Law. He also advises on International Financial Investments, International Trade, Joint Venture Contracts and Shareholder Agreements etc. Mr. Bartholomeusz also acts as Counsel in Arbitrations including construction arbitrations, mediations and negotiations.

Ms Lee Sian Goh

Alternate Director to Mr. Gerard Ewe Keng Lim

Ms. Goh was appointed to the Board as an Alternate Director to Mr. Gerard Ewe Keng Lim in 2010. She was previously in legal practice before joining Maxis Communications Berhad Group in 1993 as their in-house legal counsel. Since 2007, she has been the Senior Vice President - Legal of Genting Berhad. She holds a Bachelor of Economics and Bachelor of Laws from Monash University in Australia and a Masters in Business Administration from the University of Central Florida in the United States. She was called to the Malaysian Bar in 1987.

King Tak Blondel So

Alternate Director to Mr. Yiu Joe Toh

Mr. So was appointed to the Board as an Alternate Director to Mr. Yiu Joe Toh in 2010. Mr. So has 23 years of experience in the financial sector with the first 15 years in the banking industry. He has previously held the position of Chief Financial Officer of Genting Hong Kong Limited from July 2007 to September 2009 and has become its Chief Operating Officer since October 2009. He also acts as a Director of various subsidiaries

of Genting Hong Kong Limited. Mr. So holds a Bachelor Degree in Mathematics from Simon Fraser University, Canada, a Post-graduate certificate in Professional Accounting from City University of Hong Kong and a Master Degree in Corporate Finance from Hong Kong Polytechnic University.

Chiew Sow Lin

Alternate Director to Mr. Kin Leong Chong

Ms. Chiew was appointed to the Board as an Alternate Director to Mr. Kin Leong Chong in January 2011. She is the Group Controller of Genting Berhad, the holding company of Vista Knowledge Pte Ltd. She began her career with an international accounting firm in Kuala Lumpur in 1979 and joined Genting Berhad in 1984. She is a Member of the Malaysian Institute of Certified public Accountants and the Malaysian Institute of Accountants.

Ms Niroscha Kannangara

Company Secretary/Chief Manager -Legal

Ms. Niroscha Kannangara joined the Bank as a Legal Officer in 2006 and was appointed as the Company Secretary in 2007. She previously served as a Consultant to DFCC Bank and Project Co-ordinator of University of Colombo. She holds a Bachelor of Laws and Master of Laws from University of Colombo and Post Graduate Diploma in Banking and Insurance Law from Sri Lanka Law College. She enrolled as an Attorney-at-law of the Supreme Court in 1998 and qualified to act as a Company Secretary in 2003. She is also currently serving as the Chief Manager - Legal at the Bank.

Executive Committee



A N de Silva
(Chief Operating Officer)

Ms Lani Ranwala
(Asst. Vice President – Risk)

Ravi Divulwewa
(Vice President – Credit)

Ned Gomez
(Assistant Vice President Operations)

Anil Amarasuriya
(Director / Chief Executive Officer)



A E R Gandappa
(Asst. Vice President - Treasury)

Kusal Perera
(Asst. Vice President - Finance)

Rajeev Munasinghe
(Asst. Vice President – Information Technology)

Beverley Labrooy
(Vice President – International & Business Development)

Malinda Samaratinga
(Chief Financial Officer)

Senior Management Team



Ms Rushira P De Silva
Chief Manager - Corporate Banking



Mahendra Dahanayake
Chief Relationship Manager



Halantha Thusith Hewasiliyange
Chief Manager - Operations



Ms Thishani Dissanayake
Chief Manager - Marketing



S Sivathasan
Chief Manager - Credit



Ms S D Nirosha Kannangara
Chief Manager - Legal/Board Secretary



Jeevan Jayawardene
Chief Manager - Zone I



Asanga Bandara Tennakoon
Chief Manager - Zone II

Senior Management Team



Ms Ramanie Wijeratne
 Senior Manager - Elite Circle



Ms Chaya Gunaratne
 Compliance Officer



Asoka Pandithasekera
 Senior Relationship Manager



W A Udaya Bandara
 Senior Manager - Agricultural & Micro Finance



Jayanath Kariyakarawana
 Senior Manager - Credit Administration & Recoveries



Ms Minoli Fernando
 Senior Accountant



Meril Prasantha Perera
 Senior Manager - Information Technology



Ms Thiroshani Ratnayake
 Head of Human Resources



R M Nissanka Rajapaksha
 Senior Manager - Internal Audit



H Lilan Sameera Wijegunawardena
 Senior Manager - Pettah Branch



Malinda Perera
 Senior Manager - Deposit Mobilization



Shiran Punchihewa
 Senior Manager - System Audit



Padmin Manisha Fernando
 Senior Manager - Strategic Planning

Brand Building Initiatives

Product Development

SME Advisory Services

As a Preferred Bank for the SME and Retail sectors, UBC continues to develop and innovate a comprehensive portfolio of products and services that would exceed customer expectations. Founded on the objective of adding value to our identified customer segments, the launching of free advisory services for entrepreneurial and business development added further impetus to this objective. The Bank's SME and retail focus is driven by the strategic imperative that gives its relatively smaller size, UBC has the ability to be flexible and agile in meeting the growing needs of these segments. The first programme of free advisory services was held in Kurunegala, followed with workshops in Batticaloa, Moratuwa and Galle. (for more details refer CSR initiatives).

Ruwatthi

Ruwatthi is a total financial solution that empowers women to achieve their goals and dreams. In addition to an attractive rate of interest and a personal loan scheme, the product continually gains new value additions which includes lower interest rates on pawning and leasing facilities and a free "Easy Plus" current account. Several marketing and brand promotional activities were implemented across the branch network to create maximum awareness for the product.

55 Plus

The Bank launched '55Plus', a Fixed Deposit for senior citizens as a bundled product that gives a high monthly interest and the unique feature of three months interest up front in the event of an emergency, which is extended to deposits

of two years and above. With an interest rate of 9.5% per annum, 55Plus rewards senior citizens with a constant monthly income and a convenient avenue of cash in hand in lieu of an emergency ensuring peace of mind.

Unit Trusts

With the acquisition of Sri Lanka's premier Unit Trust company National Asset Management Limited (NAMAL) in February 2011, the company's fund portfolio was launched within the UBC branch network, offering customers access to a choice of investment options designed to grow wealth and current income.

Promotions

Mega Dinum

The Mega Dinum Savings Promotion which was launched in 2009 was instrumental in growing the customer base significantly. It was this success that saw the second stage of the draw launched in 2010 resulting in further growth. The draw offered a Super Prize of a Suzuki A Star car with two years of free fuel, in addition to gold coins and a chance to double the account balance either monthly or quarterly. The winner was produced by the Union Bank Old Moor Street branch.



Picture : Mega Dinum Media Conference and Prize awarding ceremony

Save and win Promotion

The Save & Win Draw launched in July 2010 with the objective of increasing the savings customer base and maximizing deposits, offered 100 customers the chance of winning up to Rs 1 million at a year end draw. The eligibility criteria simply required Rs 25,000 in a savings

account or Rs.15,000 in a current account for a minimum period of one month, with the added benefits of multiple winning chances.

Pawning Wipeout

Union Bank introduced Sri Lanka's first wipe out promotion for pawning in 2009 presenting customers with the chance of getting back their pawned jewellery by winning up to Rs 100,000 quarterly. The focused marketing and promotional

initiatives across the branch network aided in seeing the Bank's pawning portfolio display a discernible increase during 2011. Considering the noteworthy growth, as a value addition to the promotion a monthly wipeout draw was also introduced during 2011 with three customers gaining the chance of winning up to Rs 10,000 each.

Fixed Deposits

In a bid to augment UBC's deposit mobilization plan, the Bank launched

a promotion for Fixed Deposits in August 2011. Yet another pioneering promotion, UBC became the first bank to offer the highest interest rate of up to 10% per annum on Fixed Deposits in 2011. Integrated marketing activities were implemented to optimize on the opportunity and a perceptible increase was seen in deposits across the branch network.

Two day leasing

The Bank's integrated marketing plans were further augmented with the launch of an awareness campaign to promote a 'Two Day Leasing' concept. In addition to customized leasing packages, UBC further complemented its attractive interest rates, flexible repayment plans, discounts from selected vehicle agents and choice of insurance packages by offering a hassle-free efficient and speedy leasing service with this promotion. The highlight of the promotion was that the Bank invited the local community to join in, resulting in a large number of branded three wheelers participating in the vehicle parade and town storming activities held by each branch. This also enabled the Bank to strengthen its community relationships, develop livelihoods and construct a solid platform of corporate stewardship within the branch locations.



Leasing campaign held in Pliyandala with the support of local community

Brand Building Initiatives

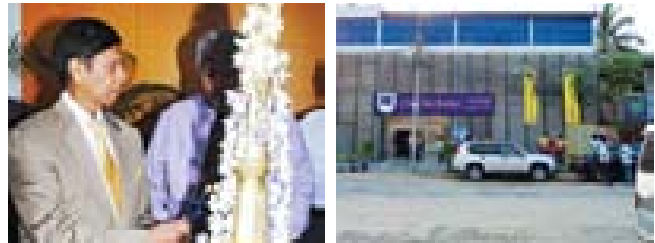
Network Expansion

22nd Branch - Gampaha



Opened on 14th February 2011 by
 Hon. Basil Rajapakse, Minister of Economic Development

23rd Branch - Batticaloa



Opened on 23rd March 2011 by
 Ajith Nivard Cabraal Governor of the Central Bank of Sri Lanka

24th Branch - Trincomalee



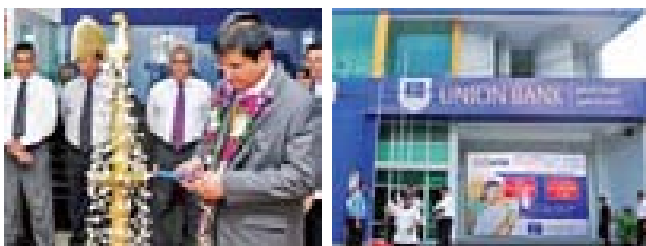
Opened on 4th April 2011 by
 Anil Amarasuriya Director / CEO of Union Bank

25th Branch - Galle



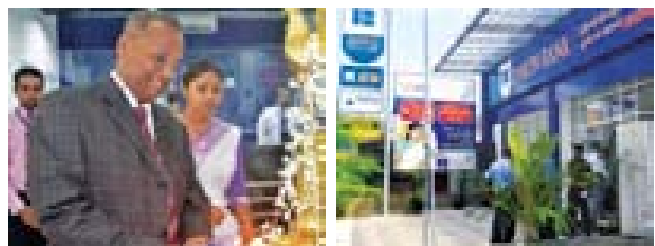
Opened on 11th April 2011 by
 Asoka De Silva Senior Director of Union Bank

26th Branch - Piliyandala



Opened on 10th May 2011 by Priyantha Fernando, Former Deputy
 Governor of the Central Bank of Sri Lanka

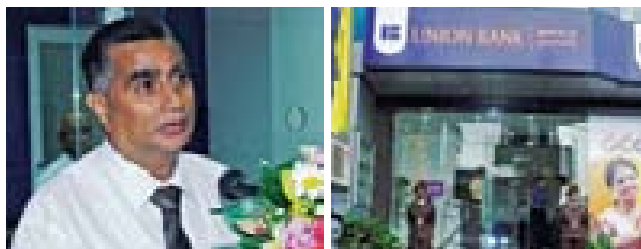
27th Branch - Kadawatha



Opened on 16th November 2011 by
 Asoka De Silva, Senior Director of Union Bank

Network Expansion

28th Branch - Rathnapura



Opened on 20th December 2011 by
Anil Amarasuriya, Director/CEO of Union Bank

29th Branch – Dambulla



30th Branch - Anuradhapura



Dambulla and Anuradhapura Branches were opened on 27th December 2011 by Alex Lovell - Deputy Chairman of Union Bank

Brand Building Initiatives

Events



Union Bank celebrates 15 years

The 15th Anniversary of Union Bank was celebrated on a grand scale with the Chairman and Board of Directors hosting a lavish cocktail party on 1st February 2011 at the Cinnamon Grand Hotel. A large gathering of guests from the Banking fraternity, government and private sectors, customers, media and staff were present at the event. A colourful laser light show commenced the event as Ajita De Zoysa Chairman of Union Bank invited the first Chairman of the Bank Mr. Chanaka De Silva, along with Edgar Gunatunge, former Chairman of Sampath Bank and advisor to the Board, and Alex Lovell Deputy Chairman of Union Bank on stage to cut the traditional Kiribath to mark 15 years of success. The Bank's Initial Public Offering which was scheduled for March was also announced at this event.



IPO Announcement

Highlighting yet another milestone in the 15 year history of Union Bank, the much awaited IPO of Union Bank was announced on 10th February 2011 at a media conference and presentation held by the Bank at Colombo Hilton Residencies. The IPO which is the 3rd stage of an innovative fund raiser- which included a previous Rights Issue and a Private Placement issued 15 million shares at Rs. 25 per share. The capital infusion is expected to fuel the Bank's ambitious expansion plan of becoming a Power house in Banking in Sri Lanka. The IPO opened on 24th February 2011.



Union Bank share debut in the Colombo Stock Exchange

Shares of Union Bank debut on 29th March 2011 on the Colombo Stock Exchange at a price of Rs. 45, almost double its IPO price of Rs. 25. The Rs. 375 million IPO of Union Bank created a sensation when it was oversubscribed by 350 times, among the highest oversubscription rates in the world for a new issue.



NCE Awards

The National Chamber of Exporters (NCE) held its 19th Annual NCE awards on 16th September 2011, recognizing export excellence and the unwavering efforts made by entrepreneurs to take Sri Lankan products and services to global markets. As a preferred Bank for SMEs, UBC supported this vital imperative for the third consecutive year as Principal Sponsor for the Export of Business and Professional Services category, recognizing the crucial role played by exporters in developing the Sri Lankan economy.

Brand Building Initiatives



Annual Trip and Avurudhu Celebrations

The UBC Sports Club organized the annual staff trip to coincide with the Sinhala and Tamil New Year, celebrating the festivities with aplomb at Hotel Riverina on 30th April 2011.

Cricket

The inter division cricket tournament was held in October 2011 at the S. Thomas' Sports Complex Grounds in Mount Lavinia. The Central Operations Team emerged as champions.



Union Bank Choristers at the 2011, Christmas Carols held at Park Street Mews.

X'mas Carols

Another regular calendar event by the UBC Sports club, the Annual Christmas Carols was held on the 14th of December 2011 at Park Street Mews. The talented choristers presented an evening of vibrant seasonal melodies which saw the active participation of the management, team and their families.



UBC Dance

The Union Bank Annual Dinner Dance, a much-looked forward to event in the annual UBC recreational calendar was held on the 18th of December 2011 at the Taj Samudra Hotel, Colombo.

CSR initiatives

SME Advisory Service

The SME advisory service is a FREE service offered by Union Bank for entrepreneur development and business Management. Launched as a key CSR initiative, the Free advisory service workshops conducted by the Bank covers areas such as Finance , Planning, Marketing, Human Resources, Information Technology, International and Project Finance. During 2011, workshops were conducted in several areas where the Union Bank branch network is present providing potential and existing SME entrepreneurs in the area the opportunity to benefit from vast insights to developing their businesses. Workshops were held in Batticaloa, Moratiwa, Galle and Kurunegala. The Bank plans to build greatly on this CSR initiative with the objective of contributing to the development of the sector and the livelihoods of the local community.

Gamini Matha Elders home

This year, UBC commenced a regular donation towards the Gamini Matha Elders Home which is managed by the YMCA. As a corporate patron, this will become an annual presentation as it aids the Home in its daily operations.

Flood relief for Batticaloa

Exemplifying the inherent characteristic of employee volunteerism at the Bank, the UBC Sports Club garnered the support of the team to visit the Murugan Island of Batticaloa, which was severely affected by floods. Having reached Batticaloa district on the 22nd of January, with the support of military personnel, the team distributed immediate relief goods to the displaced. It is estimated that more than one million were displaced due to the flooding in the north-central and north-eastern parts of Sri Lanka due to heavy monsoons.

Blood donation campaign

Yet another example of employee volunteerism and community engagement saw the Wattala branch organized a blood donation campaign to mark its first anniversary. Team members, customers and members of the community participated enthusiastically.

Human Resource Policy

Although our activities are measured in Millions of Rupees we select our people one by one, develop and train their skills and keep them motivated and engaged in our goals and strategies. We offer our people the ability to move ahead more rapidly than possible at most other places. Advancement depends on merit.

In our attempt to be an interesting and desirable employer, we foster our good employer image by looking after the professional development, working conditions and well-being of every Union Bank employee. We offer our employees a healthy and safe working environment and a smooth-operating working community and room for professional growth. Employees are provided with opportunities for development and career advancement through career paths.

Resourcing

We want to include people from different backgrounds in our work community, because we believe that interaction between viewpoints offers fertile ground for innovation.

We promote equality and justice ensuring, that every employee has equal opportunities for success and development in their work and that the employees treat one another fairly. These objectives are recorded in Union Bank's Human Resources Policy. In our people management relations, we strive towards flexible, unobstructed and open interaction so that questions that require answers or solutions can be processed quickly and constructively.

We ensure that the organisation has the required people and skills and that the required deputy and backup arrangements are in place to ensure uninterrupted operations. Existing

employees with suitable skills are considered first when seeking employees for new or open positions. As a rule, the job is first announced applicable for our own people.

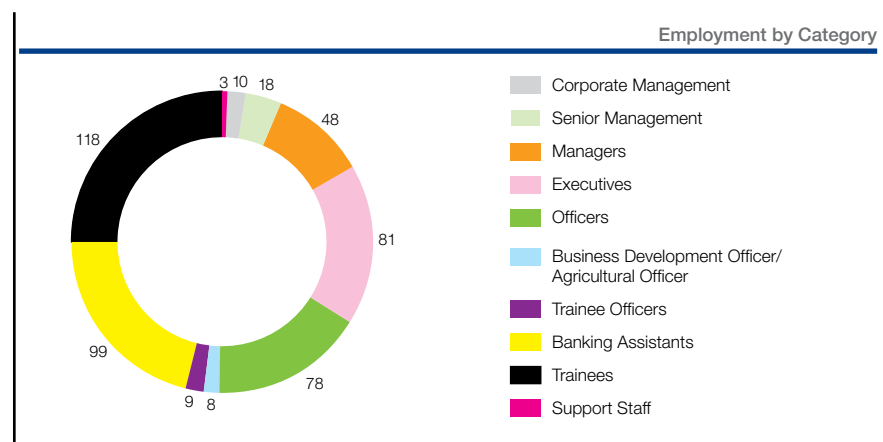
The year ended with a total staff strength of 472 an increase of 23% over the previous year.

| Type of Employment | No of Employees |
|-----------------------|-----------------|
| Full Time - Permanent | 345 |
| Others (Trainees) | 127 |

| Employment Category (Age-wise) | Total as at 2011 | % | Total as at 2010 | % |
|--------------------------------|------------------|-------------|------------------|-------------|
| 61 - 65 years | 2 | 0.5% | 6 | 2% |
| 51 - 60 years | 19 | 4% | 19 | 5% |
| 41 - 50 years | 43 | 9% | 33 | 9% |
| 31 - 40 years | 108 | 23% | 83 | 22% |
| 21 - 30 years | 279 | 59% | 225 | 59% |
| Below 21 years | 21 | 4.5% | 17 | 4% |
| TOTAL | 472 | 100% | 383 | 100% |

Majority of the new recruits were for entry level positions, the trained staff with high potential had the opportunity for expansion in the scope of job and for rotations and higher responsibilities. The Bank's rapid expansion roll out paved way for many staff to upgrade their knowledge and skills opening avenues for career advancement. As a result the number of staff in the Management grade has increased from 63 to 76 during the year under review.

Age wise, 59% were in the 21 to 30 year range, while 32% were in the 31 to 50 year range which reflected a healthy balance between the experienced and youth.



Rewarding

Union Bank encourages its employees to gain good results and long-term commitment by means of rewarding.

Salaries are determined based on the complexity of duties and individual performance.

When assessing an employee's individual performance, productivity, expertise, multiple talents, ambition to develop, initiativeness and cooperation skills are considered. Employees in our confirmed carder enjoy a wide range of benefits including performance related bonus, traveling allowance for Officers and above, accommodation allowance for outstation Managers, a private provident fund administered by a Board of Trustees, death donation scheme, Insurance covers for personal accident, medical, and critical illness, staff loan schemes, IBSL subscription payments, a grant/loan for the purchase of furniture and equipment to staff who was entitled to same at the time of joining the Bank.

Training and awareness

Union Bank offers its employees training based on the business objectives and skill requirements of each individual position. Employees are encouraged to develop themselves by availing themselves of the wide range of development opportunities from one-day seminars to long-term training programs. Other methods of development on offer include job rotation, mentoring and on-the-job learning. Managers in particular are responsible for ensuring that each employee enhances the required skills. Managers are also responsible for ensuring that everyone in their organisation is familiar with Union Bank's strategy and objectives, the department-level objectives derived from them as well as personal objectives.

The training department conducts a comprehensive induction for Trainees.

Most of the programs for Junior Grades were conducted by in house resource personnel, we relied on their vast knowledge and experience to groom the new entrants. We appreciate their commitment by devoting personal time and effort towards ensuring knowledge transfer to our future leaders.

During the past year our staff was subject to 1000 man hours of specialized training.

Illness and Injury

For the year 2011 the Bank recorded zero levels for injury rates, occupational diseases and work related fatalities.

An extensive medical screening is done prior to joining the bank.

Managing Risk at Union Bank

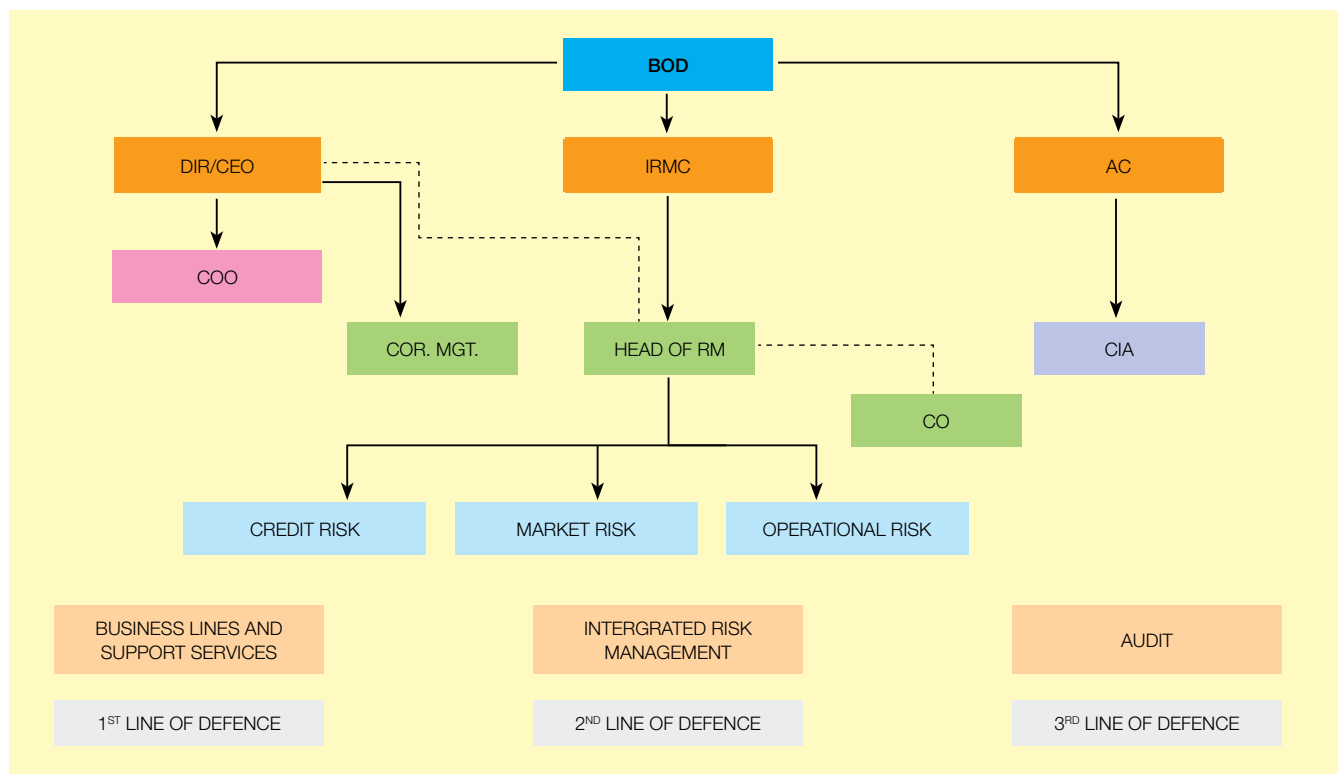
Bank believes in managing its risks on par with internationally accepted best practices and is committed in following the Basel II recommendations which it considers add value to Bank’s endeavour to strike a risk/return balance. Hence Bank has recognized that having an Integrated Risk Management Framework blending with Bank’s strategic intent as an important step in maintaining stakeholder value.

Risk Governance

Risk Governance is based on four fundamentals,

- Board and Senior Management oversight
- Risk Management Policies and Procedures
- Risk Measurement and Monitoring
- Internal Controls and Independent Audit

Bank’s risk governance structure is premised on “three lines of defense” as shown in the diagram.



- | | | | |
|------------|--------------------------------------|----------|--|
| BOD | - Board of Directors | IRMC | - Integrated Risk Management Committee |
| DIR/CEO | - Director / Chief Executive Officer | AC | - Audit Committee |
| COO | - Chief Operating Officer | COR. MGT | - Corporate management |
| HEAD OF RM | - Head of Risk Management | CIA | - Chief Internal Auditor |
| CO | - Compliance Officer | | |

The “risk takers” which are the business lines with business targets, with clear responsibilities and authorities are the “1st line of defense”.

“2nd line of defense” is the Risk Management Department (RMD), an independent unit whose function is to assess, identify, measure and control risk arising from all business/service units across the organization.

The Internal and External Audit functions constitute the “3rd Line of defense”.

Compliance function which is coming under the preview of the Board Risk Committee plays a major role in ensuring that Bank complies with all external regulations and laws, thus not only guarding the Bank against reputational risk of non-compliance, but also avoiding any costly penalties attached.

Board of Directors relinquishes its duties and responsibilities of risk management assisted by several committees as given in the table below:-

| Committee | Objective |
|--|---|
| Board Intergrated Risk Management Committee (IRMC) | This committee is empowered to ensure that Bank wide risks are managed within the risk strategy and appetite as approved by the Board of Directors |
| Assets and Liabilities Committee (ALCO) | ALCO Manages Bank's balance sheet strategy by determining the policy and alignment of assets and liabilities of the Bank. |
| Executive Risk Management Committee (ERMC) | Execution of risk management policies and procedures through monitoring and reviewing of exposures in credit risk, operational risk, market risk and other risks. |
| Operational Risk Management Committee (ORMC) | Ensures Bank's operational risks are managed as per established policies / procedures and existence of strong business continuity plans (BCP) and Disaster Recovery (DR) plans which are monitored and tested periodically. |
| Internal Credit Committee (ICC) | This committee approves credit proposals under delegated authority taking into account concerns raised by RMD. |

Taxonomy of Risks

Bank faces a gamut of Risks such as Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Reputational Risk and Legal Risk out of which the following are components of the major risks:-



RMD functions as an independent unit reporting functionally to the chairman - IRMC and administratively to the CEO, headed by Assistant Vice President – Risk Management (AVP – RM). RMD has three units - Credit Risk Management Unit, Market Risk Management Unit and Operational Risk Management Unit handled by three experienced persons reporting to AVP - RM.

Staff at RMD keeps a constant dialogue with staff at all business divisions in order to inculcate the risk culture required to have a balance between target driven expansions and returns commensurate with risks taken. Internal training programmes are conducted periodically.

New products/product lines which are substantially different from Bank's existing products which carry unusual risks are evaluated by RMD and advice is given to mitigate apparent risks.

Managing Risk at Union Bank

In its commitment to instill risk awareness throughout the Bank, several training programmes were carried out during the year using both internal and external resources as shown below :-

| Area | Type of Training | Target Group | No |
|-----------------------------|------------------|------------------------------------|----|
| Integrated Risk Management | External | Senior Management | 14 |
| Operational Risk Management | External | Senior/Middle Management | 30 |
| Credit Risk Management | External | Branch/Relationship Managers | 25 |
| Project Risk Management | Internal | Junior Officers/Banking Assistance | 27 |
| Operational Risk Management | Internal | Middle Management | 20 |

In addition staff attached to RMD attended training programmes conducted on Treasury/Market Risk and Operational Risk Management related areas conducted by the Central Bank of Sri Lanka's Training Center.

Management of the individual risks are discussed below:-

Credit Risk

Credit risk is the loss arising from not fulfilling the obligation to pay by a counter party on the due date or if the obligor migrates to a worse state than before in terms of his credit worthiness. Even though banks have faced crisis situations due to various causes, credit risk still remains the main reason for bank failures as the Bank's core activity is underwriting credit risk. Accordingly, the bank pays great attention to the management of this risk.

Credit Risk Management

Risk Management is aimed at developing "Best Practice" wherever it is commercially appropriate. Risk Management includes the ability to monitor and forecast potential credit risk exposures, robust risk analytics, and credit risk transparency for defined credit decision processes. An effective credit policy is vital as it sets guidelines for businesses, giving rise to effective credit risk management. Bank's risk management philosophy is implemented

by a well defined policy, trained and experienced staff, effective systems and Bank's commitment to keep pace with time by introducing state-of-the-art technology through planned total software solution.

Policies

The Board has approved well defined credit policies which spell out The Bank's risk appetite. These policies detail 'restricted areas' and 'high risk areas' and bank's philosophy in lending. It also covers bank's policies regarding security, valuation, sectoral and other relevant limits.

Processes

Bank has a well structured and standardized credit approval process which encompasses rigorous credit appraisal norms. It also has a risk rating mechanism for obligors which requires assigning a rating to each obligor annually or more frequently if required.

Our risk management corresponds to the wisdom and good judgment that the relationship managers have developed over time. Lending decisions are mainly based on detailed credit evaluation carried out by customer relationship managers and reviewed by the approving authority. Exposures exceeding a certain threshold are screened by Risk Management Department (RMD) which makes an independent assessment of the proposal.

The effectiveness of policies, procedures and monitoring is well reflected in the noteworthy reduction in the Bank's Non-performing ratio during the year.

Systems

The borrower risk rating system forms an integral part of the evaluation of credit proposal and assists the approval authorities to assess the credibility of the borrowers. This risk rating system too is subject to periodic review and refinement. The Bank at present has an in house developed facility appraisal & rating system but has plans to upgrade and modify these systems to be on par with Basel II requirements. The Bank's systems for credit evaluation and decision making are independent from collateralization albeit collateral helps to mitigate credit risk.

Technology

Technology plays a significant role in enabling active portfolio management for which the Bank is committed and focused. It also contributes to reshaping Bank's credit profile by allowing the Bank to know the type of exposures and accordingly price transactions. The Board has taken a decision to invest in a state of the art core banking system which is expected to contribute substantially to improve efficiency of the management information flow required for an accurate and speedy decision making process. The implementation following

the selection process underway will be undertaken during the forthcoming year. Bank also will be acquiring a software system for integrated risk management to build up capabilities to be on par with international best practices as prescribed under Basel II.

Monitoring Adherence to Credit Policies

Approvals

Approval of Credit proposals is delegated by the Board to individuals based on the experience and judgment and not necessarily on the position. The Credit Committee which meets weekly approves exposures which are within the purview of the CEO's lending authority. Such proposals should be recommended by the Relationship Manager and the Head of business unit. Hence Bank uses the "four eyes" principle, where no facility can be approved by a single individual.

Intensified Credit Monitoring and Controls

The following controls are in place to ensure credit risk mitigation:-

- All facility accounts are reviewed annually unless circumstances warrant more regular reviews.
- Valuation of security on a periodic basis

- Expiry of insurance policies are monitored through system generated reports
- Customer irregular facility exposure is monitored by retrieving Credit Risk Information Bureau (CRIB) reports when customers are reviewed annually
- Facilities in continuous excesses for specified periods are watch listed and relationship managers closely monitor the progress or recommend downgrading.
- Risk Management Division independently review periodic reports and returns on past dues, overdue reviews, watch listed accounts and investment portfolio.
- Periodic audits by Internal audit division.
- Outstanding credit related issues are discussed at the Executive Risk Management Committee which meets monthly.

Portfolio Management

A key credit risk management philosophy adhered to by the Bank is to continuously maintain a well diversified balanced and healthy credit portfolio, in order to avoid the dangers of over exposure to any single client, customer segment, sector or industry. Bank has adopted more stringent limits on the Single Borrower

Limit than prescribed by the Central Bank of Sri Lanka.

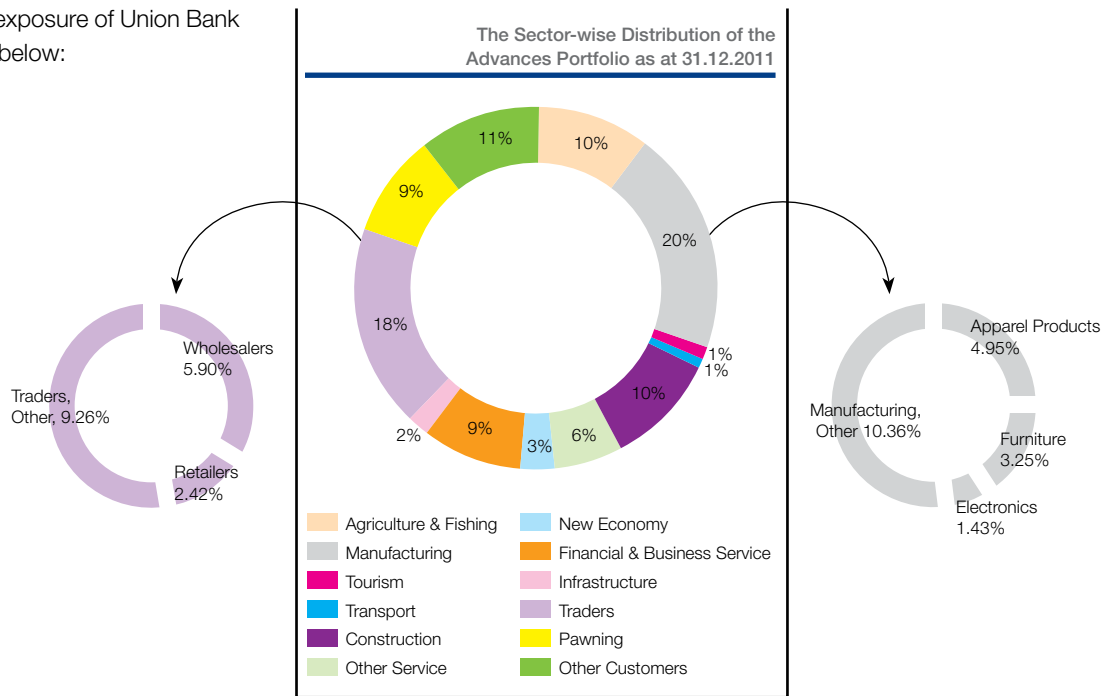
Concentration Risk

A monthly report is submitted to the Board Risk Management Committee and the senior management by RMD indicating the changes in the portfolio with an analysis, while a comprehensive report is submitted quarterly to the Board Integrated Risk Management Committee on the quality of the portfolio depicting the product, industry, customer rating concentration with recommendation to mitigate identified risks.

Keeping the industry exposure under check is an important component of Bank's overall risk management strategy. Concentration risk is mitigated in the Bank to a great extent by stipulating prudent credit risk limits and risk parameters. The Central Bank of Sri Lanka has also stipulated a floor for few sectors. During the year 2011, the Board enhanced limits for Manufacturing, Trade, Finance and Business Services to benefit from the business opportunities present in these sectors.

Managing Risk at Union Bank

The sector exposure of Union Bank is depicted below:



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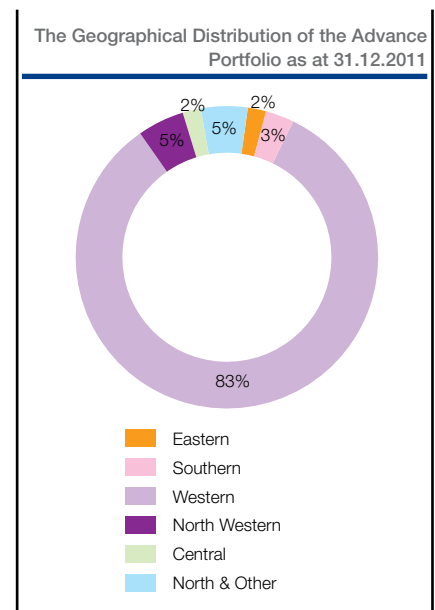
The sector exposure of Union Bank is depicted below:

Herfindhal – Hirshman Index (HHI)

| Sectors | HHI |
|------------------------------|---------------|
| Agriculture & Fishing | 0.0108 |
| Manufacturing | 0.0399 |
| Tourism | 0.0001 |
| Transport | 0.0001 |
| Construction | 0.0092 |
| Other Service | 0.0040 |
| New Economy | 0.0007 |
| Financial & Business Service | 0.0083 |
| Infrastructure | 0.0005 |
| Traders | 0.0309 |
| Pawning | 0.0081 |
| Other Customers | 0.0131 |
| Total | 0.1256 |

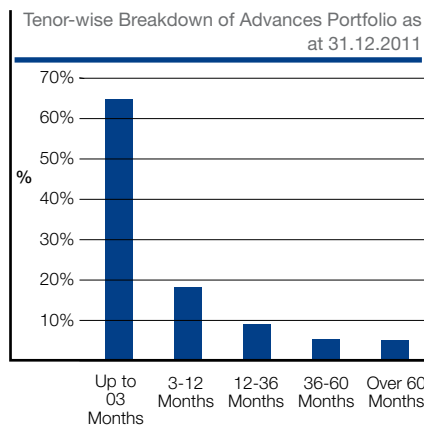
HHI is a statistical score used to measure concentration. A total score of zero indicates a well diversified portfolio. Bank monitors this index continuously to avoid heavy concentration.

The geographical distribution and the tenor-wise breakdown of the Advance Portfolio are shown in the following diagrams:-



The Percentage analysis of advances distributed in the bank reveals the above pattern.

Although, 82.58% of the advances have been granted by the branches located in the western province, a considerable fraction of these lending has been utilized to finance industries located at mainly Eastern, Southern, Central & Northern provinces. Most of the large corporate clients which have island-wide operations have been contained at the branches and corporate Banking Division in the Western Province.



Risk Mitigation Through Collateral Management

Facilities are secured by adequate collateral as a secondary source of repayment, in the event of primary source of repayment is not forthcoming, albeit collateral is not a factor that improves the credit quality of the borrower in taking a credit decision. In this context, perfection of valid collateral is the key to its enforceability. Various types of acceptable collateral and the process for their perfection is clearly depicted in Bank's credit policy. Bank's credit policy has clearly established the security and the safety margins that are to be maintained and the frequency of valuation. Bank always insists on ascertaining the realistic values of the fixed assets mortgaged to the bank by obtaining valuations by qualified, independent valuers. Any deviations from the aforesaid require approval of the Board of Directors.

Managing the Non – Performing Portfolio (NPL)

Bank's non-performing portfolio is monitored on a proactive basis through regular follow up with clients and restructuring of facilities on a need basis. Bank was successful in reducing the NPL ratio from 8.11% to 4.07% during the year under review. It was also noteworthy that despite a 70.98 % increase in the loan growth, new NPLs were contained at a minimal level. Risk Management Department monitors the watch listing of accounts by recommending action plans and close monitoring to prevent such borrowers becoming non-performing.

The top 20 NPLs contribute only 4% to the total advance portfolio of the Bank, which could be considered insignificant. This indicates the Bank's healthy advances portfolio.

Further, Bank has a very low open loan exposure position ratio of 12.7%, which depicts ample availability of shareholder funds as a cushion against NPLs not provided for.

Market Risk

Market risk is the potential losses that could arise in 'on' and 'off' balance sheet positions arising from movement of market prices. It can arise from interest fluctuations, due to volatility of exchange rates and also through movement of equity /commodity prices. Market risk of the Bank arises from the normal activities of granting loans and accepting deposits as well as from engaging in trading activities. Bank undertakes trading activities in government debt securities as well from investment in the stock market to a limited extent.

Market risk exposures arising from the trading book is managed by the Treasury of the Bank whilst the non trading activities relating to market risks is managed through the ALM (Asset and Liability Management) process handled by the ALCO.

Assets and Liability Management Committee (ALCO)

The ALCO headed by the CEO and including COO , Heads of Treasury, Risk Management , business lines and the CFO meets monthly to monitor and manage Bank's overall liquidity position and enhance Bank's profitability through maintaining of ideal mix of liabilities and deciding of interest rates both on assets and liabilities. It also recommends limits for the liquidity mismatch positions, foreign exchange and trading/stop loss limits for approval by the Board. The primary function of ALCO is to manage Bank's assets and liabilities based on current and expected business environment.

Liquidity Risk

Liquidity Risk is the risk of not being able to honour its obligations when due, in full or without resorting to high cost borrowings. It is the responsibility of ALCO to manage this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products.

The Bank uses the Liquidity Gap Analysis report to monitor the mismatches of assets and liabilities. It is also supplemented by the Loans to deposit ratio and the liquidity asset ratio. During the year under review there was heavy pressure on the former as a result of Bank's impressive growth in the loan book coupled with the challenge in mobilization of deposits due to heavy demand for funds both by competitor banks and other financial institutions. The Bank, however, has successfully accelerated the mobilization of deposits during the latter part of the year as a result of which the loans to deposit ratio was brought back to a comfortable level. This is reflected in Bank's strong deposit to advance ratio as at 31.12.2011 of 88.76%.

Managing Risk at Union Bank

Interest Rate Risk Management

Interest Rate Risk (IRR) arises due to the difference in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses produced by relevant gap positions which will have an impact on Bank's Net Interest Income (NII) compared to the level of NII expected from current interest rate levels. Gap analysis on RSA and RSL are prepared and presented to ALCO monthly to decide on suitable strategies to be adopted based on future interest rate forecasts.

Foreign Exchange Risk

The foreign exchange risk arises due to the volatility of exchange rates and its impact on various foreign currency positions. Bank has set an open limit position which is lower than the limit allowed by the regulator. This risk is further monitored through imposition of dealer limits and counterparty limits.

Stress Testing

The Bank has developed a stress testing framework in order to evaluate the impact in areas and on risk variables such as credit, equity, liquidity, exchange rate and interest rate on trading portfolio on Bank's capital adequacy ratio (CAR). Results of stress tests carried out in various areas and the results are appended below:-

CAR as at 31.12.2011 23.99%

Interest Rate Risk Movement on the Government Debt Securities Portfolio:-

The stress test for this portfolio assesses the impact on the mark to market result on all three scenarios, when interest rate shocks of 5%, 10% and 15% have been given. The CAR remained well over 10%.

Stress Testing of Exchange Rate Movement

This stress test assesses the impact of change in exchange rate on the value of equity. The Bank's net open position including off balance sheet exposures are given shocks of 5%, 10% and 15%, the Bank's CAR remains over 10% on all three scenarios.

Stress Testing of Movement of Interest Rate Changers on Bank's Assets and Liabilities

The impact of 1% and 2% movement on interest risk changes on Bank's Net Interest Income (NII) is carried out monthly and the results are discussed at ALCO to adopt appropriate strategies required, if an adverse outlook is seen.

Stress Tests on Liquidity

The Bank's liquidity position is stress tested giving shocks at 10%, 15% and 20% of a fall in liabilities. The results are discussed at ALCO to formulate strategies to have in place contingency plans, if necessary.

Stress Tests on Non-Performing Advances Portfolio

The Bank also carries out similar stress tests for Non Performing Advances assuming scenarios of 5%, 10% and 15% increase in NPL ratios and its impact on CAR. These tests have not indicated a significant strain on CAR.

The Bank will consider external system support to further improve the efficiencies in the stress testing function when required.

Operational Risk Management

Operational risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This definition includes legal risk but excludes strategic and reputation risk.

The Bank Manages Operational Risk through the application of long-standing but continuously evolving bank- wide standard internal controls and keeping in line with regulatory requirements.

Key Components of Operational Risk Management

- Identification, Assessment and Control
- Risk Mitigation
- Monitoring
- Establishment of Key Risk Indicators (KRI)
- Loss Data Collection
- Risk Control and Self Assessment
- Reporting

Operational Risk Management Policies & Procedures

The Bank has in place an Operational Risk Management Policy approved by the Board. An Operational Risk Coordinator within RMD is responsible for communicating and coordinating with all business and support units throughout the Bank on operational risk matters. An Operational Risk Management Committee (ORMC) comprising Heads of Risk Management, Operations, Internal Audit and Compliance Officer meet monthly or more frequently on a need basis to take-up operational matters at a tactical level. ORMC is a sub-committee of the Executive Risk Management Committee (ERMC). Decisions of ORMC are tabled at ERMC and communicated to staff of all levels for adherence.

Loss Event Data Collection

Loss event data, including near misses are collected and analyzed as to the cause and control which had failed. Bank has segregated the income data into respective business lines to form the base for regulatory capital calculation required under Basel II Standardized Approach and as mandated by the regulator to

commence a parallel calculation of capital charges for operational risk with the currently applicable Basic Indicator Approach (BIA).

Risk & Control Self Assessment (RCSA)

During the year under review Bank commenced the RCSA process which enabled the risk owners i.e. business and service units to identify, assess and control key risks faced by them with the assistance of Operational Risk Coordinator at RMD. This process helped staff in taking corrective actions immediately where necessary to mitigate identified risks. This process would be further strengthened during the forthcoming year.

Key Risk Indicators (KRI)

Bank has initiated the process of documenting KRIs for each business / support unit. The function of KRIs is to allow the early detection of operational risks before losses occur.

Reporting

Details on loss data are reported to Senior Management and IRMC at regular intervals. During 2012 Bank will be investing in an Operational Risk Management Software System to streamline the Operational Risk Management framework.

Compliance Risk Management

Union Bank has established a separate Compliance Unit, headed by Compliance Officer (CO) who reports on status of Compliance to the Board monthly and the Integrated Risk Management Committee quarterly. Compliance is an integral part of Bank's Integrated Risk Management system.

The key objective of the Compliance Division is to ensure compliance with external and internal regulations and laws.

To achieve such objective it is a requisite to proactively identify, document, circulate, monitor and assess the Compliance Risk that may arise from non compliance of such rules and regulations. Compliance Division in this regard has set the yearly compliance programme with the approval of the BIRMC and has adopted a five-fold compliance processes.



During the year Compliance Certification process has been reviewed and upgraded thus capturing maximum number of external rules and regulations governing and applicable to various banking functions like operations, credit, project finance, investment, treasury functions, finance, IT operations and marketing etc. Based on the sign offs obtained from Divisional Heads on a monthly basis, CO assesses the status of compliance and submits monthly reports on status to the Board.

Further, enhancing the compliance function during the year, staff members of other divisions has initiated to independently review the status of compliance assisted by CO in respect of key regulations. Any deviations or non compliances observed during such reviews are notified to the IRMC on a quarterly basis and the management for implementing necessary remedial action.

Anti money Laundering (AML) compliance at the Union Bank is being given a high priority and a dedicated AML unit continuously monitors the compliance to AML and Know Your Customer (KYC) regulations. Its dedication for AML compliance is evident by being the first Sri Lankan bank to have taken an initiative to implement technology based money laundering prevention solution during the year.

Development and Future Outlook

Union bank believes that in the pursuit of our business objective sound risk governance is the foundation for future growth. Risk governance is guided by principles of risk management.

Risk philosophy and strategy, communication of risk philosophy to all stake holders, development of risk culture and risk taxonomy help adequately manage and mitigate losses not only for us but protect the stability of the financial system.

We have taken several steps to ensure that we have adequate policies and procedures to manage and mitigate credit, market, operational compliance and strategic risk, to avoid adverse effects of these risk elements across our operations. These measures will be further strengthened through introduction of state of the art technology.

Investor Relations

Dear Shareholder,

We have dedicated this section of our Annual Report to you in appreciation of your continued support which enabled the Bank to achieve the following milestones.

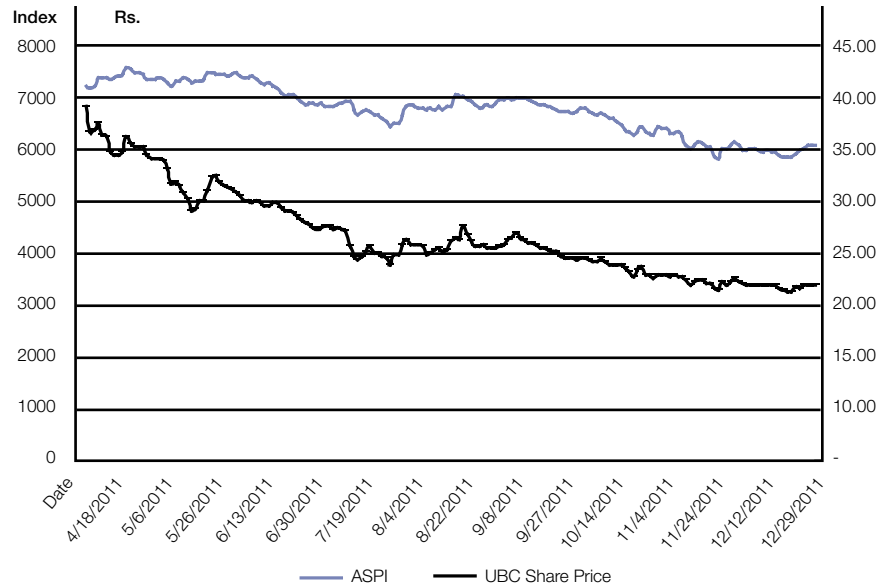
- The latest Bank to be listed on the Colombo Stock Exchange with overwhelming oversubscription record for its Initial Public Offer (IPO) over two hundred times.
- The acquisition of National Asset Management Company Ltd (NAMAL), the pioneer Unit Trust management company in Sri Lanka.
- The recapitalization and restructuring of The Finance & Guarantee Company Limited.

We place great importance on communication with our shareholders. The full report and accounts and the interim reports are available to shareholders on the Bank's website (www.unionb.com). Alternatively, shareholders can elect to receive a mailed copy of the accounts of request. The Company Secretary of the Bank responds to individual letters received from shareholders.

The Bank's shares are listed on the Colombo Stock Exchange. Daily share prices are found in newspapers including the Daily FT, Daily News, The Island and Daily Mirror.

There is a regular dialog with institutional shareholders through such means as the participation in investor forums, the publication of general press releases after the preliminary year end and interim results etc. The Board is advised of any specific comments from institutional investors to enable them to develop an understanding of the views major shareholders. All shareholders have the opportunity to raise questions/obtain clarifications at the Bank's Annual General Meeting.

Performance of the Union Bank's Ordinary Voting Shares in 2011:



Compliance Report on the contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange:

We are pleased to inform you that the Bank has complied with all the requirements of the Section 7.6 of the Listing Rules of the Colombo Stock Exchange on the contents of the Annual Report and Accounts of a Listed Entity. The table below provides the details of the sections of this Annual Report where specified information is found together with page references for the convenience of the readers.

| Rule No | Disclosure Requirement | Section/Reference | Pages |
|------------|---|---|-------|
| 7.6 (i) | Names of the persons who held the positions of Directors during the financial year | Board of Directors | 64-69 |
| 7.6 (ii) | Principal activities of the Bank and its Subsidiaries during the year and any changes therein | Item 1.2 of Notes to the Financial Statements | 118 |
| 7.6 (iii) | The names of the twenty largest shareholders of voting shares together with the number and percentage of holding | Item 2 of the Investor Relations | 94 |
| 7.6 (iv) | The public holding percentage | Item 2 of the Investor Relations | 94 |
| 7.6 (v) | Directors and Chief Executive Officer's holding in shares at the end of the financial year | Item 7 of the Investor Relations | 95 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors | Item 8 of the Investor Relations | 95 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations | Item 9 of the Investor Relations | 95 |
| 7.6 (viii) | Extents, locations, valuations and number of buildings of the land holdings and investment properties | Note 24 to the Financial Statements on "Property, Plant and Equipment" | 145 |
| 7.6 (ix) | Number of shares representing the Stated Capital | Note 29 to the Financial Statements on "Stated Capital" | 148 |
| 7.6 (x) | A distribution schedule of number of holders in each class of equity securities and the percentage of their total holdings | Item 6 of the Investor Relations | 95 |
| 7.6 (xi) | Ratios and market price information | | |
| | Dividend per share, Dividend payout, Net Asset Value per share, Market Value per share | Item 4 of the Investor Relations and Financial Statements | 95 |
| | Any changes in credit rating | Item 5 of the Investor Relations | 95 |
| 7.6 (xii) | Significant changes in group fixed assets, and the market value of land, if value differs substantially from the book value | Note 24 to the Financial Statements on "Property, Plant and Equipment" | 145 |
| 7.6 (xiii) | Details of funds raised through Public Issues, Rights Issues and Private Placement during the year | Annual Report of the Board of Directors on the State of Affairs of the Bank | 101 |
| 7.6 (xiv) | Information in respect of Employee Share Option Schemes | Not Applicable | |
| 7.6 (xv) | Disclosure pertaining to Corporate Governance Practices in terms of the Section 7 of the Listing Rules | Corporate Governance | 37-56 |
| 7.6 (xvi) | Disclosure on related party transactions exceeding 10% of the Equity or 5% of the Total Assets of the audited financial statements, which ever is lower | The Bank did not have any related party transaction exceeding this threshold as at end 2011 | |

1. Stock Exchange Listing

The Ordinary Voting Shares of Union Bank of Colombo PLC are listed on the Colombo Stock Exchange.

The Unaudited Interim Financial Statements for the four quarters of 2011 were submitted to the CSE within 45 days from the respective quarter ends as required by the Rule No. 7.4(a) (i) of the Listing Rules of the CSE.

The Audited Income Statement for the year ended December 31, 2011 and the Audited Balance Sheet as at December 31, 2011 were submitted to the CSE within three months from the Balance Sheet Date as required by the Rule 7.5(a) of the Listing Rules of the CSE.

Investor Relations

The Stock Exchange ticker symbol for Union Bank is “UBC”.

Details of trading activities are published in most daily newspapers, generally under the above abbreviation.

2. The Names, Number and Percentage of shares held by the Twenty Largest Shareholders

(As per Rule no 7.6(III) of the Colombo Stock Exchange)

20 Major Shareholders as at 30/12/2011

| Sequence | Name of the Share Holder | Total No. of Shares issued as at 30/12/2011 | Percentage (%) | Total No. of shares issued as at 31/12/2010 | Percentage (%) |
|----------|---|---|----------------|---|----------------|
| 1 | Vista Knowledge Pte Ltd | 64,677,973 | 18.5191 | 64,677,973 | 19.4 |
| 2 | Sampath Bank PLC | 26,347,027 | 7.5439 | 26,338,127 | 7.9 |
| 3 | Associated Electrical Corporation Limited | 26,101,489 | 7.4736 | 24,684,652 | 7.41 |
| 4 | Select Gain Limited | 23,369,409 | 6.6913 | 23,369,409 | 7.01 |
| 5 | Chitrupa Premalal Ajith Wijeyesekera | 17,431,659 | 4.9912 | 17,419,059 | 5.23 |
| 6 | Alexis Indrajit Lovell | 17,067,809 | 4.8870 | 16,993,809 | 5.1 |
| 7 | Exsab International Holdings Company for Trading Development | 15,000,000 | 4.2949 | 15,000,000 | 4.5 |
| 8 | Dishan Amrit Jitendrakumar Warnakulasuriya | 11,306,709 | 3.2374 | 3,511,750 | 1.05 |
| 9 | First Gulf Asia Holdings Limited | 10,000,000 | 2.8633 | 10,000,000 | 3 |
| 10 | Rosewood (Pvt) Limited-Account No.2 | 9,493,698 | 2.7183 | 9,543,698 | 2.86 |
| 11 | Sat Pal Khattar | 9,337,124 | 2.6735 | 9,337,124 | 2.8 |
| 12 | Ashiyaki Holdings (Pvt) Ltd | 7,640,000 | 2.1875 | 7,792,506 | 2.34 |
| 13 | Handunnetti Geetha Dangalle | 6,940,871 | 1.9874 | 6,940,871 | 2.08 |
| 14 | Pan Asia Banking Corporation PLC/ Univogue Holdings (Pvt) Ltd | 5,500,000 | 1.5748 | 5,680,772 | 1.7 |
| 15 | Commercial Agencies (Ceylon) (Pvt) Ltd | 4,320,888 | 1.2372 | 4,308,288 | 1.29 |
| 16 | Ajita de Zoysa & Company (Pvt) Limited | 4,320,887 | 1.2372 | 4,308,287 | 1.29 |
| 17 | Muder Kothari | 4,131,471 | 1.1830 | 4,131,471 | 1.24 |
| 18 | Seylan Bank PLC/Malik Devapriya Samarawickrama | 4,000,000 | 1.1453 | 0 | 0 |
| 19 | Caritano Ventures INC | 3,744,109 | 1.0720 | 12,738,709 | 3.82 |
| 20 | Malik Devapriya Samarawickrama | 3,660,582 | 1.0481 | 9,013,682 | 2.7 |
| | Sub Total | 274,391,705 | 78.5660 | 275,790,187 | 82.7200 |
| | Other Shareholders | 74,858,295 | 21.434 | 57,555,576 | 17.28 |
| | Total | 349,250,000 | 100 | 333,345,763 | 100 |

As per the Rule No. 8.7(h) of the Colombo Stock Exchange, percentage of Public Holding as at 30th December 2011 is 49.92%.

3. Information on Share Trading

| | 2011 |
|--------------------------------|-------------|
| Number of shares traded | 64,531,000 |
| Value of shares traded (Rs.Bn) | 2,029 |

4. Information on Market Prices

| | Market Prices | Date |
|----------------|----------------------|-------------|
| Highest Price | Rs 45.00 | 29/03/2011 |
| Lowest Price | Rs 17.00 | 25/11/2011 |
| Year end price | Rs 19.00 | 30/12/2011 |

5. Credit Rating

Fitch Rating BB+(lka)
 RAM Rating BBB/P3

6. Shareholder Base

Ordinary voting Shares

| Share Range | No of shareholders | % | No of shares | % |
|-------------------------|--------------------|----------------|--------------------|----------------|
| up to 1,000 | 39,314 | 90.05% | 5,708,161 | 1.63% |
| 1,001 to 10,000 | 3,601 | 8.25% | 10,828,810 | 3.10% |
| 10,001 to 100,000 | 646 | 1.48% | 13,453,296 | 3.85% |
| 100,001 to 1,000,000 | 62 | 0.14% | 19,734,566 | 5.65% |
| 1,000,001 to 10,000,000 | 25 | 0.06% | 98,223,092 | 28.12% |
| Over 10,000,001 | 8 | 0.02% | 201,302,075 | 57.64% |
| | 43,656 | 100.00% | 349,250,000 | 100.00% |

7. Directors' and CEO's Shareholding

(as per the rule no 7.6(V) of the Colombo Stock Exchange)

| As at 31st December | Number of Ordinary Voting Shares | |
|----------------------------|----------------------------------|-------------|
| | 2011 | 2010 |
| Mr Ajita de Zoysa | 12,600 | - |
| Mr Alexis Indrajith Lovell | 17,067,809 | 16,993,809 |
| Mr B A K De Silva | 8,900 | - |
| Mr A S Amarasuriya | 63,552 | 33,052 |
| Mr Ajith Wijeyesekara | 17,431,659 | 17,419,059 |
| Mr A W Atukorala | 17,500 | - |
| Mr D N Bartholomeusz | 80,100 | 80,000 |

8. Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the Section on "Managing Risk at Union Bank" on pages 65 to 72.
9. There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rule of the CSE.

* Public means excluding the Holdings by

- Parents, subsidiary or associate companies
- Subsidiaries or associates of the parent company
- Directors, Chief Executive Officer, their spouses and children under 18 years of age and /or their nominees
- Company in which a director's holding exceeds 50% of equity of such company or where the director controls the composition of the Board of directors of such company either directly or indirectly
- Shareholder whose holding exceeds 10% of the issued capital



In the journey of life, we at Union Bank understand the various needs you have as an individual, a family or even during your twilight years. Therefore, in order to ensure peace of mind we have tailor-made options that provide comprehensive solutions for all your saving and fiscal needs. With competitive rates and benefits, we are geared to provide the best; the results of which will benefit a lifetime. We're your choice for personalised banking and security.





Financial Reports

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Financial Calendar 2011 and Proposed Financial Calendar 2012

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange and As per the requirements of the Central Bank of Sri Lanka.

| | Submitted on | To be submitted on or before |
|---|-----------------|---------------------------------|
| For the 3 months ended March 31, (unaudited) | 3 May 2011 | 15 May 2012 |
| For the 3 months and 6 months ended June 30, (unaudited) | 29 July 2011 | 15 August 2012 |
| For the 3 months and 9 months ended September 30, (unaudited) | 2 November 2011 | 15 November 2012 |
| For the 3 months and year ended December 31, (unaudited) | 27 January 2012 | 28 February 2013 |



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

The Board of Directors is presenting the Annual Report and the State of Affairs of the Bank together with the Audited Financial Accounts for the year ended 31st December 2011 in compliance with Companies Act No. 7 of 2007 and Listing Rules of The Colombo Stock Exchange. The Report was approved by the Board of Directors on 16th April 2012.

This report is made in compliance with Section 168 of the Companies Act No.7 of 2007, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka and Section 7.6 of Listing Rules of The Colombo Stock Exchange.

The Board of Directors have disclosed information of the Bank and its subsidiaries which they believe is material and in the best interest of the Shareholders and the Bank.

Legal Status of the Company

Union Bank of Colombo PLC was incorporated on 02nd February 1995

as a Limited Liability Company. It was registered as an approved Licensed Commercial Bank under the Banking Act No. 30 of 1988 and commenced banking business on 16th June 1995. The Bank was re-registered as required under the provisions of the Companies Act No.7 of 2007 on 23rd September 2008. The Ordinary Voting Shares of the Bank were listed on the Main Board of the Colombo Stock Exchange with effect from 29th March 2011. As a result the name of the Bank was converted from Union Bank of Colombo Limited to Union Bank of Colombo PLC.

Principal Activities and the nature of the business of the Bank and its Subsidiaries

The nature of the business of the Bank

The principal activities of the Bank are Commercial Banking and related financial services namely accepting deposits, personal banking, trading financing, off-shore banking, resident and non-resident

foreign currency operations, corporate and retail credit, project and micro financing, lease financing, pawning, ATM facilities, telebanking and internet banking facilities.

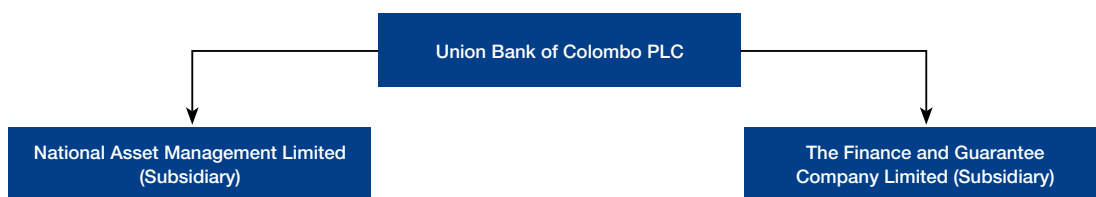
The nature of the business of National Asset Management Limited (NAMAL), a subsidiary of the Bank

NAMAL is engaged in the management of unit trusts in Sri Lanka. The principal activities of NAMAL are forming country funds, providing secretarial services for institutions, maintaining private portfolio management for institutional investors and investing in Sri Lankan equity and fixed income markets.

The nature of the business of The Finance and Guarantee Company Limited (FGCL), a subsidiary of the Bank

The principal activity of FGCL is financial services namely accepting deposits, maintaining savings accounts, lease financing, hire purchasing, pawning and real estate.

The Bank and Subsidiaries



| | National Asset Management Company Limited (NAMAL) | The Finance and Guarantee Company Limited (FGCL) |
|------------------------------------|--|---|
| Legal status and Registered office | A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007. Registered office and principal place of business at No. 305, Vauxhall Street, Colombo 02, Sri Lanka. | A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007. Registered office and principal place of business at No. 46/46, Green Lanka Towers, Nawam Mawatha, Colombo 02, Sri Lanka |

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

| | | |
|--|--|---|
| Shareholding | Union Bank of Colombo PLC holds 51% of the Stated Capital of the Company and other shareholders are DFCC Bank and Ennid Capital (Pvt) Ltd. | Union Bank of Colombo PLC holds 78.68% of the Stated Capital of the Company. The balance shareholding is held by 784 shareholders. |
| Board of Directors | Mr. Ajita de Zoysa – Chairman Mr. Alexis Indrajit Lovell – Deputy Chairman Mr. Anil Suneetha Amarasuriya Mr. Yiu Joe Toh Mr. Dishan Amrit Jitendrakumar Warnakulasuriya Mr. Tyrone de Silva Mr. Avancka Heart Ms. Khoo Siew Bee Mr. Nihal Fonseka | Mr. Ajita de Zoysa – Chairman Mr. Alexis Indrajit Lovell – (Alternate – Mr. David Nigel Bartholomeusz) Mr. Yiu Joe Toh Mr. Dishan Amrit Jitendrakumar Warnakulasuriya Mr. Davis Golding (Alternate – Mr. Ananda Wijetilaka Atukorala) Mr. Ajith Wijeyesekera Mr. Malinda Namal Samarathunga Mr. Kenneth Kusinath Upali Wijeyesekera |
| Directors and related party Shareholdings in the Company as at 31st December 2011. | Mr. Ajita de Zoysa, Chairman, Mr. Alexis Indrajit Lovell, Deputy Chairman, Mr. Anil Suneetha Amarasuriya, Mr. Yiu Joe Toh and Mr. Dishan Amrit Jitendrakumar Warnakulasuriya were appointed to the Company by the Bank. The Company is under the direct supervision of Mr. Anil Suneetha Amarasuriya, the Group Chief Executive Officer of the Bank. | Mr. Ajita de Zoysa, Chairman and related party hold 16,579,154 Voting Shares in the Company. Mr. Dishan Amrit Jitendrakumar Warnakulasuriya holds 4,251,114 Voting Shares in the Company. Mr. Davis Golding represents Shorecap II Limited and the said Company holds 275,000,000 Voting Shares in the Company. Mr. Kenneth Kusinath Upali Wijeyesekera and related party hold 2,988,265 Non Voting Shares with 114 Voting Shares in the Company. Mr. Ajith Wijeyesekera and related party hold 5,072,085 Voting Shares in the Company. Mr. David Nigel Bartholomeusz holds 42,934 Voting Shares in the Company. Mr. Ananda Wijetilaka Atukorala and related party hold 510,010 Voting Shares in the Company. |
| Remuneration and Other Payments made to Directors | Refer page 154 | None |

Review of Business

A review of the Bank's performance during the year, with comments on the financial results and future plans, is contained in the Chairman's Statement in the Leadership Forum.

Branch Net work

As at 31st December 2011, the Bank had 30 branches.

Vision and Mission

Vision and Mission of the Bank are given in page 2 of this Annual Report.

Future Goals and Expansions

The leadership has given a review on page 12 of this Annual Report.

Financial Reporting & Responsibility for the Accounts

The Directors are satisfied that the financial statements, presented on pages 113 to 161 give a true and fair view of the state of affairs of the Bank as at 31st December 2011 and the Profit and Loss Account for the year ended 31st December 2011. The Directors further

declares that the following were adhered in preparation of financial statement giving a balanced and understandable assessment of the Bank.

- The Company has not engaged in any activity which contravenes law and regulations;
- The Directors have declared their all material interests refer page 154.
- The Company has made all endeavours to ensure the equitable treatment of shareholders refer page 154.
- The business is going concern.
- A review was conducted covering financial, operational and compliance controls and risk management and that had obtained reasonable assurance of their effectiveness and successful adherence therewith.

In addition, the Directors are satisfied with the financial statements, appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgments and estimates have been made and the 'Going Concern' basis has been adopted.

The Directors also confirm that the financial statements of the Bank have been prepared in compliance with the Companies Act No.07 of 2007 and CSE. The Directors ensure that the bank has maintained proper books of accounts and records. The Directors have taken reasonable measures to safeguard the assets of the Bank and to establish appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors confirm that to the best of their knowledge all taxes, statutory dues, and levies payable by the Bank as at Balance Sheet date have been paid or where relevant provided for. The Directors are of the view that they have discharged their responsibilities as set out in this statement.

The Gross turnover of the Bank & the Group was Rs.2,551Mn & Rs.2,629Mn respectively.

Profit before taxation and VAT on financial services for the year ended 31.12.2011 for the Bank was Rs.530Mn & Rs. 525Mn for the Group.

Retained profit for the year ended 31.12.2011 for the Bank & the Group was Rs.308Mn. & Rs.299Mn respectively.

Property, plant and machinery expenditure and leasehold improvements during the year amounted to Rs.309Mn for Bank & Rs. 327Mn for the Group.

Auditors Report

Messrs. Ernst & Young Chartered Accountants, our Auditors, have done the Audit of the Financial Statements for the financial year ended 31st December 2011 are given on pages 113 to 161 of this Annual Report.

Accounting Policies

The significant accounting policies used by the Bank in preparation of the Financial Statements are given on pages 118 to 132 of this Annual Report.

Donations

The donations given by the Bank during the year 2011 are in total Rs. 462,000

Payments made to Directors

The Directors fees, Remunerations and payments made to the Directors are disclosed in page 154 of this Annual Report.

Post Balance Sheet Events

The registered office of the Bank and the Head Office of the Bank shifted from No.15A, Alfred Place, Colombo 03 to No. 64, Galle Road, Colombo 03.

It was decided at the Extra Ordinary General Meeting of The Finance and

Guarantee Company Limited held on 27th of March 2012 to change the name of the Company to U B Finance Company Limited.

Mr. Alexis Indrajit Lovell purchased 5,340,871 voting shares in Union Bank of Colombo PLC on 05th April 2012.

Shareholder Register

As at 31st December 2011, the total number of Ordinary Voting Shares issued by the Bank was 349,250,000 including 43,656 Ordinary shareholders. The 20 largest shareholders list is given on page 94 of this Annual Report.

Capital Infusions

The Bank as per the prospectus dated 31st December 2010, raised Rupees Three Hundred and Seventy Five Million (Rs.375,000,000/=) thereby increasing the present Stated Capital of the Bank to an amount not exceeding Rs. 4,948,820,995/75 via the Initial Public Offering. 15,000,000 Ordinary Voting Shares were offered at Rs.25/- per share under three categories i.e. Employees, Customers and Public. The Bank was listed on the Main Board of the Colombo Stock Exchange for Trading in compliance with the regulatory requirements of Central Bank of Sri Lanka and Colombo Stock Exchange. Another 904,237 Ordinary Voting Shares reserved at Rs.34/25 for Associated Electrical Corporation Limited were issued increasing the Stated Capital to Rs. 4,979,791,113 by 31st December 2011.

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

Director's & Officer's Liability Policy

The Board granted approval to obtain the Director's & Officers Liability Policy for a cover of Rupees 300,000,000 from CHARTIS Insurance Limited in compliance with amended Articles of Association of the Company.

Directorate

| Name of the Director | Position | Alternate Director | Date of appointment |
|---|--------------------|-------------------------------|---|
| Mr. Ajita de Zoysa | Chairman | | 08/05/2003 |
| Mr. Alexis Indrajit Lovell | Deputy Chairman | Mr. Ashan Suresh de Zoysa | 28/09/2007 and Alternate Director appointed on 11/03/2009. |
| Mr. Bodahandi Asoka Keerthi de Silva | Senior Director | | 30/05/2008 |
| Mr. Ajith Wijeyesekera | Director | | 08/05/2003 |
| Mr. Ananda Wijetilaka Atukorala | Director | | 08/05/2003 |
| HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud | Director | Mr. David Nigel Bartholomeusz | Initially appointed on 28/09/2007 and reappointed on 04/12/2008. Alternate Director was appointed on 04/12/2008 |
| Dr. Liyanamohottige Joseph Sri Harsha Cabral PC | Director | | 30/05/2008 |
| Mr. Anil Suneetha Amarasuriya | Executive Director | | 01/01/2009 |
| Mr. Kin Leong Chong | Director | Ms. Sow Lin Chiew | 29/10/2010 and Alternate Director was appointed on 27/01/2011 |
| Mr. Gerard Ewe Keng Lim | Director | Ms. Lee Sian Goh | Both appointments were made on 06.12.2010 |
| Mr. Yiu Joe Toh * | Director | Mr. King Tak Blondel So | Both appointments were made on 01/12/2010. |
| Mr. Mohamed Aslam Omar | Director | | 21/01/2011 |
| Mr. Piyantha Damian Joseph Fernando | Director | | 02/11/2011 |

The Nature of Directorates

Mr. Bodahandi Asoka Keerthi de Silva, Senior Director of the Bank is an independent Non-Executive Director. Mr. Ananda Wijetilaka Atukorala, Dr. Liyanamohottige Joseph Sri Harsha Cabral PC, Mr. Mohamed Aslam Omar and Mr. Piyantha Damian Joseph Fernando are the other four Independent Non-Executive Directors of the Board. Mr. Ajita de Zoysa, Mr. Alexis Indrajit Lovell, HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud, Mr. Ajith Wijeyesekera, Mr. Kin Leong Chong, Mr. Gerard Ewe Keng Lim and Mr. Yiu Joe Toh are

the Non-Independent Non-Executive Directors of the Board. Mr. Anil Suneetha Amarasuriya is the Executive Director who serves as the Chief Executive Officer of the Bank.

New Appointments and Resignation of Directors

Mr. Mohamed Aslam Omar, a fellow member of the Sri Lanka Institute of Chartered Accountants was appointed as an Independent Director of the Bank on 21st January 2011.

Ms. Sow Lin Chiew was appointed as an Alternate Director to Mr. Kin Leong Chong on the request made by Vista Knowledge Pte. Ltd on 27th January 2011.

Mr. Piyantha Damian Joseph Fernando, a retired Deputy Governor of Central Bank of Sri Lanka was appointed as an Independent Director to the Board of the Bank on 02nd November 2011.

In January 2011, Mr. Dishan Amrit Jitendrakumar Warnakulasuriya volunteered to resign from the Board of the Bank to accommodate the

appointment of a Non-Executive Independent Director to the Board in Compliance with the Banking Act Direction No.11 of 2007 on Corporate Governance and the Board unanimously appointed him as an Advisor to the Board.

Re-appointments

In terms of Article 88(i) read together with Article 89 of the Articles of Association of the Bank HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud, Mr. Kin Leong Chong and Mr. Yiu Joe Toh retire by rotation at the forthcoming Annual General Meeting and being eligible are recommended by the Directors for re-election in terms of Article 89 of the Articles of Association of the Bank.

Appraisal of Board Performance

The Nomination Committee approved a procedure for the Selection and Appointment of Directors, CEO and Key Management Personnel at the meeting held on 25th March 2011. As per the criteria given in the said selection procedure a questionnaire was presented to the Executive and Non-Executive

Directors to be evaluated independently by all Directors.

Agreements

The Bank entered into an Agreement with Milford Holdings (Private) Ltd and ENNID Capital (Private) Ltd to purchase Five Million One Hundred Thousand (5,100,000) Ordinary Voting Shares being 51% of the Stated Capital in National Asset Management Ltd.

The Bank entered into Shareholder and Subscription Agreements with Shorecap II Ltd for the strategic acquisition of The Finance & Guarantee Company Limited to acquire over 80% of the Stated Capital of the said company.

Acquisitions

The Bank acquired in January, 2011 51% of the Stated Capital of National Asset Management Limited (NAMAL).

The Finance and Guarantee Company Limited was acquired by the Bank in November 2011 by purchasing 1,200,000,000 Ordinary Voting Shares

being 81.27% of the Stated Capital of the company.

Sale of Shares in The Finance and Guarantee Company Limited

The Bank transferred 38,235,972 Voting Shares at Rs.3/- per share out of its total shareholding in The Finance and Guarantee Company Limited.

Registers of Directors and Secretaries

The Bank maintains a registry of Directors and Secretaries. The names and addresses and their business occupations are set out in this.

Communication

The Bank strongly believes that all stakeholders should have access to complete information on its activities performance and product initiatives.

Directors' Shareholdings

Shareholdings of Directors' as at 31st December 2011 were as follows:

| Name of the Director | No. of shares Ordinary Shares | |
|---|-------------------------------|------------------|
| | Beginning of Year 2011 | End of Year 2011 |
| 1. Mr. Ajita de Zoysa | - | 12,600 |
| 2. Mr. Alexis Indrajit Lovell | 16,993,809 | 17,067,809 |
| 3. Mr. Ajith Wijeyesekera | 17,419,059 | 17,431,659 |
| 4. Mr. Ananda Wijetilaka Atukorala | - | 17,500 |
| 5. Mr. Bodahandi Asoka Keerthi de Silva | - | 8,900 |
| 6. Mr. Anil Suneetha Amarasuriya | 33,052 | 63,552 |
| 7. Mr. David Nigel Bartholomeusz | 80,000 | 80,100 |

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

Public Shareholding

The public holding of the Bank as at 31st December 2011 was approximately 49.92%.

Directors' Interest In Contracts

The Director's Interest register was introduced in December 2007. The Directors have disclosed their interests as per Section 192 (1) of the Companies Act No. 7 of 2007.

Mr. Ajita de Zoysa, Chairman of the Bank, also the Chairman of Associated Electrical Corporation (AEC) disclosed that he is the Managing Trustee of Mueseus College and a facility was granted against the personal guarantee of the Chairman and his wife. Ajita de Zoysa & Co. (Pvt) Ltd, Associated Electrical Corporation Limited, Commercial Agencies (Pvt) Ltd, companies in which Mr. de Zoysa was a Director and his children purchased a total of 1,517,637 Ordinary Voting Shares of the Bank during the year.

Mr. Alexis Indrajit Lovell purchased 74,000 Voting Shares in the Bank during the year.

Mr. Ananda Wijetilaka Atukorala and related party purchased 307,600 Ordinary Voting Shares in the Bank during the year.

Mr. Anil Suneetha Amarasuriya and related party purchased 32,900 Ordinary Voting Shares in the Bank during the year.

Mr. Ajith Wijeyesekera and related party purchased 307,900 Ordinary Voting Shares in the Bank during the year.

Mr. Mohamed Aslam Omar and related Party purchased 12,300 Ordinary Voting Shares in the Bank during the year.

Mr. David Nigel Bartholomeusz purchased 100 Ordinary Voting Shares in the Bank during the year.

The Directors of the Bank have no direct or indirect interest in any contract or proposed contract of the Bank other than those disclosed herein and in page no 154 on "Total Deposit made by the Key Managerial Personal" and note no 37 on "related party transaction".

The Directors declare their interest in contracts at meetings and have refrained when decisions are taken in respect of these.

The following Directors and their related entities carried out transactions with the Bank in the ordinary course of business at commercial rates;

| Names of the Directors | Nature of the Business | |
|---|---------------------------------------|-------------------|
| Mr. Ajita de Zoysa | Account No. | Balance |
| | Mrs. M B D de Zoysa | |
| | 004966601017 (SAV) | Rs. 149,166.94 |
| | 4966605018-12 (FD) | Rs. 33,000,000.00 |
| | Ajita de Zoysa and Company (Pvt) Ltd. | |
| | 5479400011 (CURR) | Rs. 37,650.00 Cr. |
| | 5479400029 (DTEA) | Rs. 43,890.00 Cr. |
| | A E C Properties (Pvt) Ltd | |
| | 5479500018 (CURR) | Rs. 15,162.15 Cr. |
| | 5479500026 (DTEA) | Rs. 17,814.10 Cr. |
| Associated Electrical Corporation Ltd. | | |
| 5479600016 (CURR) | Rs.108,009.11 Cr. | |
| 5479600024 (DTEA) | Rs. 10,158.95 Cr. | |
| Commercial Agencies (Ceylon) (Pvt) Ltd. | | |
| 5479700014 (CURR) | Rs. 37,650.00 Cr. | |
| 5479700022 (DTEA) | Rs. 29,310.00 Cr. | |

| Names of the Directors | Nature of the Business | |
|--|--|---|
| | Mr. Ajita de Zoysa, Chairman of the Bank is the Managing Trustee of Musaeus College and the said College obtained a financial facility of Rupees 137,000,000 and the outstanding as at 31.12.2011 is nil. He and his wife secured the said facility in the following manner; Fixed Deposit for Rs. 33,000,000 of his wife and Treasury Bills of the Chairman amounting to Rs.120,000,000 were offered as security. | |
| Mr. Alexis Indrajit Lovell | Account No. 4070700010 CURR 4070700036 SIA 4070711017 USD SAV 4070710010 FCBU CURR 4070711011 FCBU SAV 4070711010 FCBU SAV | Balance Rs.50,577.44Dr Rs.3,218.22Cr USD 40.33 USD 5,687.17Cr USD 396,994.42 GBP 0.00 |
| Mr. Ajith Wijeyesekera | Account No. Account No. 005485900012 (DTEA) 7073 (CD) 7081 (CD) | Balance Rs. 9,199.50 CR Rs. 3,004,047.00 Rs. 34,334,720.00 |
| Mr. Anil Suneetha Amarasuriya and related Entities | Savings A/C No.4944401019 and the balance as at 31/12/2011 in the said Account was Rs.479,018.18. His wife U M N Amarasuriya maintains Current Account No.5060300018 and the balance as at 31/12/2011 was 104.27. His daughter M. Amarasuriya maintains Savings A/C No. 4851001018 and Current A/C No.4851001018 and the balances as at 31/12/2011 were Rs.534,955.42 and 14,109.29 respectively. His son K T Amarasuriya maintains Savings A/C No.6494601013 and the balance as at 31/12/2011 in the said Account was 19,695/68. | |
| Dr. Harsha Cabral | Account No. 005201000014 (CURR) 005201001012 (SAV) 005201031019 (USD SAV) 005201005013-1 (FD 01) 005201005013-2 (FD 02) 005201015012 (USD FD) | Balance Rs. 6,675.66 Cr Rs.35,550. 96 USD 0.00 Rs. 518,450.40 Rs. 500,000.00 USD 10,455.00 |

Annual General Meetings

The Board takes the opportunity to address the issues of shareholders at the Annual General Meeting. The Financial Statements of the Bank is prepared according to the accepted Rules and accounting standards. The financial accounts were published and also circulated prior to the Annual General Meeting. A copy of the Notice of Meeting is attached to this Annual Report.

Compliance with Rules & Regulations Including Corporate Governance Practices

The Board of Directors acts in compliance with the statutory requirements and has continuously communicated with the regulatory and supervisory bodies. Compliance Report is tabled at the monthly Board meeting informing the status of compliance levels as per the statutory requirements.

The Board has delegated its business operations to the Key Management personnel led by the Chief Executive Officer and the business operations are monitored by the Board. The Board has formed several Sub Committees to guide the key management personnel in certain areas such as IT, Marketing and Strategic Planning of the Bank. The Committee members liaise with the Key Management personnel in their day to day activities whenever necessary to

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

ensure the safety and soundness of the Bank.

The Board of Directors have always taken decisions in accordance with the prevailing laws and regulations of the Country and specifically imposed by the regulatory bodies. The Bank is in the process of applying and incorporating the requirements of the provisions stated in Corporate Governance Direction No.11 of 2007 and Listing Rules issued by the Colombo Stock Exchange and Code of

Best Practice of Corporate Governance jointly issued by the Securities & Exchange Commission of Sri Lanka and Chartered Accountant of Sri Lanka (ICASL) in 2008.

The Board of Directors confirms that the factual findings of the Auditors issued under Sri Lanka related Services Practice statement 4750 is in lined with the Annual Corporate Governance Report, published in page 39-56. They further confirm that there are no financial, businesses, family,

or other material/relevant relationships between the Chairman, CEO and among Directors.

The Board Appointed Committees and the status of the Directors

| Name of the Committee | Name of the Directors | Independent Non Executive | Non Independent Non Executive |
|--|--|---------------------------|----------------------------------|
| Audit Committee* | <ul style="list-style-type: none"> Mr. Mohamed Aslam Omar (Chairman of the committee) Mr. Ananda Wijetilaka Atukorala Mr. Alexis Indrajit Lovell (Alternate – Ashan Suresh de Zoysa) | √ √ | √ |
| Integrated Risk Management Committee | <ul style="list-style-type: none"> Mr. Bodahandi Asoka Keerthi de Silva (Chairman of the committee) Dr. Liyanamohottige Joseph Sri Harsha Cabral PC HRH Prince Faisal Al Abdulla Al Faisal Al Saud (Alternate Director Mr. David Nigel Bartholomuesz) | √ √ | √ |
| Human Resource & Remuneration Committee* | <ul style="list-style-type: none"> Mr. Bodahandi Asoka Keerthi de Silva (Chairman of the Committee) Mr. Ananda Wijetilaka Atukorala Mr. Ajith Wijeyesekera Mr. Dishan Amrit Jitendrakumar Warnakulasuriya (Advisor/Non member) | √ √ | √ |
| Credit Committee | <ul style="list-style-type: none"> Mr. Ajita de Zoysa (Chairman of the Committee) Mr. Bodahandi Asoka Keerthi de Silva Mr. Ananda Wijetilaka Atukorala Mr. Ajith Wijeyesekera Mr. Anil Suneetha Amarasuriya (D/CEO) Mr. Edgar Gunatunge (Advisor/Non member) | √ √ | √ √ Executive Director |
| Nomination Committee | <ul style="list-style-type: none"> Dr. Liyanamohotti Joseph Sri Harsha Cabral (Chairman) Mr. Ajita de Zoysa Mr. Bodahandi Asoka Keerthi de Silva Mr. Ananda Wijetilaka Atukorala | √ √ √ | √ |
| Strategic Planning Committee | <ul style="list-style-type: none"> Mr. Bodahandi Asoka Keerthi de Silva Mr. Ananda Wijetilaka Atukorala Mr. Kin Leong Chong Mr. Anil Suneetha Amarasuriya | √ √ | √ Executive Director |

* Audit and Human Resource and Remuneration Committee were reconstituted to be in compliance with Corporate Governance Requirements.

Other Directorships Held by the Board

Set out below are the directorships held by the Directors in other Institutions as at 31st December 2011.

| Name of Director | Other Directorships Held |
|--------------------------------------|--|
| Mr. Ajita de Zoysa | <p>Chairman Associated Electrical Corporation Limited A D Z Insurance Stock Brokers (Pvt) Limited AEC Properties (Pvt) Ltd National Asset Management Limited (NAMAL) The Finance & Guarantee Company Limited</p> <p>Director Trelleborg Lanka (Pvt) Limited Trelleborg Tyres Lanka (Pvt) Limited Royal Palms Beach Hotels PLC</p> <p>President Commercial Agencies (Ceylon) Limited Ajita De Zoysa & Co. (Pvt) Limited</p> |
| Mr. Alexis Indrajit Lovell | <p>Director Associated Electrical Corporation Limited Teletowers FZ Ltd Teleserve FZ Ltd National Asset Management Limited The Finance & Guarantee Company Limited Access Engineering PLC CIMB (Pvt) Ltd</p> <p>Principal JI Capital Limited</p> |
| Mr. Bodahandi Asoka Keerthi de Silva | None |
| Mr. Anil Suneetha Amarasuriya | National Asset Management Limited |
| Mr. Ajith Wijeyesekera | <p>Chairman/Managing Director Union Apparels (Pvt) Limited Union Resorts (Pvt) Limited North Star Holdings (Pvt) Ltd Union Industrial Washing (Pvt) Limited Dilly's Fashions (Pvt) Limited The Finance & Guarantee Company Limited</p> |
| Mr. Ananda Wijetilaka Atukorala | <p>Director United Motors Lanka PLC Orient Financial Services Corporation Limited Platinum Reality Investment (Pvt) Limited Pragnya Tech Parks Lanka (Pvt) Limited Arni Holdings & Investments (Pvt) Limited Mega Containers Ltd Saphron Solutions (Pvt) Ltd. The Finance & Guarantee Company Ltd (Alternate Director)</p> |

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| Name of Director | Other Directorships Held |
|---|--|
| H R H Prince Faisal Al Abdullah Al Faisal Al Saud | <p>Chairman SAFOOD International Catering LLC Advanced Steel Works Company Al-Faisaliah Travel & Tourism Company Hajeej for Umrah and Transport Services TeleServe Gulf Towers</p> <p>Director Al Faisaliah Group, Riyadh</p> |
| Dr. Liyanamohottige Joseph Sri Harsha Cabral | <p>Director DIMO PLC Tokyo Cement PLC Fugi Lanka Cement (Pvt) Ltd Tokyo Super (Pvt) Ltd Richard Peiris Distributors (Pvt) Ltd</p> |
| Mr. Kin Leong Chong | <p>Director Genting Hotel & Resorts Management Sdn Bhd Genting Oil & Gas Sdn Bhd Phoenix Spectrum Sdn Bhd GB Services Berhad Prime Holdings (Labuan) Limited Dragasac Limited Edith Grove Limited Genting Intellectual Property Pte Ltd Vista Knowledge Pte Ltd DNA Electronics Limited GP Wind (Jangi) Private Limited Genting Power (India) Limited Sanyen Oil & Gas Pte Ltd Genting Oil Natuna Pte Ltd Genting Oil Salawati Pte Ltd Genting Oil Kasuri Pte Ltd Genting Power China Limited GP (Raigad) Pte Ltd Jana Pendidikan Malaysia Sdn Bhd- (Alternate Director to Mr. Tan Kong Han)</p> |

| Name of Director | Other Directorships Held |
|-------------------------|---|
| Mr. Gerard Ewe Keng Lim | Director Regional Corporation Sdn Bhd World Management Sdn Bhd Regional Land Sdn Bhd Woodvale Sdn Bhd Inforex Sdn Bhd Dataline Sdn Bhd Eco Vector Sdn Bhd Golden Hope Limited Kien Huat Realty Limited Kien Huat Realty II Limited Pandarus Limited Kirup Limited Kien Huat Realty III Limited Khrv Limited Great Advice Holdings Limited Adelon Limited Tileska Pty Ltd Ambadell Pty Ltd 3rd Valley International Resort Corporation Starlet Investments Pte. Ltd |
| Mr. Yiu Joe Toh | Director Prime Maker Holdings Limited Unique Spring Limited Genting Capital Asia Limited Genting Credit Limited Genting Securities Limited Genting Asset Management Limited Bliss Success Limited Silver Tactic Limited Supreme Rank Limited Vision Universe Limited National Asset Management Limited The Finance & Guarantee Company Limited |

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| Name of Director | Other Directorships Held |
|---|---|
| Mr. Mohamed Aslam Omar | Director Brandix Management Services (Private) Limited Brandix Mauritius Holdings Ltd – (formerly known as Fookwah Brandix Mauritius Ltd) Brandix International Limited – Hong Kong Brandix India Apparel City (Private) Limited Brandix Lanka Limited Brandix Textiles Limited Brandix Asia Limited Ceylease Financial Services (Private) Limited Leading Investment Holding Limited Kuriwita Textile Mills PLC Kirkson Development Ltd Pioneer Elastic (India) Private Limited Pioneer Elastic (Mauritius) Limited Phoenix Industries Limited Phoenix Ventures Limited T&S Buttons Lanka (Pvt) Ltd Textured Jersey Lanka (Pvt) Ltd |
| Mr. Ashan de Zoysa <i>(Alternate Director to Mr. Alexis Indrajit Lovell)</i> | Director Associated Electrical Corporation Ltd Commercial Agencies (Pvt) Ltd Ashan de Zoysa & Co. Ltd Union Assurance PLC Managing Director AEC Properties (Pvt) Ltd |
| Mr. David Nigel Bartholomeusz <i>(Alternate Director to H R H Prince Faisal Al Abdullah Al Faisal Al Saud)</i> | Director Associated Electrical Corporation Limited AEC Properties (Pvt) Limited |
| Ms. Lee Sian Goh <i>(Alternate Director to Mr. Gerard Ewe Keng Lim)</i> | Director DNA Electronics Limited (Alternate Director To Mr Tan Kong Han) Genting Capital Limited Genting Oil Morocco Limited Swallow Creek Limited Lestari Listrik Pte Ltd |

| Name of Director | Other Directorships Held |
|---|--|
| Mr. King Tak Blondel So <i>(Alternate Director to Mr. Yiu Joe Toh)</i> | Director Cruise Properties Limited Genting Philippines Holdings Limited Genting (Shanghai) Education Information Consulting Co., Limited Inter-Ocean Limited My Inn (Hangzhou) Hotel Co. Limited Select Gain Limited Star Cruise Management Limited Star Cruise Services Limited Star Cruises Asia Holding Ltd. Star NCLC Holdings Ltd. Superstar Virgo Limited Suzhou My Inn Hotel Co., Ltd. Suzhou Trip-X Information Technologies Co., Ltd. Treasure Island Entertainment Complex Limited |
| Ms. Sow Lin Chiew <i>(Alternate Director to Mr. Kin Leong Chong)</i> | Director 1. Genting Management and Consultancy Services Sdn Bhd 2. Genting Permata Sdn Bhd 3. Sri Highlands Express Sdn Bhd 4. Mastika Utilities and Services Sdn Bhd 5. Genting Risk Solutions Sdn Bhd 6. Genting International Industries (Singapore) Pte Ltd 7. Genting Bhd (Hong Kong) Limited 8. Resorts World Limited 9. Resorts World Bhd (Hong Kong) Limited 10. Genting Power Holdings Limited 11. Genting (Singapore) Pte Limited 12. Oxalis Limited 13. WEB Energy Limited 14. Genting Power International Limited 15. Awana Hotels & Resorts Management Sdn Bhd 16. GB Credit and Leasing Sdn Bhd (in members voluntary liquidation) 17. Genting Management (Singapore) Pte Limited 18. Vista Knowledge Pte Limited 19. Capax Trading Sdn Berhad |
| Mr. Priyantha Fernando | None |


Number of meetings held and attendance

| Name of Directors | Board Meetings | | Audit Committee Meetings | | Risk Management Committee | | Nomination Committee | | Human Resources & Remuneration | | Strategic Planning & Review | | Credit Committee | |
|--|----------------|------------|--------------------------|------------|---------------------------|------------|----------------------|------------|--------------------------------|------------|-----------------------------|------------|------------------|------------|
| | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance |
| Mr. Ajita de Zoysa (Chairman of the Board) | 12 | 11 | | | | | 03 | 03 | | | | | 02 | 02 |
| Mr. Alexis Indrajit Lovell Deputy Chairman or his alternate Mr. Ashan Suresh de Zoysa | 12 | 11 | 08 | 05 | | | | | | | | | | |
| Mr. B.Asoka Keerthi de Silva (Senior Director) | 12 | 11 | | | 04 | 04 | 03 | 03 | 12 | 12 | 03 | 03 | 02 | 02 |
| Mr. Ananda Wijetilaka Atukorala | 12 | 11 | 08 | 08 | | | 03 | 03 | 12 | 11 | 03 | 03 | 02 | 01 |
| Mr. Ajith Wijeyesekera | 12 | 10 | | | | | | | 12 | 09 | | | 02 | 02 |
| HRH Prince Faisal Al Abdulla Al Faisal Al Saud or his alternate Mr. David Nigel Bartholomeusz | 12 | 11 | | | 04 | 04 | | | | | | | | |
| Dr. L.Joseph Sri Harsha Cabral | 12 | 12 | | | 04 | 03 | 03 | 03 | | | | | | |
| Mr. Anil Suneetha Amarasuriya | 12 | 12 | | | 04 | 04 | 03 | 03 | 12 | 10 | 03 | 03 | 02 | 02 |
| Mr. Gerard Ewe Keng Lim or his alternate Ms. Lee Sian Goh | 12 | 08 | | | | | | | | | | | | |
| Mr. Kin Leong Chong or his alternate Ms. Sow Lin Chiew | 12 | 08 | | | | | | | | | 03 | 02 | | |
| Mr. Yiu Joe Toh or his alternate Mr. King Tak Blondel So | 12 | 05 | | | | | | | | | | | | |
| Mr. Mohamed Aslam Omar | 12 | 09 | 08 | 08 | | | | | | | | | | |
| Mr. Priyantha Damian Joseph Fernando | 03 | 03 | | | | | | | | | | | | |

For and on behalf of the Board of Directors,

Ajita de Zoysa
Chairman

Anil Amarasuriya
Director/Chief Executive Officer



Nirosha Kannangara
Company Secretary

Independent Auditor's Report on Financial Statements


ERNST & YOUNG

Chartered Accountants

 701 De Soysa Place
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 Sri Lanka

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APAG/BV/AIN/JJ

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNION BANK OF COLOMBO PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Union Bank of Colombo PLC ("Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise the balance sheets as at December 31, 2011 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2011 and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 December 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) and Sections 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.


 30 March 2012
 Colombo

Income Statement

| Year Ended 31 st December 2011 | Note | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|------|----------------------|---------------|---------------------|
| Income | 3 | 2,628,516,234 | 2,551,415,701 | 2,078,120,074 |
| Interest Income | 4 | 2,121,265,634 | 2,103,584,968 | 1,771,976,557 |
| Less: Interest Expenses | 5 | 1,118,944,004 | 1,106,816,608 | 997,841,287 |
| Net Interest Income | | 1,002,321,630 | 996,768,360 | 774,135,270 |
| Other Income | 6 | 507,250,600 | 447,830,733 | 306,143,517 |
| | | 1,509,572,230 | 1,444,599,093 | 1,080,278,787 |
| Less : Non Interest Expenses | | | | |
| Operating Expenses | | 336,482,274 | 317,585,940 | 247,798,769 |
| Personnel Expenses | | 371,233,651 | 333,749,492 | 252,531,371 |
| Premises, Equipment and Establishment Expenses | | 227,182,856 | 209,125,010 | 130,253,941 |
| Loan Losses and Provisions | | (3,542,761) | (44,863) | 30,191,221 |
| Provision for Fall In Value of Dealing Securities | | 45,455,340 | 45,455,340 | - |
| Provision for Staff Retirement Benefits | 28.2 | 10,091,210 | 8,857,467 | 6,661,756 |
| | | 986,902,572 | 914,728,386 | 667,437,058 |
| Results From Operating Activities | | 522,669,659 | 529,870,707 | 412,841,729 |
| Negative Goodwill | 8 | 2,207,254 | - | - |
| Profit Before Taxation | | 524,876,913 | 529,870,707 | 412,841,729 |
| Less : Value Added Tax On Financial Services | | 83,304,261 | 82,784,786 | 104,850,021 |
| Income Tax Expense | 9 | 142,625,169 | 138,691,438 | 158,194,702 |
| Profit After Taxation | | 298,947,483 | 308,394,483 | 149,797,006 |
| Attributable To | | | | |
| Equity Holders of The Bank | | 294,231,312 | 308,394,483 | 149,797,006 |
| Minority Interest | | 4,716,171 | - | - |
| Net Profit For The Year | | 298,947,483 | 308,394,483 | 149,797,006 |
| Basic Earnings Per Share (Rs.) | 10 | 0.85 | | |

The Accounting Policies and notes on pages 06 through 41 form an Integral Part of The Financial Statements

Balance Sheet

| As at 31 st December 2011 | Note | Group | | Bank |
|---|------|-----------------------|-----------------------|-----------------------|
| | | 2011 | 2011 | 2010 |
| ASSETS | | Rs. | Rs. | Rs. |
| Cash and Short Term Funds | 11 | 2,518,595,018 | 2,499,182,484 | 1,285,529,573 |
| Balances with Central Bank | 12 | 1,341,739,054 | 1,341,739,054 | 750,520,911 |
| Government Treasury Bills, Bonds and other Securities | 13 | 1,348,185,918 | 1,229,025,152 | 4,253,338,543 |
| Dealing Securities | 14 | 149,622,004 | 149,622,004 | 161,205,900 |
| Investment Securities | 15 | 2,288,830,174 | 2,257,241,492 | 2,220,464,027 |
| Bills of Exchange | 16 | 289,032,238 | 289,032,238 | 354,488,715 |
| Loans and Advances | 17 | 16,476,655,605 | 15,804,585,882 | 8,939,389,295 |
| Lease Receivables | 18.2 | 630,012,186 | 580,104,780 | 268,551,461 |
| Investment in Real Estate | 19 | 348,020,738 | - | - |
| Investment in Subsidiaries | 20 | - | 912,382,009 | - |
| Other Assets | 21 | 600,246,283 | 537,644,631 | 403,062,966 |
| Goodwill | 22 | 117,296,031 | - | - |
| Intangible Assets | 23 | 272,316,500 | 8,566,257 | 1,854,677 |
| Property, Plant and Equipment | 24 | 509,946,988 | 449,772,559 | 225,994,639 |
| TOTAL ASSETS | | 26,890,498,737 | 26,058,898,542 | 18,864,400,707 |
| LIABILITIES | | | | |
| Deposits | 25 | 19,598,885,195 | 19,345,366,918 | 13,193,558,524 |
| Borrowings | 26 | 630,275,060 | 504,962,943 | 401,126,524 |
| Deferred Taxation | 27 | 40,008,834 | 39,967,836 | 13,789,728 |
| Other Liabilities | 28 | 1,254,675,554 | 982,125,078 | 715,733,533 |
| TOTAL LIABILITIES | | 21,523,844,643 | 20,872,422,775 | 14,324,208,310 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT | | | | |
| Stated Capital | 29 | 4,979,791,113 | 4,979,791,113 | 4,573,820,996 |
| Pending Allotment | - | - | - | 30,970,117 |
| Statutory Reserve Fund | 30 | 37,651,701 | 37,651,701 | 22,231,977 |
| Investment Fund Reserve | 31 | 53,371,307 | 53,371,307 | - |
| Retained Earnings | | 101,498,476 | 115,661,645 | (86,830,693) |
| Shareholders Funds | | 5,172,312,597 | 5,186,475,766 | 4,540,192,397 |
| Minority interest | | 194,341,497 | - | - |
| TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS | | 26,890,498,737 | 26,058,898,541 | 18,864,400,707 |
| Commitments and Contingencies | 32 | 7,944,516,182 | 7,944,516,182 | 7,643,167,479 |
| Net Assets Per Share (Rs.) | | 14.81 | 14.85 | 13.62 |

These Financial Statements have been prepared in compliance with the Companies Act No 07 of 2007.



Kusal Perera
Assistance Vice President (Finance)



Malinda Samaratinga
Chief Financial Officer

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

Ajita de Zoysa
Chairman

Anil Amarasuriya
Director/CEO

Nirosha Kannagara
Secretary

Statement of Changes In Equity

Year ended 31st December 2011

| GROUP | Attributable to Equity Holders of the Bank | | | | | | Total |
|--|--|-------------------|------------------------|-------------------------|-------------------|-------------------|---------------|
| | Stated Capital | Pending Allotment | Statutory Reserve Fund | Investment Fund Reserve | Retained Earnings | Minority Interest | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | |
| Balance as at 1 January 2010 | 1,813,170,000 | - | 14,742,127 | - | (229,137,849) | - | 1,598,774,278 |
| Shares issued for cash | 2,760,650,996 | 30,970,117 | - | - | - | - | 2,791,621,113 |
| Allotments during the year | - | - | - | - | - | - | - |
| Net Profit for the year | - | - | - | - | 149,797,006 | - | 149,797,006 |
| Transfers during the year | - | - | 7,489,850 | - | (7,489,850) | - | - |
| Balance as at 31 December 2010 | 4,573,820,996 | 30,970,117 | 22,231,977 | - | (86,830,693) | - | 4,540,192,397 |
| Shares issued for cash | 375,000,000 | - | - | - | - | - | 375,000,000 |
| Allotments during the year | 30,970,117 | (30,970,117) | - | - | - | - | - |
| Share issue expenses | - | - | - | - | (37,111,112) | - | (37,111,112) |
| Addition to Minority through Acquisition of Subsidiaries | - | - | - | - | - | 188,594,031 | 188,594,031 |
| Addition to Minority through Disposal of Shares | - | - | - | - | - | 8,381,295 | 8,381,295 |
| Net Profit for the year | - | - | - | - | 294,231,312 | 4,716,171 | 298,947,483 |
| Dividends | - | - | - | - | - | (7,350,000) | (7,350,000) |
| Transfers during the year | - | - | 15,419,724 | 53,371,307 | (68,791,031) | - | - |
| Balance as at 31 December 2011 | 4,979,791,113 | - | 37,651,701 | 53,371,307 | 101,498,476 | 194,341,497 | 5,366,654,094 |

| BANK | Stated Capital | Pending Allotment | Statutory Reserve Fund | Investment Fund Reserve | Retained Earnings | Total |
|---------------------------------------|-------------------------------------|-------------------|------------------------|-------------------------|-------------------|---------------|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| | Balance as at 1 January 2010 | 1,813,170,000 | - | 14,742,127 | - | (229,137,849) |
| Shares issued for cash | 2,760,650,996 | 30,970,117 | - | - | - | 2,791,621,113 |
| Allotments during the year | - | - | - | - | - | - |
| Net Profit for the year | - | - | - | - | 149,797,006 | 149,797,006 |
| Transfers during the year | - | - | 7,489,850 | - | (7,489,850) | - |
| Balance as at 31 December 2010 | 4,573,820,996 | 30,970,117 | 22,231,977 | - | (86,830,693) | 4,540,192,397 |
| Shares issued for cash | 375,000,000 | - | - | - | - | 375,000,000 |
| Allotments during the year | 30,970,117 | (30,970,117) | - | - | - | - |
| Share issue expenses | - | - | - | - | (37,111,112) | (37,111,112) |
| Net Profit for the year | - | - | - | - | 308,394,483 | 308,394,483 |
| Transfers during the year | - | - | 15,419,724 | 53,371,307 | (68,791,031) | - |
| Balance as at 31 December 2011 | 4,979,791,113 | - | 37,651,701 | 53,371,307 | 115,661,646 | 5,186,475,766 |

The Accounting Policies and notes on pages 6 through 41 form an integral part of the Financial Statements

Cash Flow Statement

Year ended 31st December 2011

| | 2011 Group Rs. | 2011 Bank Rs. | 2010 Bank Rs. |
|--|------------------------|------------------------|------------------------|
| Cash Flow from Operating Activities | | | |
| Interest Received | 1,938,329,381 | 1,923,500,271 | 1,623,590,272 |
| Fees and Commission Receipts | 224,519,065 | 160,614,057 | 133,942,154 |
| Interest Paid | (973,219,754) | (941,908,892) | (1,079,607,435) |
| Net Foreign Exchange gain | 77,882,192 | 77,882,192 | 48,204,897 |
| Receipts from Other Operating Activities | 198,571,722 | 197,861,780 | 107,518,745 |
| Payments on Other Operating Activities | (927,915,980) | (865,072,407) | (685,820,753) |
| Operating Profit before changes in Operating Assets & Liabilities | 538,166,626 | 552,877,001 | 147,827,880 |
| (Increase)/Decrease in Operating Assets: | | | |
| Funds Advanced to Customers | (7,098,534,705) | (7,097,839,158) | (2,022,616,302) |
| Bills of Exchange | 65,456,477 | 65,456,477 | (23,754,067) |
| Other Operating Assets | (374,200,768) | (349,306,839) | (33,441,546) |
| | (7,407,278,996) | (7,381,689,520) | (2,079,811,915) |
| Increase /(Decrease) in Operating Liabilities: | | | |
| Deposits from Customers | 5,683,953,262 | 5,677,700,597 | 1,252,117,559 |
| Negotiable Certificates of Deposit | 474,107,796 | 474,107,796 | (22,554,642) |
| Securities sold under repurchase agreements | 46,227,940 | 46,227,940 | 62,218,432 |
| Other Operating Liabilities | 350,925,424 | 322,865,433 | 86,592,621 |
| | 6,555,214,422 | 6,520,901,765 | 1,378,373,971 |
| Net Cash from Operating Activities before Income Tax | (313,897,946) | (307,910,753) | (553,610,065) |
| Defined Benefit Plan Costs paid | (6,735,109) | (2,568,694) | (1,501,213) |
| Income Tax Paid | (125,540,168) | (108,062,576) | (24,443,886) |
| Net Cash inflow/(outflow) from Operating Activities | (446,173,223) | (418,542,023) | (579,555,164) |
| Cash Flow from Investing Activities | | | |
| Dividends Received | 3,933,531 | 9,566,572 | 1,960,116 |
| Acquisition of Non Dealing Securities including Subsidiaries | (403,206,453) | (996,899,802) | 262,052,884 |
| Acquisition of Property, Plant & Equipment | (317,408,545) | (308,904,582) | (76,114,725) |
| Acquisition of Dealing Securities | (33,871,447) | (33,871,447) | (123,786,537) |
| Proceeds from Sale of Property, Plant & Equipment | 4,559,107 | 2,148,393 | 102,668 |
| Net Cash inflow/(outflow) from Investing activities | (745,993,807) | (1,327,960,866) | 64,214,405 |
| Cash Flow from Financing Activities | | | |
| Proceeds From Issuance of Capital | 887,888,888 | 337,888,888 | 2,791,621,113 |
| Net increase/(decrease) in Other borrowings | 45,285,788 | 45,285,788 | 29,167,352 |
| Dividends Paid | (7,350,000) | - | - |
| Net Cash inflow/(outflow) from Financing activities | 925,824,676 | 383,174,676 | 2,820,788,466 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | (266,342,354) | (1,363,328,212) | 2,305,447,707 |
| Cash and Cash Equivalents at Beginning of the year | 4,667,048,616 | 5,604,125,604 | 3,298,677,897 |
| Cash and Cash Equivalents at end of the year | 4,400,706,262 | 4,240,797,391 | 5,604,125,604 |
| Reconciliation of Cash and Cash Equivalents | | | |
| Cash and Short Term Funds | 2,518,595,018 | 2,499,182,484 | 1,285,529,573 |
| Balances with Central Bank | 1,341,739,054 | 1,341,739,054 | 749,885,174 |
| Government of Sri Lanka Treasury Bills & Reverse Repurchase | 833,579,101 | 649,875,853 | 3,806,388,166 |
| Borrowings from Banks | (293,206,911) | (250,000,000) | (237,677,309) |
| | 4,400,706,262 | 4,240,797,391 | 5,604,125,604 |

The Accounting Policies and notes on pages 06 through 41 form an integral part of the Financial Statements

Notes to the Financial Statements

31st December 2011

1. Corporate Information

1.1 General

Union Bank of Colombo PLC (“Bank”) is a limited liability Company listed on the Colombo Stock Exchange, incorporated on 02 February 1995 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 7 of 2007. The registered office of the Bank is at No.64, Galle Road, Colombo-3. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange.

The Consolidated Financial Statements of the Bank for the year ended 31 December 2011 comprise the Bank (parent company) and its two subsidiaries National Assets Management Limited and The Finance & Guarantee Company Limited. (Together referred to as the “Group”)

National Asset Management Limited was incorporated on 28 September 1990 as a Limited Liability Company under the Companies Act No.17 of 1982. The company re-registered under Section 487 (2) of the Companies Act No. 07 of 2007 on 16th June 2009

The Finance & Guarantee Company Ltd is an unquoted public limited Company, incorporated and domiciled in Sri Lanka. The Company was incorporated in Sri Lanka on 12 July 1961 under the Companies Ordinance No.38 of 1938. The Company has registered with the Central Bank of Sri Lanka as a Finance Company under the Finance Companies’ Act No.78 of 1988

Union Bank of Colombo PLC does not have an identifiable parent of its own.

1.2 Principal Activities and Nature of Operations

Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, corporate and retail credit, pawning, project financing, lease financing, rural credit, internet banking, money remittance facilities, dealing in Government Securities and treasury related products and margin trading, etc.

Subsidiaries

The principal activities of the Bank’s Subsidiaries, namely, National Asset Management Limited and The Finance & Guarantee Company Ltd, are launching, operating and administrating unit trusts and accepting deposits from public, providing loans, land sales, leasing and hire purchase respectively.

1.3 Date of Authorization for Issue

The Financial Statements of Union Bank of Colombo Ltd. for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the Board of Directors on 30 March 2012.

1.4 Director’s Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its Subsidiaries as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards

Group Financial Statements include the following;

- Income Statement providing the information on the financial performance of the Group and the Bank for the year under review
- Balance Sheet providing the information on the financial position of the Group and the Bank as at the reporting date
- Statement of Changes in Equity showing all changes in shareholders’ funds during the year under review of the Group and the Bank

- Cash Flows Statement providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs to utilization of those cash flows
- Notes to the Financial Statements comprising significant Accounting Policies

2. Basis of Preparations

The balances reflected in the Financial Statements of the Group are measured under the historical cost convention, except Government Treasury Bills, Bonds which are categorized under the Trading Portfolio, Dealing Securities stated at market values. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. Where appropriate, the Significant Accounting Policies are disclosed in the succeeding Notes. No adjustments have been made for inflationary factors affecting the Financial Statements. These Financial Statements are prepared in Sri Lankan Rupees which is the Group's Functional Currency unless otherwise stated.

The preparation and presentation of these financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards laid down by The Institute of Chartered Accountants of Sri Lanka.

2.1.2 Going Concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations.

2.1.3 Comparative Information

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year except for changes in Note No 35 The specific policies used are explained below and relate to both the Consolidated Financial Statements and that of the Bank, except stated otherwise

2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards requires Management to make judgments, estimates and assumptions that affects the application of Accounting Policies and the reported amounts of assets, liabilities, income and expense.

As such, in the process of applying the group Accounting Policies, management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognized in the Financial Statements. Further, the management is required to consider, key assumptions concerning the future and other key sources of estimation of uncertainty at the Balance Sheet date that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements. The key items which involve these judgments, estimates and assumptions are discussed below:

2.2.1 Impairment Losses on Loans and Advances

In addition to the provisions made for possible losses on loans and advances based on the parameters in the Sri Lanka Accounting Standards and directives for specific and general provisions issued by the Central Bank of Sri Lanka, the Bank reviews loans and advances portfolio at each reporting date or more frequently, if events or changes in circumstances necessitate to assess whether a further provision for impairment against exposures which, although not specifically identified as requiring specific provisions have a greater risk of default than when originally granted.

The judgments by the management are required in the estimation of these amounts and such estimations are based on assumptions about a number of factors such as any deterioration of country risk, industry and technological obsolescence,

Notes to the Financial Statements

borrower's financial situation, strategies adopted, the net realizable value of any underlying collaterals as well as identified structural weaknesses and deterioration in cash flows.

2.2.2 Review of Impairment Losses on Other Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date or more frequently if events or changes in circumstances requires to do so. This requires the estimation of the 'value in use' of the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.3 Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.2.4 Defined Benefit Plans

Gratuity obligations is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

2.2.5 Provisions for Liabilities and Charges

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

2.2.6 Useful lives of Property, Plant & Equipment & Intangibles

The group reviews the assets' residual values, useful lives and methods of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods.

2.2.7 Profits on Lands Sold under Easy Payment Facility

Profit on lands sold under easy payment facility is recognized once the easy payment agreement is signed. In making their judgment, the Management considers the detailed criteria for the recognition of revenue from the sale of goods set out in SLAS 29 "Revenue" and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the lands sold under the easy payment facility. Following the detailed quantification of the Company's loan losses in respect of lands sold under easy payment, and the agreed limitation on the customer's ability to discontinue the loan facility, the Management is satisfied that the significant risks and rewards have been transferred and that recognition of the profit on lands sold under easy payment facility in the current year is appropriate.

2.3 Basis of Consolidation

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit and the Foreign Currency Banking Unit. The Group Financial Statements comprise consolidation of the Financial Statements of the Bank and its subsidiaries in terms of the Sri Lanka Accounting Standard No.26 (Revised 2005) on Consolidated and Separate Financial Statements.

The Consolidated Financial Statements incorporating all subsidiaries in the group are prepared to a common financial year ending December 31, using uniform Accounting Policies for like transactions and events in similar circumstances and are applied consistently.

2.3.1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the Consolidated Income Statement and within equity in the Consolidated Balance Sheet, separately from parent shareholders' equity.

2.3.2 Business Combinations and Goodwill

Business combinations are accounted for using the Purchase Method of Accounting as per the requirements of Sri Lanka Accounting Standard No.25 (Revised 2004) Business Combinations. This involves recognizing identifiable assets (including previously unrecognized intangibles) and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the Income Statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Sri Lanka Accounting Standard No.25 (Revised 2004) Business Combinations requires that following initial recognition goodwill to be measured at cost less any accumulated impairment losses and goodwill to be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If an impairment loss is identified, it is recognised immediately to the Income Statement. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets pro-rata to the carrying amount of each asset in the unit. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

When subsidiaries/ other business units are sold, the difference between the selling price and the net assets plus cumulative translation differences and unimpaired goodwill is recognized in the Income Statement.

2.3.3 Transactions Eliminated on Consolidation

All intra-group transactions and balances, income and expenses and any unrealized gains arising from such inter-group transactions and balances have been eliminated in full in preparing the Consolidated Financial Statements.

2.4 Valuation of Assets and their Measurement Basis

2.4.1 Foreign Currency Translation

The consolidated financial statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the middle exchange rate of the functional currency ruling at the Balance Sheet date. All differences are taken to Income Statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealized gains and losses are dealt with through the Income Statement.

Transactions of the Foreign Currency banking Unit have been recorded in accordance with the above paragraph, except for the application of the year end exchange rate for the Income Statement. Net gains and losses are dealt through the Income Statement.

2.4.2 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the Income Statement except to the extent it relates to items recognized directly in Equity, in which case it is recognized in Equity.

a) Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the period as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

b) Deferred Taxation

Deferred income tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred income tax liability arises from initial recognition of an asset or liability in a transaction and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary differences arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary can be utilized.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each Balance Sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted as at the Balance Sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in the Equity Statement and not in the Income Statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relates to the same taxable entity and the same taxation authority.

a) Value Added Tax on Financial Services

During the year, the Bank's total value addition was subjected to a 12% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No.14 of 2002 and amendments thereto. Further, 8% of the Profits calculated for the payment of Value Added Tax on Financial Services shall be transferred to Investment Fund Account as required by Central Bank of Sri Lanka.

b) Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from 1 April 2004. Currently, the ESC is payable at 1% on 'Liable Turnover' and is deductible from the quarterly income tax payments. Any unclaimed ESC, if any, can be carried forward and set off against the income tax payable in the five subsequent years.

2.4.2 Post Balance Sheet Events

All the material events after the Balance Sheet date have been considered and appropriate adjustments / disclosures have been made in Note No 38 to the Financial Statements, where necessary.

2.4.3 Cash and Short Term Funds (Cash and Cash Equivalents)

Cash and short term funds include cash in hand, balances with banks, placements with banks and loans at call and at short notice. They are brought to Financial Statements at the face value or the gross value, where appropriate. There were no cash and cash equivalent balances held by the Group companies that were not available for use by the Group.

2.4.4 Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 8% on all deposit liabilities denominated in Sri Lankan Rupees. (7% in 2010)

2.4.5 Government Treasury Bills, Bonds and Other Securities

a) Investments in Government Treasury Bills and Treasury Bonds held for Trading

These investments are initially recognized at prices that prevail at the date of acquisition and subsequently marked to market and carried at that market value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through in the Income Statement.

b) Investments in Government Treasury Bills and Bonds held to Maturity

Investments in Government Treasury Bills and Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon and carried at these values till their maturity in the Balance Sheet. Discount received/premium paid is taken to the Income Statement based on a straight line basis over the period of the instrument.

c) Securities Purchased under Resale Agreements

These are advances collateralized by purchase of Government Treasury Bills and Treasury Bonds, subject to an agreement to resell them at a predetermined price and the asset is recorded in respect of the consideration paid. The difference between the aforesaid predetermined price and the purchase price represents interest income and is recognized in the Income Statement evenly over the period of the repurchased agreement.

2.4.6 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are initially measured at cost and subsequently measured at the market value as at the Balance Sheet date. Adjustment for changes in market values is accounted for in the Income Statement.

Notes to the Financial Statements

2.4.7 Investment Securities

Investment securities are acquired and held for yield or capital growth in the medium to long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost and interest accrued up to the balance sheet date

Unquoted equity shares which are acquired with the positive intention to hold on a long-term basis are classified as Investment Securities. Such securities are recorded at cost. Provision is made for fall in value of investments only if they are expected to be other than temporary.

Long term bonds are recorded at cost plus a proportion of the discount based on the implicit rate of return of the bond over the period to maturity.

2.4.8 Investments in Subsidiaries

Investments in Subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on 'Consolidated and Separate Financial Statements.

2.4.9 Loans and Advances to Customers

Loans and advances to customers which include Bills of Exchange, Loans and Advances, Lease Receivable and Pawning Receivable are stated in the Balance Sheet net of provisions for possible loan losses and net of interest in suspense, which is not accrued to revenue.

a) Non-Performing Loans and Advances

Loans and advances which are in arrears of due capital and/or interest are classified as non-performing as per the Direction No. 3 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning" as amended by the Direction No. 9 of 2008 on "Amendments to Directions on Classification of Loans and Advances, Income Recognition and Provisioning for Licensed Commercial Banks in Sri Lanka" of the Central Bank of Sri Lanka. For this purpose, all credit facilities are classified as nonperforming on the following basis.

| Type of Facility | Point of Classification |
|--|---|
| Overdrafts | Outstanding balance in excess of the sanction limits continuously for a period of 90 days or more |
| Credit facilities repayable in monthly installments | Three consecutive installments, principal and/or interest have not been paid |
| Credit facilities repayable in quarterly /half yearly installments | Installment is not paid within 90 days of the due dates |
| Credit facilities repayable in one installment at the end of a specified period or on a due date (bullet payments) | Payment is not made within 90 days from the end of the agreed period or the due date |

b) Provision for Loan Losses

Provision for possible loan losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Directions issued by the Central Bank of Sri Lanka as detailed below.

| Categories of Non-performing Credit Facilities | Minimum Specific Provisioning Requirement |
|--|---|
| Substandard | 20% |
| Doubtful | 50% |
| Loss | 100% |

In addition, the value of security is further discounted on the 'Hair Cut Rule' imposed by the Central Bank of Sri Lanka, i.e., the extent up to which the Forced Sale Value (FSV) of immovable property that can be considered to arrive at the value of security in determining the provisioning for non-performing advances. However, in certain instances the Bank disregards the value of the security and makes provisions on a case-by-case basis.

When a loan is uncollectible it is written-off against the related provision for loan losses. Subsequent recoveries of loans are credited to the Income Statement against which such sums had been previously written-off.

General provision is reduced at the rate of 0.1% per quarter on the total of performing and special mention loans and advances portfolio net of interest in suspense and advances secured by cash deposits, gold or Government Securities with the Bank, over 5 quarters commencing from fourth quarter 2010, as per paragraph 6 (1) (l) of the Direction No. 03 of 2010, issued by the Central Bank of Sri Lanka.

Pawning Receivable

The Bank provides pawning facilities with maturity period of 12 months. Amounts receivable on pawning are included in Loans and Advances at the amounts expected to be recovered.

Provision for Pawning Receivable

A 100% specific provision is made on Pawning Receivable after discounting the value of the security, where no payment is received within three month from the contractual maturity date.

c) The Finance & Guarantee Company Limited

Provision for possible loan losses is made on the basis of a continuous review of all advances to customers in accordance with the finance companies (provision for bad and doubtful debts) Direction No.03 of 2006 issued by Central Bank of Sri Lanka accordingly specific provisions have been made as follows;

| | |
|--|------|
| All Advances in arrears for a period from 7 to 12 months | 50% |
| All Advances in arrears exceeding 12 months | 100% |

The Value of the following item held as collateral for a particular advance have been deducted in arriving the above provisions:

With regard to vehicles that have been repossessed, eighty percent (80%) of the valuation obtained during the preceding 6 months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. With regard to land and buildings, the full value, in case of a primary mortgage, such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

Balance receivable on Terminated Contracts for Lease, Hire Purchase Advances and Loans One hundred percent (100%) of proceeds receivables.

2.4.10 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards incidental to the ownership other than legal title are classified as finance leases in accordance with the Sri Lanka Accounting Standard No. 19 (Revised 2005) on 'Leases'.

Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery are classified as Lease Receivable in the Balance Sheet.

Specific provisions have been made in relation to possible losses on leases as stated in Note 2.4.10 (b) In addition, a general provision for possible losses on lease receivable is made as specified in Note 2.4.10 (b)

2.4.11 Real Estate

Land held for development and developed lands have been shown at cost, development expenditure and interest incurred during the development period on specific borrowings are added on to the cost of land.

Notes to the Financial Statements

2.4.12 Property, Plant and equipment

a) Basis of Recognition/Measurement

Property, Plant and Equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs as explained below. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the old items and restoring the site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Buildings are measured at cost less depreciation and less any impairment charged

b) Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

c) Derecognition

An item of Property, Plant and Equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the Income Statement in the year the asset is derecognized.

When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized as required by the Sri Lanka Accounting Standard No. 18 (Revised 2005) on Property, Plant and Equipment.

d) Depreciation is calculated on a straight-line basis over the useful life of the asset. The depreciation charges are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognized.

The estimated useful lives of the assets by equal annual installments are as follows.

| | |
|------------------------|--------------|
| Building | – 40 Years |
| Leasehold Improvements | – 5 Years |
| Computer and Equipment | – 6 Years |
| Furniture and Fittings | – 5- 8 Years |
| Motor Vehicles | – 4 Years |

The asset's residual value, useful life and method of depreciation are reviewed at each Balance Sheet date and adjusted prospectively, as changes in accounting estimates.

Bank changed the applicable depreciation rate of the Computers & equipment from 12.5% to 16.6% with effect from 1/1/2011. This change was made in order to reflect fairly the pattern in which the assets economic benefits are consumed by the Bank. Had the previous method of depreciation been used the current year's depreciation would be lower by Rs.18 Mn.

2.4.13 Intangibles

a) Basis of Recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the assets will flow to the entity and the cost of the assets can be measured reliably.

Intangible assets acquired separately are measured as initial recognition at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful life of intangible assets is assessed to be either finite or indefinite. Intangible assets with finite areas are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied these assets. All other expenditure is expensed when incurred.

b) Derecognition

Intangible assets are derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition of intangible assets are measured as difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Income Statement when the intangible assets are recognized.

c) Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

| Intangible | Amortization Period |
|--|---|
| Computer Software | Over 06 years from the month of Acquisition |
| Brand | Over 20 Years from the Month of Acquisition |
| Asset Management and Advisory Intangible | Over 15 Years from the Month of Acquisition |
| License and related Infrastructure | Over 20 Years from the Month of Acquisition |

2.4.14 Impairment of Assets

Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. Previously recognized impairment losses other than in respect of goodwill, are reversed only if there has been an increase in the recoverable amount of the asset. Such increase is recognized to the extent of the carrying amount had no impairment losses been recognized previously.

2.4.15 Deposits from Customers

Deposits from customers include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. They are stated in the Balance Sheet at amounts payable. Interest paid/payable on these deposits is charged to the Income Statement.

2.4.16 Borrowings

Borrowings include call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions and are shown at the gross value of the outstanding balance. Interest paid and payable on these borrowings are charged to the Income Statement.

Notes to the Financial Statements

2.4.17 Securities Sold under Repurchase Agreements

These are borrowings collateralized by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received. The difference between the sale and the purchase price represents interest expense, which is recognized in the Income Statement evenly over the period of the repurchased agreement.

2.4.18 Provisions

A provision is recognised in the Balance Sheet when Group/Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligations and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 36 on 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognized is the best estimate of the consideration required to settle the present obligation at the Balance Sheet date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

2.4.19 Retirement Benefits- Defined Benefit Plan- Gratuity

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary once in three (3) years using the Projected Unit Credit method (PUC) as required by Sri Lanka Accounting Standards No.16 Employee Benefits (Revised 2006).

For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used.

Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows:

| Parameter | 2011 | 2010 |
|-------------------------|------|------|
| Discount Rate | 10 % | 09 % |
| Rate of salary increase | 09 % | 10 % |

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service, and retirement on medical grounds, death before and after retirement, etc.

An actuarial valuation is carried out every three years to ascertain the full liability under the Fund. The last such valuation was carried out as at 31st December 2011 by M/s. Piyal S. Goonetilleke & Associates, a qualified actuary.

National Asset Management Company annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the Gratuity Formula in Appendix E in Sri Lanka Accounting Standard 16 (Revised 2006) - Employee Benefit

Recognition of Actuarial Gains and Losses

Actuarial gains or losses are recognised in the Income Statement in the period in which they arise.

Recognition of Past Service Cost

Past Service Costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the introduction of, or changes to the plan, past service costs are recognized immediately.

Funding Arrangements

The Gratuity liability is not externally funded.

2.4.20 Defined Contribution Plan - EPF and ETF

The Bank and employees contribute 12% and 10% of gross emoluments to an approved Private Provident Fund, respectively.

The Bank contributes 3% of gross emoluments of employees' to Employees Trust Fund.

2.4.21 Commitments and Contingencies

All discernible risks are taken into consideration in determining the amount of commitments and contingencies. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measurable. Contingent liabilities are not recognized in the Balance sheet but are disclosed unless its occurrence is remote

2.4.22 Interest Income on Loans and Advances**Union Bank of Colombo PLC**

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable is recognized on accrual basis. Interest ceases to be taken into revenue when the recovery of interest and/or principal is in arrears for three months or more. Interest receivable on advances classified as non-performing is accounted for on cash basis. Interest falling due on non-performing advances is credited to Interest in Suspense Account. In addition, interest accrued up to three months on such non-performing advances is also reversed from the interest income and transferred to interest in suspense.

The Finance & Guarantee Company Limited

Income recognition from loans and advances ceases when the account is overdue for six month or more, in compliance with Direction No.15 of 1991 (Accrued Interest) and thereafter recognized on a cash basis

2.4.23 Lease Income

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion to the declining receivable balance

Finance income in respect of lease rentals due ceases to be taken to revenue when the relevant lease facilities are classified as non-performing .Thereafter such income is recognized on cash basis.

2.4.24 Interest on Overdue Rentals

Interest from overdue rentals has been accounted for on a cash basis.

2.4.25 Income from Government Securities and Securities Purchased Under resale agreement

Discounts/Premiums on Treasury Bills and Treasury Bonds are amortized on a straight line basis over the period of the instrument. The coupon interest on Treasury Bonds is recognized on an accrual basis. The interest income on Securities Purchased under Resale Agreements is recognized in the Income Statement on an accrual basis over the period of the agreement.

2.4.26 Interest income on Investments in Debentures and Trust Certificates

Interest income on investments in Debentures and Trust Certificates is recognized on accrual basis.

2.4.27 Bill discounted

Income on bills discounted is recognized on cash basis

2.4.28 Dividend Income

Dividend income from shares is recognized when the Bank's right to receive the payment is established.

Notes to the Financial Statements

2.4.29 Income from Fee - based Activities

The Bank earns fees and commission income from a diverse range of services it provides to its customers. This includes fees and commission income arising on financial services provided by the Bank including Trade Finance, Travel, e-Banking etc are recognized on a cash basis in the period in which the income is received.

2.4.30 Land Sales Income

Gross Income of land sales represents the excess of sale value over the cost of land sold, Cost of land includes the purchase cost, development expenses, selling expenses and borrowing cost up to the completion of developments

2.4.31 Profit on Lands Sold under easy payment facility

Profit on lands is recognized once the easy payment agreement is signed.

2.4.32 Management Fees

Revenue from management fees is recognized in the income statement on accrual basis.

2.4.33 Front End Fees

Having regard to the timing and the nature of the related services to be provided to the Unit Holders and the associated costs as may be incurred in this connection the Company recognizes 50% of the front end fees received in the year of receiving such fees, with the balance deferred to the next two financial years equally.

2.4.34 Other Income

Other income is recognized on an accrual basis.

2.4.35 Gains or losses on Disposal of Property, Plant and Equipment, Dealing Securities, Investment Securities

Gains and losses resulting from the disposal of Property, Plant and Equipment, Dealing Securities and Investment Securities have been accounted for on cash basis in the Income Statement in the period in which the sale occurs

2.4.36 Interest on Deposits, Borrowings, Securities Sold under Repurchase Agreements and Other Expenses

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks', the interest on deposits and borrowings and other expenses payable are recognized on an accrual basis in the Income Statement. The interest expenses on securities sold under repurchase agreements are recognized in the Income Statement on an accrual basis over the period of the agreement.

2.4.37 Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

2.4.38 Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard No.9 on 'Cash Flow Statements', whereby gross cash receipts and gross cash payments on operating activities, investing activities and financing activities are recognized. Cash and Cash Equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

2.4.39 Off-Balance Sheet Transactions

The Banks enters into off balance sheet transactions such as forward exchange contracts and currency swaps. At the year-end, gains/losses on such transactions are dealt with through the Income Statement

2.4.40 Segmental Reporting

Segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard 28 on segment reporting, segmental information is presented in respect of the Group. The segment comprises Banking, Leasing, Pawning, Asset management and others are described in Note No 36.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

2.4.41 Earnings per Share

Basic Earnings per Share is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares outstanding during the period.

2.4.42 Sri Lanka Accounting Standards effective from 01 January 2012

The Bank will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Bank has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Bank has a 31 December year end, priority has been given to considering the preparation of an opening balance sheet in accordance with the new SLASs as at 01 January 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Bank prepares its first new SLAS compliant financial statements for the year ending 31 December 2012. Set out below are the key areas where accounting policies will change and may have an impact on the financial statements of the Bank. The Bank is in the process of quantifying the impact on the financial statements arising from such changes in accounting policies.

- (a) *SLFRS 1 – First Time Adoption of Sri Lanka Accounting Standards* requires the Bank to prepare and present opening new SLFRS financial statements at the date of transition to new SLAS. The Bank shall use the same accounting policies in its opening new SLAS financial statements and throughout all comparable periods presented in its first new SLAS financial statements.
- (b) *LKAS 1 – Presentation of Financial Statements* requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This standard also requires the Bank to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- (c) *LKAS 16 – Property Plant and Equipment* requires a Bank to initially measure an item of property plant and equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period, unless such interest is capitalized in accordance with LKAS 23 Borrowing Costs.

All site restoration costs including other environmental restoration and similar costs must be estimated and capitalized at initial recognition, in order that such costs can be depreciated over the useful life of the asset.

This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.

- (d) *LKAS 32 – Financial Instruments: Presentation, LKAS 39 – Financial Instruments: Recognition and Measurement and SLFRS 7 – Disclosures* will result in changes to the current method of recognizing financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at

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initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortized cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changes to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortized cost. At present, the Bank does not identify, categorize and measure financial assets and liabilities as per the requirements of the standard and also does not recognized certain derivative instruments on the balance sheet

- (e) *SLFRS 2 – Share Based Payments*, will require the Bank to reflect in its profit or loss and financial position the effects of share based payment transactions, including expenses associated with share options granted to employees. An entity is required to recognize share based payment transactions when goods are received or services obtained based on the fair value of goods or services or the fair value of equity instruments granted. Hence the Bank will be required to determine the fair value of options issued to employees as remuneration and recognize an expense in the statement of financial performance. This standard is not limited to options and extends to all forms of equity based remuneration and payments.
- (f) *SLFRS 3 – Business combinations* will require the Bank to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets(inputs) and activities(processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognizing and measuring in its financial statements the identifiable assets acquired and liabilities assumed the standard also requires recognition and measurement of any non-controlling interest in the acquire and re-measuring to fair value any previously held interests which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognized as profit/loss on disposal of investments in the statement of financial performance.
- (g) *LKAS 23 – Borrowing Cost*, the Bank must capitalize borrowing costs in relation to a qualifying asset. [if applicable] Since the current policy is to expense all borrowing costs, this will result in a change in accounting policy.
- (h) *LKAS 12 – Income Tax* requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- (i) *LKAS 18 – Revenue* requires the Bank to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Bank needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to Sri Lanka Accounting Standard 10, whereby the provision contained in paragraphs 30 and 31 of SLAS 10 – Accounting Policies, Changes in Accounting Estimates and Errors would not be applicable for financial statements prepared in respect of financial periods commencing before 1 January 2012 and hence the impact of this transition is not required to be disclosed in these financial statements.

| Year ended 31 st December 2011 | | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|--|--|----------------------|----------------------|----------------------|
| 3. Income | | | | |
| Interest Income (Note No 4) | | 2,121,265,634 | 2,103,584,968 | 1,771,976,557 |
| Other Income (Note No 6) | | 507,250,600 | 447,830,733 | 306,143,517 |
| | | <u>2,628,516,234</u> | <u>2,551,415,701</u> | <u>2,078,120,074</u> |
| 4. Interest Income | | | | |
| Customer Advances | | 1,698,393,488 | 1,689,345,004 | 1,329,224,020 |
| Treasury Bills, Bonds and Placement with other Banks | | 313,821,804 | 305,399,096 | 346,435,910 |
| Deep Discounted Bond (Serendib) | | 87,499,667 | 87,499,667 | 90,898,924 |
| Investment in Trust Certificates | | 21,550,675 | 21,341,201 | 5,417,703 |
| | | <u>2,121,265,634</u> | <u>2,103,584,968</u> | <u>1,771,976,557</u> |

“Notional Tax Credit on Secondary Market Transactions

The Inland Revenue Act No 10 of 2006 and the amendments thereto, provide that a company which derives interest income from the secondary market transactions on Government Securities (on or after 1 April 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income) provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Group and the Bank from the secondary market transactions in Government Securities for the year, has been grossed up in these Financial Statements and the resulting notional tax credit amounted to Rs.22.4 Mn. and Rs.21.4 Mn. respectively (2010-Rs.31.74 Mn).

| Year ended 31 st December 2011 | | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|--|----------------------|----------------------|---------------------|
| 5. Interest Expense | | | | |
| Customer Deposits | | 1,079,770,811 | 1,066,823,139 | 987,398,106 |
| Money Market Instruments and Borrowings under Refinancing Schemes | | 27,146,284 | 27,146,284 | 4,312,999 |
| Repurchase Agreements | | 8,035,261 | 8,035,261 | 5,231,643 |
| Other Interest Expenses | | 3,991,648 | 4,811,924 | 898,539 |
| | | <u>1,118,944,004</u> | <u>1,106,816,608</u> | <u>997,841,287</u> |
| 6. Other Income | | | | |
| Net Foreign Exchange Profit | | 77,882,192 | 77,882,192 | 48,204,897 |
| Dividend Income from Securities | | 3,933,531 | 9,566,572 | 1,960,116 |
| Fee and Commission Income | | 223,058,801 | 160,614,057 | 133,942,154 |
| Gain from Investment Securities | | 5,777,830 | 5,777,830 | 18,652,476 |
| Capital Gain on Sale of Shares | | 112,355,835 | 112,355,835 | 51,924,232 |
| Other Fees and Commission Income | | 84,242,411 | 81,634,247 | 51,459,642 |
| | | <u>507,250,600</u> | <u>447,830,733</u> | <u>306,143,517</u> |
| 7. Operating Expenses | | | | |
| Operating Expenses includes the following : | | | | |
| Depreciation and Amortization | | 90,286,978 | 78,172,821 | 48,488,741 |
| Donations | | 462,800 | 462,800 | 127,100 |
| EPF and ETF | | 35,110,205 | 31,714,042 | 23,776,973 |
| Audit Fees and Expenses | | 2,365,000 | 2,175,000 | 1,900,000 |

Notes to the Financial Statements

| Year ended 31 st December 2011 | | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|---|----------------------|--------------------|---------------------|
| 8. | Negative Goodwill | | | |
| | On Acquisition of The Finance & Guarantee Company Ltd | 2,207,254 | - | - |
| 9. | Income Tax Expense | | | |
| | The major components of income tax expense for the years ended 31 December are as follows : | | | |
| | Income Statement | | | |
| | Current Income Tax | | | |
| | Current Income Tax charge | 113,904,877 | 111,552,334 | 105,114,218 |
| | Under/(Over) Provision of current taxes in respect of prior years | (1,817,217) | (1,817,217) | 108,643 |
| | Deemed Dividends Tax | 2,778,213 | 2,778,213 | - |
| | Deferred Income Tax | | | |
| | Deferred Tax Charge/(Reversal) (Note No 27) | 27,759,296 | 26,178,108 | 52,971,841 |
| | Income tax expense reported in the Income Statement | 142,625,169 | 138,691,438 | 158,194,702 |
| 9.1 | Reconciliation of the Accounting Profit to Income Tax Expense | | | |
| | Profit Before Tax | 441,572,652 | 447,085,921 | 307,991,708 |
| | Add: Disallowable Expenses | 256,408,703 | 253,002,024 | 235,723,337 |
| | Less: Tax Deductible Expenses | (262,140,007) | (251,862,185) | (100,746,255) |
| | Statutory Income | 435,841,348 | 448,225,760 | 442,968,790 |
| | : Tax Profit on Leases | - | - | 12,243,546 |
| | : Tax Losses claimed | (49,824,567) | (49,824,567) | (159,324,318) |
| | Taxable Income | 386,016,781 | 398,401,193 | 295,888,018 |
| | Income Tax on Current Year Profit @28% (Bank) | 111,552,334 | 111,552,334 | 103,560,806 |
| | Social Responsibility Levy @ 1.5% (Bank) | - | - | 1,553,412 |
| | Under/(Over) Provision of current taxes in respect of prior years | (1,817,217) | (1,817,217) | 108,643 |
| | Income Tax on Current Year Profit (NAMAL) (Tax rate 2010/2011 @35%, 2011/2012 @10%) | 2,352,543 | - | - |
| | Deem Dividends Tax | 2,778,213 | 2,778,213 | - |
| | Deferred Tax Charge/(Reversal) (Note No 27) | 27,759,296 | 26,178,108 | 52,971,841 |
| | Income Tax Expense | 142,625,169 | 138,691,438 | 158,194,702 |
| | Effective Tax Rate (%) | 32% | 31% | 51% |

Income Tax on Profit has been computed at the rate of 28% on the Taxable Income arising from the Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) of the Bank. Income Tax on Profit of National Asset Management Limited has been computed at the rate of 35% and 10% during the taxable period 2010/2011 and 2011/2012 respectively.

10. Earnings Per Share

“Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank divided by the weighted average number of ordinary shares in issue during the year, as required by the Sri Lanka Accounting Standard No. 34 (Revised 2005) on ‘Earnings Per Share’. The weighted average number of ordinary shares outstanding during the year and the previous year were adjusted for the events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources, such as bonus issues.

The following table shows the earnings and number of shares used in the basic earnings per share calculation.

| Year ended 31 st December 2011 | | Group 2011 Rs. |
|--|--|----------------------|
| Amounts used as the numerator: | | |
| Net Profit attributable to equity holders of the parent | | 294,231,312 |
| Net Profit attributable to equity holders of the parent for basic earnings per share | | 294,231,312 |
| Number of Ordinary shares used as the denominator: | | |
| Weighted Average Number of Ordinary Shares | | 346,199,872 |
| Weighted Average Number of Ordinary Shares used for basic earnings per share | | 346,199,872 |
| Basic earnings per share (Rs.) | | 0.85 |

| Year ended 31 st December 2011 | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|----------------------|---------------|---------------------|
| 11. Cash and Short Term Funds | | | |
| Cash and Deposits with Banks | 565,244,568 | 545,832,034 | 421,298,375 |
| Money at Call and Short Notice | 1,953,350,450 | 1,953,350,450 | 864,231,198 |
| | 2,518,595,018 | 2,499,182,484 | 1,285,529,573 |
| 12. Balances with Central Bank | | | |
| Balances with Central Bank of Sri Lanka | 1,341,739,054 | 1,341,739,054 | 750,520,911 |

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31 December 2011, the minimum cash reserve requirement was 8.00% of the rupee deposit liabilities (7.00% in 2010). There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit in Sri Lanka.

| Year ended 31 st December 2011 | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|----------------------|---------------|---------------------|
| 13. Government Treasury Bills, Bonds And Other Securities | | | |
| 13.1 Government Treasury Bills and Treasury Bonds held for trading | | | |
| Government Treasury Bills and Bonds held for trading | 653,378,181 | 653,378,181 | 3,806,412,682 |
| Gain on mark to market valuation | (3,502,328) | (3,502,328) | (24,516) |
| Sub Total | 649,875,853 | 649,875,853 | 3,806,388,166 |
| 13.2 Government Treasury Bills and Treasury Bonds held to maturity | | | |
| Government Treasury Bills and Bonds held to maturity | 569,092,511 | 449,931,745 | 396,073,274 |
| Treasury Bonds Maturing after one year | 129,217,554 | 129,217,554 | 50,877,103 |
| | 698,310,065 | 579,149,299 | 446,950,377 |
| Total Government Treasury Bills, Treasury Bonds and Other Securities | 1,348,185,918 | 1,229,025,152 | 4,253,338,543 |

Notes to the Financial Statements

| | Group 2011 | | Bank 2011 | |
|--|-------------|--------------|-------------|--------------|
| | Cost | Market Value | Cost | Market Value |
| | Rs. | Rs. | Rs. | Rs. |
| 13.3 Details of Government Treasury Bills and Treasury Bonds held to Maturity | | | | |
| Treasury Bills | 318,187,609 | 328,561,360 | 199,026,843 | 198,768,156 |
| Treasury Bonds | 380,122,456 | 374,492,660 | 380,122,456 | 374,492,660 |
| | 698,310,065 | 703,054,020 | 579,149,299 | 573,260,816 |

| Year ended 31 st December 2011 | No. of Shares | 2011 | | Bank | | 2010 | Market Value |
|---|------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------|
| | | Cost | Market Value | No. of Shares | Cost | | |
| | | Rs. | Rs. | | Rs. | Rs. | Rs. |
| 14. Dealing Securities | | | | | | | |
| Quoted Investments | | | | | | | |
| Abans Electricals PLC | 1,500 | 359,921 | 285,150 | - | - | - | - |
| Aitken Spence Hotel Holdings PLC | 10,800 | 773,907 | 750,600 | - | - | - | - |
| Asian Hotels & Properties PLC | 72,800 | 4,999,996 | 5,561,920 | 36,400 | 4,999,996 | 6,916,000 | - |
| Bairaha Farms PLC | 5,500 | 1,363,951 | 1,156,650 | - | - | - | - |
| Central Finance Co PLC | 24,283 | 2,688,699 | 4,929,449 | 16,700 | 9,553,461 | 13,036,020 | - |
| Ceylon & Foreign Trade PLC | 55,000 | 567,994 | 517,000 | - | - | - | - |
| Ceylon Hotel Corporation | 3,600 | 113,024 | 99,720 | - | - | - | - |
| Chemical Industries (Cey) PLC | 35,000 | 3,513,913 | 2,695,000 | - | - | - | - |
| Colombo Dockyard PLC | 20,000 | 5,134,974 | 4,776,000 | - | - | - | - |
| Colombo Fort Land & Building | 75,000 | 5,159,587 | 3,675,000 | - | - | - | - |
| Dialog Telekom PLC | 1,177,000 | 12,891,472 | 9,180,600 | 1,177,000 | 12,891,472 | 13,888,600 | - |
| Diesel & Motor Engineers PLC | 2,000 | 2,653,940 | 2,604,200 | - | - | - | - |
| Distilleries Company of SL PLC | 4,800 | 794,918 | 706,080 | - | - | - | - |
| Expolanka Holdings PLC | 230,000 | 2,815,258 | 2,070,000 | - | - | - | - |
| First Capital PLC | 15,000 | 273,521 | 241,500 | - | - | - | - |
| Freelanka Capital Holdings | 79,400 | 397,000 | 246,140 | - | - | - | - |
| Hatton National Bank PLC-Non Voting | 100,000 | 12,949,115 | 8,320,000 | 51,200 | 10,224,537 | 10,880,000 | - |
| Hemas Holdings PLC | 25,000 | 976,740 | 825,000 | - | - | - | - |
| Hemas Power PLC | 7,000 | 225,237 | 186,900 | - | - | - | - |
| HNB Assurance PLC | 102,000 | 6,430,269 | 5,803,800 | 76,500 | 5,633,394 | 5,913,450 | - |
| Hotel Services (Ceylon) PLC | 1,000,000 | 27,117,874 | 20,300,000 | 1,000,000 | 27,117,874 | 25,600,000 | - |
| Hunters & Co. PLC | 1,200 | 897,349 | 708,000 | - | - | - | - |
| John Keells Holdings | 16,000 | 3,185,313 | 2,723,200 | - | - | - | - |
| John Keells Hotels PLC | 349,600 | 7,333,588 | 4,719,600 | 445,600 | 9,491,312 | 8,778,320 | - |
| Lanka Ventures PLC | 6,000 | 237,624 | 229,200 | - | - | - | - |
| Laugfs Gas PLC | 6,000 | 251,586 | 228,000 | - | - | - | - |
| Merchant Bank of Sri Lanka PLC | 6,000 | 222,472 | 237,600 | - | - | - | - |
| National Development Bank | 52,600 | 9,725,013 | 7,264,060 | 26,300 | 9,725,013 | 9,165,550 | - |
| Overseas Realty PLC | 90,000 | 1,329,191 | 1,260,000 | - | - | - | - |
| Piramal Glass PLC | 130,000 | 1,095,343 | 1,027,000 | - | - | - | - |
| Richard Pieris & Co PLC | 30,000 | 238,000 | 270,000 | 126,200 | 1,001,197 | 1,325,100 | - |
| Royal Ceramics Lanka PLC | 111,000 | 10,674,176 | 15,706,500 | 55,500 | 10,674,176 | 16,650,000 | - |
| Sampath Bank PLC | 44,829 | 11,755,191 | 8,741,655 | 36,000 | 9,764,138 | 9,684,000 | - |
| Sathosa Motors PLC | 1,700 | 581,515 | 442,000 | - | - | - | - |
| Seylan Bank PLC-Non Voting | 440,100 | 19,935,834 | 13,555,080 | 440,100 | 19,935,834 | 21,388,860 | - |
| Singer Finance (Lanka) PLC | - | - | - | 77,600 | 1,164,000 | 1,164,000 | - |
| Singer Sri Lanka | 2,800 | 329,341 | 371,560 | - | - | - | - |
| Softlogic Holdings PLC | 136,000 | 3,944,000 | 2,448,000 | - | - | - | - |
| Tokyo Cement (Lanka) PLC - Non Voting | 420,400 | 11,001,336 | 12,822,200 | 420,400 | 11,001,336 | 16,816,000 | - |
| United Motors Lanka PLC | 12,000 | 1,916,005 | 1,752,000 | - | - | - | - |
| Vallibel One PLC | 7,800 | 195,000 | 185,640 | - | - | - | - |
| Vanik Incorporation PLC | 51,375 | 1,755,277 | - | 51,375 | 1,755,277 | - | - |
| Sub Total | 4,961,088 | 178,804,464 | 149,622,004 | 4,036,875 | 144,933,017 | 161,205,900 | - |
| Provision for diminution in Value | - | (29,182,460) | - | - | 16,272,883 | - | - |
| Total | 4,961,088 | 149,622,004 | 149,622,004 | 4,036,875 | 161,205,900 | 161,205,900 | |

| Year ended 31 st December 2011 | | Group 2011 Rs. | Bank 2011 Rs. | Bank 2010 Rs. |
|---|--|----------------------|----------------------|----------------------|
| 15. Investments Securities | | | | |
| Quoted Investments | | | | |
| Shares (Note No 15.1.1) | | 1,253,715 | - | - |
| Unit trust (Note No 15.1.2) | | 25,087,929 | - | - |
| Unquoted Investments | | | | |
| Debentures (Note No.15.2.2) | | 2,140,000 | - | - |
| Other investments (Note No.15.2.1) | | 2,255,711,492 | 2,255,711,492 | 2,218,934,027 |
| Shares (Note No 15.2.3) | | 4,637,038 | 1,530,000 | 1,530,000 |
| | | 2,288,830,174 | 2,257,241,492 | 2,220,464,027 |

| Year ended 31 st December 2011 | Group 2011 | | 2011 | | Bank 2010 | |
|--|-------------------|-------------------|------|-----------------|--------------|-----------------|
| | Cost | Market Value | Cost | Market Value | Cost | Market Value |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| 15.1 Quoted Investments | | | | | | |
| 15.1.1 Shares | | | | | | |
| Seylan Merchant Leasing Co. Ltd (13,200@Rs 10) | 132,000 | 105,600 | - | - | - | - |
| Blue Diamond Jewellery Worldwide Ltd (1,040,657 @ Rs 2.50) | 2,606,570 | 1,092,000 | - | - | - | - |
| Sub Total | 2,738,570 | 1,253,716 | - | - | - | - |
| Provision for diminution in Value | (1,484,855) | - | - | - | - | - |
| Total | 1,253,715 | 1,253,716 | | | | |
| 15.1.2 Unit Trust | | | | | | |
| NAMAL Money Market Fund (28,208 Units) | 12,728,732 | 12,587,929 | - | - | - | - |
| NAMAL Gilt Edge Fund (1,222,129 Units) | 12,500,000 | 15,929,293 | - | - | - | - |
| Pyrimid Unit Trust (7,500 @Rs 10) | 75,000 | | | | | |
| Cey Bank Unit Trust (9,569@Rs 10.45) | 100,000 | | | | | |
| Sub Total | 25,403,732 | 28,517,222 | - | - | - | - |
| Provision for diminution in Value | (315,803) | - | - | - | - | - |
| Total | 25,087,929 | 28,517,222 | | | | |

Notes to the Financial Statements

| Year ended 31 st December 2011 | Group 2011 | | 2011 | | Bank 2010 | |
|---|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|
| | Cost | Director's Valuation | Cost | Director's Valuation | Cost | Director's Valuation |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| 15.2 Unquoted Investments | | | | | | |
| 15.2.1 Other Investments | | | | | | |
| Deep Discounted Bond | | | | | | |
| - Serendib Capital (Pvt) Ltd (Note No15.2.1.1) | 2,195,923,404 | 2,195,923,404 | 2,195,923,404 | 2,195,923,404 | 2,111,464,811 | 2,111,464,811 |
| People Leasing Trust Certificates | 59,788,088 | 59,788,088 | 59,788,088 | 59,788,088 | 107,469,216 | 107,469,216 |
| Carrying Value as at 31/12/2011 | 2,255,711,492 | 2,255,711,492 | 2,255,711,492 | 2,255,711,492 | 2,218,934,028 | 2,218,934,027 |

15.2.1.1 The unquoted Investments are carried at Directors valuation. The Directors valuation is at cost which is consistent with that of the preceding year.

The Bank purchased a Deep Discounted Bond guaranteed by a commercial bank from Serendib Capital (Pvt) Ltd on 1st August 2003. The purchase cost was Rs 1,578 Mn settled by transferring part of the Bank portfolio at its book value of Rs 978 Mn and balance in cash. The face value of the Bond amounts to Rs 3,458 Mn and will mature on 1 August 2023. The Bank intends to hold this bond till its maturity and is recorded at cost plus a proportion of the discount over the period to maturity based on its implicit rate of return of 4%.

| Year ended 31 st December 2011 | Group 2011 | | 2011 | | Bank 2010 | |
|--|---------------|-----------------|-----------|-----------------|--------------|-----------------|
| | Cost | Market Value | Cost | Market Value | Cost | Market Value |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| 15.2.2 Debentures | | | | | | |
| Ceylinco Sec. & Fin. Services Co Ltd (2,000@Rs100) | 200,000 | 200,000 | - | - | - | - |
| Ceylinco Institute of Mgt Ltd (2,000 @Rs 100) | 200,000 | - | - | - | - | - |
| Seylan Merchant Leasing Ltd (300 @ Rs 100) | 30,000 | 30,000 | - | - | - | - |
| Seylan Bank Ltd (16,600 @Rs 1000) | 1,660,000 | 1,660,000 | - | - | - | - |
| Seylan Bank Ltd 2007/ 2012 (2,500 @ Rs 100) | 250,000 | 250,000 | - | - | - | - |
| Vanik Incorporation Ltd Debentures (50,000@ Rs 100) | 500,000 | - | 500,000 | 500,000 | 500,000 | 500,000 |
| Sub Total | 2,840,000 | 2,140,000 | - | - | - | - |
| Provision for diminution in Value | (700,000) | - | (500,000) | (500,000) | (500,000) | (500,000) |
| Total | 2,140,000 | 2,140,000 | - | - | - | - |

| Year ended 31 st December 2011 | Group 2011 | | 2011 | | Bank 2010 | |
|---|-------------------|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|
| | Cost Rs. | Director's Valuation Rs. | Cost Rs. | Director's Valuation Rs. | Cost Rs. | Director's Valuation Rs. |
| 15.2.3 Unquoted Investments (Contd). | | | | | | |
| Samson Reclaim Rubbers Limited (100,000@ Rs 25) | 2,500,000 | 3,094,000 | - | - | - | - |
| Lanka Financial Service Bureau Limited (10,000 @ Rs 100) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Lanka Clear (Private) Limited (5,000 @ Rs 100) | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Credit Information Bureau (309 @ Rs 100) | 30,900 | 30,900 | 30,000 | 30,000 | 30,000 | 30,000 |
| Finance House Consotium (Pvt) Ltd (20,000@ Rs 10) | 200,000 | 200,000 | - | - | - | - |
| San Michel Ltd (50@ Rs 100) | 5,000 | - | - | - | - | - |
| Golden Key Credit Card Co Ltd (10,000 @ Rs 10) | 100,000 | - | - | - | - | - |
| Ceylinco Venture Capital Ltd (48,000 @ Rs 10) | 480,000 | - | - | - | - | - |
| International Consultancy & Corp. Services (Pvt) Ltd 0.1 Mn @Rs 10) | 1,000,000 | - | - | - | - | - |
| Ceyenergy Electronic Co. (Pvt) Ltd (30,000 @ Rs 10) | 300,000 | - | - | - | - | - |
| F & G Real Estate Co. Ltd (18,000 @ Rs 10) | 180,000 | - | - | - | - | - |
| International College of Business Technology Ltd (10,000 @ Rs 10) | 100,000 | - | - | - | - | - |
| Ceylinco Tax & Financial Consultants (50,000 @ Rs 10) | 500,000 | - | - | - | - | - |
| Ceylinco Islamic Corporation Ltd (10,000 @ Rs 10) | 100,000 | - | - | - | - | - |
| Ceylinco Netassist (Pvt) Ltd (12,500 @ Rs 10) | 125,000 | - | - | - | - | - |
| Ceylinco Niranjana Invention (Pvt) Ltd (9,500 @ Rs 10) | 95,000 | - | - | - | - | - |
| Ceylinco CISCO Ranaviru Services (Pvt) Ltd (50,000 @ Rs 10) | 500,000 | - | - | - | - | - |
| IC & CS Software Solutions (Pvt) Ltd (12,500 @ Rs 10) | 125,000 | - | - | - | - | - |
| Ceylinco Foliage Exports (Pvt) Ltd (25,000 @ Rs 10) | 250,000 | - | - | - | - | - |
| Ceylinco Aruna Accessories Ltd (25,000 @ Rs 10) | 250,000 | - | - | - | - | - |
| Ceylinco Venture Capital Ltd (25,000 @ 10) | 250,000 | - | - | - | - | - |
| Ceylinco Coloured Stones (Pvt) Ltd (60,000 @ Rs 10) | 600,000 | - | - | - | - | - |
| Ceylinco Investment & Reality Ltd (630,000 Mn @ Rs 10) | 6,300,000 | - | - | - | - | - |
| Fingara International Cricket Academy (879,906 @ Rs10) | 8,799,060 | - | - | - | - | - |
| Ceylinco International Trading Co. (10,000 @ Rs 10) | 250,000 | - | - | - | - | - |
| Ceylinco Grameen Credit Co. Ltd (25,000 @ Rs 10) | 250,000 | - | - | - | - | - |
| Seraka Investment Ltd (70,000 @ Rs 10) | 700,000 | - | - | - | - | - |
| Ceylinco Capital Ltd (12,500 @ Rs 10) | 125,000 | - | - | - | - | - |
| TFC Homes (Pvt) Ltd (200,000 Mn @ Rs 10) | 2,000,000 | - | - | - | - | - |
| Cey. Seylan Housing & Commercial Properties (48,540 @Rs 10) | 485,400 | - | - | - | - | - |
| Ceylinco Packaging Ltd (1,666,667 @ Rs 10) | 1,666,667 | - | - | - | - | - |
| F & G Realtors Share Capital Co. (34,000 @ Rs 10) | 340,000 | - | - | - | - | - |
| Fingara International Cricket Academy (25,000 @ Rs 10) | 2,500,000 | - | - | - | - | - |
| Sub Total | 32,607,027 | 4,824,900 | 1,530,000 | 1,530,000 | 1,530,000 | 1,530,000 |
| Provision for diminution in value | (27,969,989) | - | - | - | - | - |
| Total | 4,637,038 | 4,824,900 | 1,530,000 | 1,530,000 | 1,530,000 | 1,530,000 |

Notes to the Financial Statements

| Year ended 31 st December 2011 | Group 2011 Rs. | Bank 2011 Rs. | Bank 2010 Rs. |
|--|-----------------------|-----------------------|----------------------|
| 16. Bills of Exchange | | | |
| Export Bills | 149,074,803 | 149,074,803 | 286,715,711 |
| Import Bills | 90,642,343 | 90,642,343 | 46,743,806 |
| Cheques Purchased | 49,315,092 | 49,315,092 | 21,029,198 |
| Total | 289,032,238 | 289,032,238 | 354,488,715 |
| 17. Loans and Advances | | | |
| Overdrafts | 5,523,013,838 | 5,523,013,838 | 3,656,993,651 |
| Import and Export Loans | 2,613,283,198 | 2,613,283,198 | 1,879,793,727 |
| Staff Loans | 199,391,135 | 189,940,924 | 156,765,330 |
| Term Loans | 6,772,668,205 | 6,005,191,786 | 2,726,226,315 |
| Pawning | 1,515,656,132 | 1,515,425,710 | 682,217,078 |
| Other Advances | 307,997,247 | 179,702,947 | 120,935,129 |
| Easy Payments Receivables | 524,704,377 | - | - |
| Interest Receivable | 256,710,066 | 255,747,136 | 176,881,251 |
| | 17,713,424,198 | 16,282,305,539 | 9,399,812,481 |
| Less: Loan Loss Provision (Specific) (Note No 17.1) | (713,860,196) | (178,958,133) | (181,196,029) |
| Loan Loss Provision (General) | (72,195,850) | (72,195,850) | (68,167,578) |
| Interest in Suspense (Note No 17.1) | (450,712,547) | (226,565,674) | (211,059,579) |
| | 16,476,655,605 | 15,804,585,882 | 8,939,389,295 |

| | Group Provision against Specific Advances Rs. | Group Interest in Suspense Rs. | Bank Provision against Specific Advances Rs. | Bank Interest in Suspense Rs. |
|---|---|--|--|---|
| 17.1 Movement in the Provisions for Loan Loss and Interest in Suspense | | | | |
| As at 01.01.2011 | 181,196,029 | 211,059,579 | 181,196,029 | 211,059,579 |
| Addition through Acquisition | 538,399,961 | 213,203,204 | - | - |
| Provision for the year | 16,153,574 | 93,626,025 | 15,404,516 | 70,836,333 |
| Provision Reversal | (21,703,679) | (48,303,174) | (17,456,723) | (36,457,151) |
| Write-offs | (3,509,571) | (19,552,174) | (3,509,571) | (19,552,174) |
| Translation Difference on FCBU Conversion | 3,323,882 | 679,087 | 3,323,882 | 679,087 |
| As at 31.12.2011 | 713,860,196 | 450,712,547 | 178,958,133 | 226,565,674 |

| Year ended 31 st December 2011 | | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|---|-----------------------|-----------------------|----------------------|
| 17.2 | Non Performing Assets included in the Loans and Advances on which interest is not recognised are as follows | | | |
| | Loans and Advances | 2,205,288,418 | 892,840,645 | 974,795,155 |
| | Less: Loan Loss Provision | (713,860,196) | (178,958,133) | (181,196,029) |
| | Interest in Suspense | (450,712,547) | (226,565,674) | (211,059,579) |
| | Net Exposure | 1,040,715,675 | 487,316,838 | 582,539,547 |
| 17.3 | Non Performing Assets included in the Leases on which interest is not recognised are as follows | | | |
| | Leases | 176,666,633 | 25,793,443 | 37,452,235 |
| | Less: Loan Loss Provision | (126,595,421) | (4,999,145) | (7,579,521) |
| | Interest in Suspense | (25,826,899) | (3,033,660) | (4,675,210) |
| | Net Exposure | 24,244,313 | 17,760,638 | 25,197,504 |
| 17.4 | Concentration of Credit Risk | | | |
| | Sector wise analysis of Group's and bank's credit portfolio given below reflects the exposure to credit risk in the various sectors of the economy. | | | |
| | Agriculture, Agro business and Fisheries | 1,753,638,457 | 1,753,638,457 | 1,158,693,420 |
| | Manufacturing | 3,380,044,347 | 3,380,044,347 | 2,114,289,294 |
| | Tourism | 123,742,280 | 123,742,280 | 55,666,950 |
| | Transport | 344,574,685 | 150,277,808 | 138,337,778 |
| | Construction | 2,617,709,201 | 1,618,449,610 | 890,112,028 |
| | Traders | 3,051,358,392 | 2,973,640,585 | 1,823,907,558 |
| | New Economy | 453,982,377 | 453,982,377 | 328,597,011 |
| | Financial & Business Services | 1,538,730,269 | 1,538,730,269 | 337,085,113 |
| | Infrastructure | 395,597,153 | 395,597,153 | 365,169,900 |
| | Other Services | 1,094,734,540 | 1,067,174,813 | 732,757,065 |
| | Other Customers Including Pawning | 3,777,024,645 | 3,451,405,993 | 1,915,850,243 |
| | Total Loans and Advances | 18,531,136,346 | 16,906,683,692 | 9,860,466,359 |
| 18. | Lease Receivables | | | |
| 18.1 | Lease Rentals Receivable within one year | | | |
| | Total lease rentals receivable within one year | 444,258,583 | 263,686,335 | 192,113,167 |
| | Unearned Lease Income | (85,920,898) | (70,827,720) | (33,677,956) |
| | Interest in Suspense (Note No 17.3) | (25,826,899) | (3,033,660) | (4,675,210) |
| | Specific Loan Loss Provision (Note No17.3) | (118,155,941) | (4,999,145) | (7,579,521) |
| | General Provision | (964,293) | (964,293) | (1,211,747) |
| | Sub Total | 213,390,552 | 183,861,517 | 144,968,733 |

Notes to the Financial Statements

| Year ended 31 st December 2011 | | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|--|----------------------|--------------------|---------------------|
| 18.2 | Lease Rentals Receivable after one year but before five years | | | |
| | Total lease rentals receivable from one to five years | 514,544,077 | 470,593,203 | 142,995,645 |
| | Unearned lease income | (87,491,791) | (72,358,768) | (18,384,442) |
| | Specific Loan Loss Provision (Note No 17.3) | (8,439,480) | - | - |
| | General Provision | (1,991,172) | (1,991,172) | (1,028,475) |
| | Sub Total | 416,621,634 | 396,243,263 | 123,582,728 |
| | Total Net Lease Receivable | 630,012,186 | 580,104,780 | 268,551,461 |
| 19. | Investment In Real Estate | | | |
| | Housing Stocks | 19,727,732 | - | - |
| | Land Stock | 183,313,002 | - | - |
| | Joint Venture Stocks | 144,980,004 | - | - |
| | | 348,020,738 | - | - |

| | Holding (%) | Group 2011 | | Bank 2010 | |
|--|----------------|----------------|--------------------------------|--------------------|--------------------------------|
| | | Balance Rs. | Director's Valuation Rs. | Balance Rs. | Director's Valuation Rs. |
| 20. Investments in Subsidiaries | | | | | |
| Unquoted: | | | | | |
| National Asset Management Limited (Incorporated in Sri Lanka) (5.1 Mn Ordinary Shares) (Date of Acquisition- 01.03.2011) | 51.00 | - | - | 331,500,000 | 331,500,000 (@ Rs.65.00) |
| The Finance and Guarantee Company Limited (Incorporated in Sri Lanka) (1.2Bn Ordinary Shares) (Date of Acquisition - 01.11.2011) | 68.82 | - | - | 580,882,009 | 580,882,009 (@ Rs.0.50) |
| Total | - | - | - | 912,382,009 | 912,382,009 |

| Year ended 31 st December 2011 | | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|--|--|----------------------|--------------|---------------------|
| 21. Other Assets | | | | |
| Deposits and Prepayments | | 184,663,760 | 173,146,709 | 85,570,913 |
| Interest Receivable | | 27,547,293 | 27,547,294 | 35,270,871 |
| Others | | 627,677,505 | 426,564,427 | 371,834,981 |
| Less: Provision for Bad and Doubtful Debts | | (239,642,275) | (89,613,799) | (89,613,799) |
| | | 600,246,283 | 537,644,631 | 403,062,966 |

| Year ended 31 st December 2011 | | Group 2011 Rs. | Rs. | Bank 2010 Rs. |
|---|--|----------------------|-----|---------------------|
| 22. Goodwill | | | | |
| Goodwill on acquisitions of National Asset Management Limited | | 117,296,031 | - | - |

22.1 Goodwill on the acquisition has arisen upon the acquisition of National Asset Management Limited. There has been no impairment of goodwill as the recoverable amount is higher than the carrying amount as at the balance sheet date. Method used in estimating recoverable amount is based on the valuation of the calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the cash generating unit. In determining the cash generating unit for the purpose of value in use calculation, National Asset Management Limited as a whole has been considered as the cash generating unit. Key Assumptions are as Follows

Business growth - Based on historical growth rate

Discount rate - Average market borrowing rate adjusted for risk premium

| | Computer Software Rs. | Brand Value Rs. | Asset Management and Advisory Intangible Rs. | Lisenses and related Infrastructure Rs. | Total Rs. |
|--------------------------------|-----------------------------|-----------------------|--|--|--------------|
| 23. Intangibles | | | | | |
| 23.1 Group | | | | | |
| Cost | | | | | |
| Balance as at 01.01.2011 | 4,282,991 | - | - | - | 4,282,991 |
| Additions through Acquisitions | 18,601,476 | 10,168,890 | 118,947,300 | 146,116,408 | 293,834,074 |
| Acquired during the year | 7,973,298 | - | - | - | 7,973,298 |
| Balance as at 31.12.2011 | 30,857,765 | 10,168,890 | 118,947,300 | 146,116,408 | 306,090,363 |
| Amortisation | | | | | |
| Balance as at 01.01.2011 | 2,428,314 | - | - | - | 2,428,314 |
| Additions through Acquisitions | 17,558,422 | - | - | - | 17,558,422 |
| Amortisation for the year | 875,888 | 423,704 | 6,608,183 | 1,217,637 | 9,125,412 |
| Balance as at 31.12.2011 | 20,862,624 | 423,704 | 6,608,183 | 1,217,637 | 29,112,148 |
| Disposals of holding | | | | 4,661,715 | 4,661,715 |
| Net book Value | | | | | |
| As at 31.12.2011 | 9,995,141 | 9,745,186 | 112,339,117 | 140,237,056 | 272,316,500 |
| As at 31.12.2010 | 1,854,677 | - | - | - | 1,854,677 |

Notes to the Financial Statements

23.1.1 In compliance with SLAS 25-Business Combinations, upon acquiring a Controlling stake in National Asset Management Limited & The Finance & Guarantee Company Limited, the group has recognized Brand Value, Asset Management & Advisory Intangibles and Licenses & related Infrastructure as intangible assets. Further intangibles recognized at the acquisition date will be amortized over the estimated useful life as more fully described in 2.4.13.

| | Computer Software | Brand Value | Asset Management and Advisory Intangible | Licenses and related Infrastructure | Total |
|---------------------------------|----------------------|----------------|---|---|-------------------|
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| 23.2 Bank | | | | | |
| Cost | | | | | |
| Balance as at 01.01.2011 | 4,282,991 | - | - | - | 4,282,991 |
| Acquired during the year | 7,024,854 | - | - | - | 7,024,854 |
| Balance as at 31.12.2011 | 11,307,845 | - | - | - | 11,307,845 |
| Amortisation | | | | | |
| Balance as at 01.01.2011 | 2,428,314 | - | - | - | 2,428,314 |
| Amortisation for the year | 313,274 | - | - | - | 313,274 |
| Balance as at 31.12.2011 | 2,741,588 | - | - | - | 2,741,588 |
| Net book Value | | | | | |
| As at 31.12.2011 | 8,566,257 | - | - | - | 8,566,257 |
| As at 31.12.2010 | 1,854,677 | - | - | - | 1,854,677 |

23.2.1 During the year the Bank acquired Intangibles to the aggregate value of Rs.7.024 Mn (2010 -Nil) .Cash payments amounting to Rs.7.024 Mn (2010 -Nil) were made during the year for the purchase of Intangibles.

Year ended 31st December 2011

| | Properties and Improvements Rs. | Computers and Equipments Rs. | Furniture and Fittings Rs. | Motor Vehicles Rs. | Work In Progress Rs. | Total Rs. |
|--|--|---------------------------------------|-------------------------------------|--------------------------|----------------------------|--------------|
| 24. Property, Plant and Equipment | | | | | | |
| 24.1 Group | | | | | | |
| Cost/Valuation | | | | | | |
| Balance as at 01.01.2011 | 75,924,136 | 354,195,682 | 97,307,821 | 26,794,260 | 3,224,716 | 557,446,615 |
| Additions through Acquisitions | 36,190,215 | 36,013,674 | 18,272,814 | 12,277,779 | - | 102,754,482 |
| Additions | 193,880,003 | 70,479,402 | 33,803,901 | 11,207,920 | - | 309,371,226 |
| Disposals | - | (312,360) | - | (4,615,000) | - | (4,927,360) |
| Transfers | 3,224,716 | - | - | - | (3,224,716) | - |
| Balance as at 31.12.2011 | 309,219,070 | 460,376,398 | 149,384,536 | 45,664,959 | - | 964,644,963 |
| Accumulated Depreciation | | | | | | |
| Balance as at 01.01.2011 | 41,327,602 | 213,170,220 | 62,033,822 | 14,920,332 | - | 331,451,976 |
| Additions through Acquisitions | 3,163,864 | 30,261,208 | 6,511,797 | 7,755,473 | - | 47,692,342 |
| Charge for the year | 14,397,667 | 50,941,223 | 7,995,828 | 6,904,038 | - | 80,238,756 |
| Disposals | - | (70,099) | - | (4,615,000) | - | (4,685,099) |
| Balance as at 31.12.2011 | 58,889,133 | 294,302,552 | 76,541,447 | 24,964,843 | - | 454,697,975 |
| Net book Value | | | | | | |
| As at 31.12.2011 | 250,329,937 | 166,073,846 | 72,843,089 | 20,700,116 | - | 509,946,988 |
| As at 31.12.2010 | 34,596,534 | 141,025,462 | 35,273,999 | 11,873,928 | 3,224,716 | 225,994,639 |
| 24.2 Bank | | | | | | |
| Cost/Valuation | | | | | | |
| Balance as at 01.01.2011 | 75,924,136 | 354,195,682 | 97,307,821 | 26,794,260 | 3,224,716 | 557,446,615 |
| Additions | 193,880,003 | 68,923,904 | 33,667,901 | 5,407,920 | - | 301,879,728 |
| Disposals | - | (312,360) | - | (1,890,000) | - | (2,202,360) |
| Transfers | 3,224,716 | - | - | - | (3,224,716) | - |
| Balance as at 31.12.2011 | 273,028,855 | 422,807,226 | 130,975,722 | 30,312,180 | - | 857,123,983 |
| Accumulated Depreciation | | | | | | |
| Balance as at 01.01.2011 | 41,327,602 | 213,170,220 | 62,033,822 | 14,920,332 | - | 331,451,976 |
| Charge for the year | 14,397,667 | 50,187,459 | 7,095,383 | 6,179,038 | - | 77,859,547 |
| Disposals | - | (70,099) | - | (1,890,000) | - | (1,960,099) |
| Balance as at 31.12.2011 | 55,725,269 | 263,287,580 | 69,129,205 | 19,209,370 | - | 407,351,424 |
| Net book Value | | | | | | |
| As at 31.12.2011 | 217,303,586 | 159,519,646 | 61,846,517 | 11,102,810 | - | 449,772,559 |
| As at 31.12.2010 | 34,596,534 | 141,025,462 | 35,273,999 | 11,873,928 | 3,224,716 | 225,994,639 |
| 24.3 | During the year the Group and Bank acquired Property, Plant and Equipment to the aggregate value of Rs.309.4 Mn, Rs.301.9Mn (2010-Rs.77.8Mn) respectively. Cash payments amounting to Rs.309.4 Mn ,Rs.301.9Mn (2010-Rs.77.8 Mn) were made during the year for the purchase of Property, Plant and Equipment. | | | | | |
| 24.4 | Property, Plant and Equipment of the Group and Bank include fully depreciated assets having a gross carrying amount to Rs 274 Mn , Rs 254.2 Mn respectively (2010-Rs 211.1 Mn) | | | | | |

Notes to the Financial Statements

24.5 The depreciation rates of equipment were reviewed and changed by the Board of Directors from 12.5% to 16.6% with effect from 1 January 2011. This change was made in order to reflect fairly the pattern in which the assets economic benefits are consumed by the Bank. Due to these changes in estimation, the following additional charges have resulted in the current year, in comparison to the depreciation charge based on previous estimate. These differences will arise in the future periods for the property, plant and equipment existing as at 31 December 2011, unless they are disposed in the future.

| Class of Asset | Previous estimate of Depreciation Rate | Adjusted Depreciation Rate | Increase in Depreciation Charge | Comparative Depreciation Charge based on Previous estimate |
|---|--|----------------------------------|---------------------------------------|--|
| | Rs. | Rs. | Rs. | Rs. |
| Computers and Equipment | 12.50% | 16.67% | 18,747,472 | 31,115,259 |
| | | Group | Bank | |
| Year ended 31st December 2011 | | 2011 | 2011 | 2010 |
| | | Rs. | Rs. | Rs. |

25. Deposits

| | | | |
|-------------------------|-----------------------|-----------------------|-----------------------|
| Demand Deposits | 1,538,399,507 | 1,538,705,575 | 1,709,819,983 |
| Savings Deposits | 3,820,552,980 | 3,816,422,453 | 3,012,140,830 |
| Time Deposits | 11,890,311,920 | 11,640,618,102 | 6,596,084,718 |
| Certificate of Deposits | 2,349,620,788 | 2,349,620,788 | 1,875,512,993 |
| | 19,598,885,195 | 19,345,366,918 | 13,193,558,524 |

25.1 Analysis of Deposits

| | | | |
|----------------------------------|-----------------------|-----------------------|-----------------------|
| Deposits from Non Bank Customers | 18,291,187,872 | 18,291,187,872 | 13,190,905,411 |
| Deposits from Banks | 6,765 | 6,765 | - |
| Deposits from Finance Companies | 1,053,418 | 1,054,172,281 | 2,653,113 |
| | 19,598,885,195 | 19,345,366,918 | 13,193,558,524 |

26. Borrowings

| | | | |
|---|--------------------|--------------------|--------------------|
| Borrowings under Repurchase Agreement | 63,444,899 | 127,987,380 | 81,759,441 |
| Borrowing from Central Bank Under Refinance Schemes | 34,222,036 | 34,222,036 | 28,488,095 |
| Borrowings from Other Banks | 293,206,911 | 250,000,000 | 237,677,309 |
| Other Borrowings | 239,401,214 | 92,753,527 | 53,201,679 |
| | 630,275,060 | 504,962,943 | 401,126,524 |

| Year ended 31 st December 2011 | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|---|----------------------|--------------|---------------------|
| 27. Deferred Taxation | | | |
| Balance as at beginning of the year | (13,789,728) | (13,789,728) | 39,182,113 |
| Acquired through Acquisition | 1,540,190 | - | - |
| (Charge) /Reversal made during the year (Note No 9) | (27,759,296) | (26,178,108) | (52,971,841) |
| Balance as at the year end | (40,008,834) | (39,967,836) | (13,789,728) |
| Deferred Tax Assets | | | |
| Carry Forward Losses | 5,861,810 | 5,861,810 | 13,179,645 |
| Defined Benefit Plan Liability | 8,228,884 | 8,228,884 | 6,450,280 |
| | 14,090,694 | 14,090,694 | 19,629,925 |
| Deferred Tax Liability | | | |
| Accelerated Depreciation allowance for tax purposes (Property and Equipment) | (32,606,388) | (32,565,390) | (19,067,265) |
| Accelerated Depreciation allowance for tax purposes (Lease Rental Receivable) | (21,493,140) | (21,493,140) | (14,352,388) |
| | (54,099,528) | (54,058,530) | (33,419,653) |
| Net Deferred Tax Liability | (40,008,834) | (39,967,836) | (13,789,728) |
| 28. Other Liabilities | | | |
| Provision for Gratuity (Note No 28.1) | 40,461,572 | 29,325,486 | 23,036,713 |
| Accrued Interest and other Expenses | 1,193,949,536 | 932,535,146 | 653,074,817 |
| Tax payable | 20,264,446 | 20,264,446 | 39,622,003 |
| | 1,254,675,554 | 982,125,078 | 715,733,533 |
| 28.1 Provision for Gratuity | | | |
| Balance at the beginning of the year | 23,036,713 | 23,036,713 | 17,876,170 |
| Addition due to Acquisition | 14,068,757 | - | - |
| Expenses on Defined Benefit Plan (28.2) | 10,091,210 | 8,857,467 | 6,661,756 |
| Payments made during the year | (6,735,108) | (2,568,694) | (1,501,213) |
| Balance at the end of the year | 40,461,572 | 29,325,486 | 23,036,713 |
| 28.2 Expenses on Defined Benefit Plan | | | |
| Current Service Cost for the year | 6,545,762 | 5,905,598 | 4,162,683 |
| Interest Expense | 3,545,448 | 2,951,869 | 2,499,073 |
| | 10,091,210 | 8,857,467 | 6,661,756 |

Notes to the Financial Statements

| | 2011 | | 2010 | |
|----------------------------|-------------|---------------|-------------|---------------|
| | Number | Rs. | Number | Rs. |
| 29. Stated Capital | | | | |
| Fully Paid Ordinary Shares | 333,345,763 | 4,573,820,996 | 148,703,600 | 1,813,170,000 |
| Issue of Shares for cash | 15,904,237 | 405,970,117 | 184,642,163 | 2,760,650,996 |
| Fully Paid Ordinary Shares | 349,250,000 | 4,979,791,113 | 333,345,763 | 4,573,820,996 |

30. Statutory Reserve Fund

| Year ended 31 st December 2011 | Group | Bank | |
|---|------------|------------|------------|
| | 2011 | 2011 | 2010 |
| | Rs. | Rs. | Rs. |
| Balance at the beginning of the year | 22,231,977 | 22,231,977 | 14,742,127 |
| Add: Transfers during the year | 15,419,724 | 15,419,724 | 7,489,850 |
| Balance as at end of the year | 37,651,701 | 37,651,701 | 22,231,977 |

30.1 The balance in the Statutory Reserve Fund account will be used only for the purposes specified in the Section 20(2) of the Banking Act No.30 of 1988. The Bank appropriated 5% of the post-tax profit of 2011, to fulfill the minimum requirement under Section 20(1) of the Banking Act No.30 of 1988.

| Year ended 31 st December 2011 | Group | Bank | |
|---|------------|------------|------|
| | 2011 | 2011 | 2010 |
| | Rs. | Rs. | Rs. |
| 31. Investment Fund Reserve | | | |
| Balance at the beginning of the year | - | - | - |
| Add: Transfers during the period | 53,371,307 | 53,371,307 | - |
| Balance as at end of the year | 53,371,307 | 53,371,307 | - |

31.1 As Proposed by Government Budget 2011, banks were required to establish and operate an 'Investment Fund Account (IFA)' commencing from January 2011. According to the guidelines issued by Central Bank of Sri Lanka with the concurrence of the Commissioner General of inland revenue, banks are required to transfer 8% of profits calculated for the payment of Value Added Tax (VAT) on Financial Services and 5% of profits liable for income tax.

31.2 In accordance with the guidelines issued, the Bank maintains government securities. These government securities are included in the government security value presented on the balance sheet.

The Bank entered into funding a Fish Cannery Project and Fish Meal Project utilising the funds available in the IFA, initiated by Cool Man Ice Factory. The details of the Loan are as follows:

| Customer | Rate of Interest | Tenure of Loan | Granted (Rs.Mn) |
|----------------------|------------------|----------------|-----------------|
| Cool Man Ice Factory | 11.20% | 5 Years | 18.7 |

32. Commitments and Contingencies

32.1 In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

| Year ended 31 st December 2011 | Group 2011 Rs. | 2011 Rs. | Bank 2010 Rs. |
|--|----------------------|----------------------|----------------------|
| Commitments | | | |
| Commitments for unutilised facilities | 1,950,199,031 | 1,950,199,031 | 2,008,639,349 |
| Commitments for building contract | - | - | 8,862,819 |
| Sub Total | 1,950,199,031 | 1,950,199,031 | 2,017,502,168 |
| Contingent Liabilities | | | |
| Acceptances | 994,296,629 | 994,296,629 | 603,885,721 |
| Guarantees | 3,046,794,128 | 3,046,794,128 | 2,540,197,217 |
| Documentary Credit | 999,865,160 | 999,865,160 | 1,155,874,452 |
| Bills for Collection | 57,525,746 | 57,525,746 | 19,384,813 |
| Others | 236,659,794 | 236,659,794 | 252,495,780 |
| Sub Total | 5,335,141,457 | 5,335,141,457 | 4,571,837,983 |
| Currency SWAP Agreements | | | |
| Spot Purchase | 129,561,719 | 129,561,719 | 220,989,239 |
| Spot Sold | 29,875,629 | 29,875,629 | - |
| Sub Total | 159,437,348 | 159,437,348 | 220,989,239 |
| Forward Exchange Contracts | | | |
| Forward Contracts Bought | 224,338,211 | 224,338,211 | 417,229,788 |
| Forward Contracts Sold | 275,400,135 | 275,400,135 | 415,608,301 |
| Sub Total | 499,738,346 | 499,738,346 | 832,838,089 |
| Total Commitments and Contingencies | 7,944,516,182 | 7,944,516,182 | 7,643,167,479 |

32.2 Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome.

- Two cases filed by third parties in the District Court of Panadura and Homagama claiming the title of subject property and seeking enjoining order restraining the Bank from alienating the property mortgaged to the Bank by the borrower.
- Two connected cases filed by a third party in the District Court of Matara over the same property claiming the title of the property.
- Two cases in the District Court of Colombo, one out of which has been filed by us but laid by until such time the order is delivered in a different case over the mortgaged property. And the other case has been filed by a borrower to stay the parate procedure and is pending against the Bank.

Notes to the Financial Statements

32.3 Litigation Against The Finance and Guarantee Company Limited

- Seven cases filed in the District Court Colombo by the Customers claiming the deposit Money and the reposses of the vehicles.
- Four cases filed in the Commercial High Court Colombo claiming loan amounts.
- One case filed in the Magistrate Court Colombo claiming the Deposit money .
- One case filed is District court Tissamaharama claiming the Deposit Money.
- One case filed in District Court Gampaha claiming an advanced payment.
- One case filed in District Court Panadura claiming the title of the Purchased land.

33. Maturity Analysis

33.1 Group

An analysis of the total assets employed, total liabilities and shareholders' funds of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below :

| Year ended 31 st December 2011 | Up to 3 Months Rs. | 3 to 12 Months Rs. | 1 to 3 Years Rs. | 3 to 5 Years Rs. | More than 5 Years Rs. | Total Rs. |
|---|-----------------------|-----------------------|----------------------|---------------------|--------------------------|-----------------------|
| Interest Bearing Assets | | | | | | |
| Cash and Short Term Funds | 1,956,844,697 | - | - | - | - | 1,956,844,697 |
| Government Treasury Bills, Bonds and other Securities | 1,169,141,841 | 49,826,523 | 99,928,442 | - | 29,289,112 | 1,348,185,918 |
| Investment Securities | 70,209,359 | 17,166,658 | - | - | 2,195,923,404 | 2,283,299,421 |
| Bills of Exchange | 256,647,881 | 32,384,357 | - | - | - | 289,032,238 |
| Loans and Advances including Lease Receivables | 10,610,748,529 | 3,193,927,958 | 1,683,354,660 | 853,164,089 | 765,472,555 | 17,106,667,791 |
| Sub Total | 14,063,592,307 | 3,293,305,496 | 1,783,283,102 | 853,164,089 | 2,990,685,071 | 22,984,030,065 |
| Non Interest Bearing Assets | | | | | | |
| Cash and Short Term Funds | 561,750,321 | - | - | - | - | 561,750,321 |
| Balances with Central Bank | 826,986,510 | 478,919,970 | 30,296,377 | 2,582,338 | 2,953,859 | 1,341,739,054 |
| Dealing Securities | 149,622,004 | - | - | - | - | 149,622,004 |
| Investment Securities | - | - | - | - | 5,530,753 | 5,530,753 |
| Investment in Real Estate | 39,882,950 | 62,088,865 | 246,048,923 | - | - | 348,020,738 |
| Other Assets | 419,325,262 | 39,817,886 | 93,157,745 | 47,071,290 | 874,100 | 600,246,283 |
| Goodwill | - | - | - | - | 117,296,031 | 117,296,031 |
| Intangible Assets | - | - | - | - | 272,316,500 | 272,316,500 |
| Property, Plant and Equipment | - | - | - | - | 509,946,988 | 509,946,988 |
| Sub Total | 1,997,567,047 | 580,826,721 | 369,503,045 | 49,653,628 | 908,918,231 | 3,906,468,672 |
| Total Assets | 16,061,159,354 | 3,874,132,217 | 2,152,786,147 | 902,817,717 | 3,899,603,302 | 26,890,498,737 |
| Interest Bearing Liabilities | | | | | | |
| Deposits | 9,805,507,851 | 7,650,088,491 | 529,604,871 | 34,883,217 | 40,401,259 | 18,060,485,689 |
| Borrowings | 123,972,783 | 139,130,623 | 268,458,126 | 5,960,000 | - | 537,521,532 |
| Sub Total | 9,929,480,634 | 7,789,219,114 | 798,062,996 | 40,843,217 | 40,401,259 | 18,598,007,221 |
| Non Interest Bearing Liabilities | | | | | | |
| Deposits | 1,538,399,505 | - | - | - | - | 1,538,399,505 |
| Borrowings | 92,753,528 | - | - | - | - | 92,753,528 |
| Deferred Taxation | - | 40,008,834 | - | - | - | 40,008,834 |
| Other Liabilities | 737,942,660 | 427,921,803 | 43,307,987 | 24,866,951 | 20,636,153 | 1,254,675,554 |
| Sub Total | 2,369,095,693 | 467,930,637 | 43,307,987 | 24,866,951 | 20,636,153 | 2,925,837,421 |
| Total Liabilities | 12,298,576,327 | 8,257,149,751 | 841,370,983 | 65,710,168 | 61,037,412 | 21,523,844,642 |
| Shareholders Funds | - | - | - | - | 5,172,312,597 | 5,172,312,597 |
| Minority interest | - | - | - | - | 194,341,497 | 194,341,497 |
| Total Liabilities & Shareholder's Funds | 12,298,576,327 | 8,257,149,751 | 841,370,983 | 65,710,168 | 5,427,691,507 | 26,890,498,737 |

33. Maturity Analysis

33.2 Bank

An analysis of the total assets employed, total liabilities and shareholders' funds of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below :

| Year ended 31 st December 2011 | Up to 3 Months Rs. | 3 to 12 Months Rs. | 1 to 3 Years Rs. | 3 to 5 Years Rs. | More than 5 Years Rs. | Total Rs. |
|--|--------------------------|--------------------------|------------------------|------------------------|-----------------------------|-----------------------|
| Interest Bearing Assets | | | | | | |
| Cash and Short Term Funds | 1,953,350,450 | - | - | - | - | 1,953,350,450 |
| Government Treasury Bills, Bonds and other Securities | 1,049,981,075 | 49,826,523 | 99,928,442 | - | 29,289,112 | 1,229,025,152 |
| Investment Securities | 42,621,430 | 17,166,658 | - | - | 2,195,923,404 | 2,255,711,492 |
| Bills of Exchange | 256,647,880 | 32,384,358 | - | - | - | 289,032,238 |
| Loans and Advances including Lease Receivables | 10,480,263,150 | 2,934,291,064 | 1,413,337,502 | 800,089,562 | 756,709,384 | 16,384,690,662 |
| Sub Total | 13,782,863,985 | 3,033,668,603 | 1,513,265,944 | 800,089,562 | 2,981,921,900 | 22,111,809,994 |
| Non Interest Bearing Assets | | | | | | |
| Cash and Short Term Funds | 545,832,034 | - | - | - | - | 545,832,034 |
| Balances with Central Bank | 826,986,510 | 478,919,970 | 30,296,377 | 2,582,338 | 2,953,859 | 1,341,739,054 |
| Dealing Securities | 149,622,004 | - | - | - | - | 149,622,004 |
| Investment Securities | - | - | - | - | 1,530,000 | 1,530,000 |
| Investment in Subsidiaries | - | - | - | - | 912,382,009 | 912,382,009 |
| Other Assets | 404,850,987 | 30,325,493 | 54,522,760 | 47,071,291 | 874,100 | 537,644,631 |
| Intangible Assets | - | - | - | - | 8,060,674 | 8,060,674 |
| Property, Plant and Equipment | - | - | - | - | 450,278,142 | 450,278,142 |
| Sub Total | 1,927,291,535 | 509,245,463 | 84,819,137 | 49,653,628 | 1,376,078,784 | 3,947,088,548 |
| Total Assets | 15,710,155,520 | 3,542,914,066 | 1,598,085,081 | 849,743,190 | 4,358,000,684 | 26,058,898,542 |
| Interest Bearing Liabilities | | | | | | |
| Deposits | 10,627,218,428 | 6,702,019,933 | 403,660,280 | 34,406,330 | 39,356,373 | 17,806,661,344 |
| Borrowings | 126,137,380 | 11,653,910 | 268,458,126 | 5,960,000 | - | 412,209,416 |
| Sub Total | 10,753,355,808 | 6,713,673,843 | 672,118,406 | 40,366,330 | 39,356,373 | 18,218,870,760 |
| Non Interest Bearing Liabilities | | | | | | |
| Deposits | 1,538,705,573 | - | - | - | - | 1,538,705,573 |
| Borrowings | 92,753,527 | - | - | - | - | 92,753,527 |
| Deferred Taxation | - | 39,967,836 | - | - | - | 39,967,836 |
| Other Liabilities | 660,467,591 | 250,614,845 | 43,307,986 | 7,098,502 | 20,636,154 | 982,125,078 |
| Sub Total | 2,291,926,691 | 290,582,681 | 43,307,986 | 7,098,502 | 20,636,154 | 2,653,552,014 |
| Total Liabilities | 13,045,282,499 | 7,004,256,524 | 715,426,393 | 47,464,832 | 59,992,527 | 20,872,422,774 |
| Shareholders Funds | - | - | - | - | 5,186,475,768 | 5,186,475,768 |
| Total Liabilities and Shareholders' Funds | 13,045,282,499 | 7,004,256,524 | 715,426,393 | 47,464,832 | 5,246,468,294 | 26,058,898,542 |

Notes to the Financial Statements

Year ended 31st December 2011

34. Assets Pledged

| Nature of Assets | Nature of Liability | Group Carrying Amount | | Bank Carrying Amount | |
|---------------------------|-------------------------------------|-----------------------|-------------|----------------------|-------------|
| | | 2011 Rs. | 2010 Rs. | 2011 Rs. | 2010 Rs. |
| Government treasury bonds | Repo instrument borrowings | 131,987,381 | - | 131,987,381 | 81,759,441 |
| Real Estate Stocks | Fixed Deposits and Short Term Loans | 115,970,802 | - | - | - |
| Fixed Assets | Fixed Deposit | 6,839,164 | - | - | - |

35. Comparative Information

35.1 The presentation and classification of the following items in the financial statements are amended to ensure the comparability with the current year.

| | | Group | | Bank | |
|-----|---|--|--|--|--|
| | | 2010 Rs. Current Presentation | 2010 Rs. As Reported Previously | 2010 Rs. Current Presentation | 2010 Rs. As Reported Previously |
| (a) | Balances with Central Bank of Sri Lanka | 750,520,911 | 749,885,174 | 750,520,911 | 749,885,174 |
| | Other Assets | 403,062,966 | 195,385,883 | 403,062,966 | 195,385,883 |
| | Other Liabilities | 715,733,533 | 507,420,714 | 715,733,533 | 507,420,714 |
| | | 1,869,317,410 | 1,452,691,771 | 1,869,317,410 | 1,452,691,771 |
| (b) | Property, Plant and Equipment | 225,994,639 | 227,849,316 | 225,994,639 | 227,849,316 |
| | Intangibles | 1,854,677 | | 1,854,677 | |
| | | 227,849,316 | 227,849,316 | 227,849,316 | 227,849,316 |
| | TOTAL | 2,097,166,726 | 1,680,541,087 | 2,097,166,726 | 1,680,541,087 |

35.2 Reason for changes in the presentation and classification:

Above classification changes were made in the financial statements of the Group and Bank for better presentation.

Notes to the Financial Statements

Year ended 31st December 2011

37. Related Party Disclosures

37.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

37.2 Transactions with Key Management Personnel (KMPs)

Related parties include KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Such KMPs include the Board of Directors of the Bank (including executive and Non-Executive Directors), key employees who are holding directorships in subsidiary companies of the Bank and other key executives who meet the criteria described above. Independent Transactions with Key Management Personnel and transactions with the Close Family Members (CFMs) of the KMPs, if any, also have been taken into consideration in the following disclosure.

37.2.1 Key Management Personnel Compensation

| | 2011 Rs. | 2010 Rs. |
|--------------------------------|-------------------|-------------------|
| Short term employment benefits | 32,311,392 | 22,597,000 |
| Post-employment benefits | 6,055,090 | 3,660,000 |
| Other long term benefits | 5,056,279 | 6,360,000 |
| Total | 43,422,761 | 32,617,000 |

37.2.2 Transactions, arrangements and agreements involving entities which are controlled, and/or significantly influenced by the KMPs or their CFMs

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

37.2.2.1 Balance Sheet

| | 2011 Rs. | 2010 Rs. |
|--------------------|-------------|-------------|
| Assets | | |
| Loans and Advances | 5,171,404 | 6,360,000 |
| Liabilities | | |
| Deposits | 131,063,610 | 35,000,000 |

37.2.2.2 Commitments and Contingencies

| | | |
|--------------------------------|-------------|---|
| Undrawn facilities (Overdraft) | 135,000,000 | - |
|--------------------------------|-------------|---|

37.2.2.3 Income Statement

| | | |
|----------------------|------------|------------|
| Interest income | 103,821 | 426,610 |
| Interest expenses | 290,864 | - |
| Compensation to KMPs | 43,422,761 | 32,617,000 |

| | 2011 Rs. | 2010 Rs. |
|---|-------------|-------------|
| 37.2.2.4 Share Based Benefits to KMP's | | |
| No. of ordinary shares held | 18,279,950 | 245,925,302 |

37.3 Transactions with Group-Related Parties

The Group related parties includes Fellow Subsidiaries that are subject to common control; Subsidiaries; Key Management Personnel, Close Family Members of Key Management Personnel and Entities in which such parties have control, joint control or significant influence, or for which significant voting power is held by such parties.

37.3.1 Transactions with Subsidiary Companies of the Group/Bank

37.3.1.1 Balance Sheet

| | 2011 Rs. | 2010 Rs. |
|--|---------------|-------------|
| Liabilities | | |
| Deposits | 1,053,118,862 | - |
| Securities sold under Re-Purchase Agreements | 65,089,677 | - |

37.3.1.2 Income Statement

| | | |
|-------------------------|------------|---|
| Interest expenses | 14,478,240 | - |
| Other income (Dividend) | 7,650,000 | - |

38. Events after the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements other than those disclosed below.

The registered office of the Bank and the Head Office of the Bank shifted from No.15 Alfred Place, Colombo 03 to 64, Galle Road, Colombo 03.

It was decided at the Extra Ordinary General Meeting of The Finance and Guarantee Company Limited held on 27th of March 2012 to change the name of the Company to UB Finance Company Limited.

Capital Adequacy

Computation of Capital Adequacy Ratios - Basel 11

| | Bank 2011 | | 2010 | | Group 2011 | | Assets | Risk weighted Assets |
|---|-------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|--------|----------------------------|
| | Assets | Risk weighted Assets | Assets | Risk weighted Assets | Assets | Risk weighted Assets | | |
| Risk-weighted Assets for Credit Risk | | | | | | | | |
| Claims on Central Government and Central Bank of Sri Lanka | 1,920,888 | | 3,048,836 | | 2,040,049 | | | |
| Claims on Foreign sovereigns and their Central Banks Claims on Public Sector Entities | | | | | | | | |
| Claims on BIS,IMF and Multilateral Development Banks(MDBs) | | | | | | | | |
| Claims on Banks Exposures | | | | | | | | |
| *Rupee Exposures less than 3 months | 1,802,261 | 362,261 | 943,619 | 289,974 | 1,819,766 | 365,762 | | |
| *Foreign Currency Exposures less than 3 months | 257,363 | 97,974 | | | 257,363 | 97,974 | | |
| *Exposures more than 3 months (both rupee & foreign currency) | | | | | | | | |
| Claims on Financial Institutions | | | | | | | | |
| *Primary Dealers/Finance Companies | | | | | | | | |
| *Other Financial Institutions | 2,195,923 | 2,195,923 | 2,111,465 | 2,111,465 | 2,195,923 | 2,195,923 | | |
| Claims on Corporates | 5,055,342 | 4,974,434 | 4,961,469 | 4,961,469 | 5,241,197 | 5,160,289 | | |
| Retail claims | 6,241,461 | 5,467,627 | 2,010,520 | 1,820,998 | 6,241,169 | 5,467,061 | | |
| Claims Secured by Residential Property | 274,946 | 137,473 | 87,452 | 43,726 | 251,478 | 125,739 | | |
| Claims Secured by Commercial real Estate | 1,993,787 | 1,993,787 | 813,476 | 813,476 | 1,993,787 | 1,993,787 | | |
| Past Due Loans | 358,892 | 381,242 | 374,528 | 406,218 | 876,488 | 909,775 | | |
| Past Due Residential Mortgage Loans | 138,187 | 86,351 | 233,359 | 130,635 | 180,474 | 107,494 | | |
| Higher-risk Categories | | | | | | | | |
| Cash Items | 870,547 | 9,863 | 574,642 | 4,206 | 872,453 | 9,863 | | |
| Other Assets | 1,507,131 | 1,507,131 | 835,364 | 835,364 | 1,938,660 | 1,938,660 | | |
| | 22,616,729 | 17,214,067 | 12,945,894 | 11,417,531 | 23,908,808 | 18,372,328 | | |

| | Credit Conversion Factor (%) | Bank 2011 | | 2010 | | Group 2011 | | 2010 | |
|--|------------------------------|---|--|---|--|---|--|---|--|
| | | Principal amount of Off-balance sheet items | Credit equivalent of Off-balance sheet items | Principal amount of Off-balance sheet items | Credit equivalent of Off-balance sheet items | Principal amount of Off-balance sheet items | Credit equivalent of Off-balance sheet items | Principal amount of Off-balance sheet items | Credit equivalent of Off-balance sheet items |
| Off-balance sheet Items | | | | | | | | | |
| Direct Credit Substitutes | | | | | | | | | |
| General Guarantees of Indebtedness | 100% | 1,106,645 | 1,106,645 | 775,387 | 775,387 | 1,106,645 | 1,106,645 | | |
| Transaction-related Contingencies | | | | | | | | | |
| Performance Bonds, Bid Bonds & Warranties | 50% | 799,331 | 399,666 | 736,793 | 368,396 | 799,331 | 399,666 | | |
| Others | 50% | 909,313 | 454,657 | 434,014 | 217,007 | 909,313 | 454,657 | | |
| Short-Term Self-Liquidating Trade-Related Contingencies | | | | | | | | | |
| Shipping Guarantees | 20% | 231,504 | 46,301 | 594,004 | 118,801 | 231,504 | 46,301 | | |
| Documentary Letters of Credit | 20% | 999,865 | 199,973 | 1,155,874 | 231,175 | 999,865 | 199,973 | | |
| Trade related acceptances | 20% | 622,857 | 124,571 | 301,683 | 60,337 | 622,857 | 124,571 | | |
| Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time | | | | | | | | | |
| Undrawn Overdraft Facilities/Unused Credit Card Lines | 0% | 1,950,199 | - | 2,008,639 | - | 1,950,199 | - | | |
| Others | 0% | 57,526 | - | 19,385 | - | 57,526 | - | | |
| Other Commitments with an Original Maturity of over one year | | | | | | | | | |
| Undrawn Term Loans | 50% | | | | | | | | |
| Others | 50% | 236,660 | 118,330 | 252,496 | 126,248 | 236,660 | 118,330 | | |
| Foreign Exchange Contracts | | | | | | | | | |
| Original Maturity-less than one year | 2% | 659,176 | 13,184 | 1,053,827 | 21,077 | 659,176 | 13,184 | | |
| | | 7,573,077 | 2,463,326 | 7,332,102 | 1,918,428 | 7,573,077 | 2,463,326 | | |

| | Bank | | Group | |
|---|-------------------|-------------------|-------------------|------|
| | 2011 | 2010 | 2011 | 2010 |
| Risk-weighted amounts for Market Risk | | | | |
| Interest Rate Risk | | | | |
| General risk | 4,532 | 11,547 | 4,532 | |
| Specific risk | | | | |
| Equity Risk | | | | |
| General risk | 10,011 | 9,589 | 10,011 | |
| Specific risk | 8,503 | 8,043 | 8,967 | |
| Foreign Exchange & Gold Risk | 6,095 | 2,994 | 6,095 | |
| Total Capital Charge for Market Risk | 29,141 | 32,173 | 29,605 | |
| Total Risk-weighted amount for Market Risk | 291,414 | 321,730 | 296,048 | |
| (Total Capital Charge X 10) | | | | |
| Risk-weighted Assets for Operational Risk | | | | |
| Average Net Income for last three financial years | 1,061,570 | 760,522 | 1,083,227 | |
| Deductions : | | | | |
| Realised profits from the sale of securities (average of last three financial years) | 16,758 | 15,442 | 16,758 | |
| Extraordinary / irregular item of income (average of last three financial years) | | - | | |
| Income from insurance (average of last three financial years) | | | - | |
| Gross Income | 1,044,812 | 745,080 | 1,066,469 | |
| Total Capital Charge for Operational Risk | 156,722 | 111,762 | 159,970 | |
| (Gross Income X 15%) | | | | |
| Total Risk-weighted amount for Operational risk | 1,567,218 | 1,117,620 | 1,599,704 | |
| (Total Capital Charge for Operational Risk X 10) | | | | |
| Risk-weighted assets for credit risk | 17,214,067 | 11,417,531 | 18,372,328 | |
| Risk-weighted amounts for market risk | 291,414 | 321,730 | 296,048 | |
| Risk-weighted amounts for operational risk | 1,567,218 | 1,117,620 | 1,599,704 | |
| Total Risk-weighted Assets | 19,072,698 | 12,856,881 | 20,268,079 | |

Capital Adequacy

| | Bank | | Group | |
|--|------------------|------------------|------------------|------|
| | 2011 | 2010 | 2011 | 2010 |
| Calculation of Total Capital Base | | | | |
| Core Capital (Tier 1) | | | | |
| Paid-up Ordinary Shares/Common Stock/Assigned Capital | 4,979,791 | 4,573,821 | 4,979,791 | |
| Non-cumulative, Non-redeemable Preference Shares | | | | |
| Share Premium | | | | |
| Statutory Reserve Fund | 37,652 | 22,232 | 37,652 | |
| Published Retained Profits/(Accumulated Losses) | 115,662 | (86,831) | 101,498 | |
| General and Other Reserves | | | | |
| Surplus/Loss after tax arising from the sale of fixed and long-term investments | | | | |
| Unpublished Current Year's Profit/Losses | | | | |
| Minority Interests (consistent with the above capital constituents) | | | 194,341 | |
| Approved perpetual debt capital instruments | | | | |
| Deductions/Adjustments-Tier 1 | | | | |
| Goodwill/Net deferred tax assets | | | 117,296 | |
| Other intangible assets | | | 262,321 | |
| Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan 50% of investments in unconsolidated banking and financial subsidiary companies. | 24,754 | | 24,754 | |
| 50% investments in the capital of other banks and financial institutions | 290,441 | 32,659 | | |
| Total Core Capital | 4,817,909 | 4,476,563 | 4,908,911 | |
| Supplementary Capital (Tier II) | | | | |
| Revaluation Reserves (as approved by CBSL) | | | | |
| General Provisions | 72,196 | 70,408 | 72,196 | |
| Hybrid (debt/equity) Capital Instruments | | | | |
| Minority Interests arising from Preference Shares issued by Subsidiaries | | | | |
| Approved Subordinated Term Debt | | | | |
| Actual amount of Approved Subordinated Term Debt | | | | |
| Deductions-Tier II | | | | |
| 50% of investments in unconsolidated banking and financial subsidiary companies. | 24,754 | | 24,754 | |
| 50% investments in the capital of other banks and financial institutions | 290,441 | 32,659 | | |
| Eligible Tier II Capital | | | | |
| Base Capital (Tier I + Tier II) | 4,574,910 | 4,514,312 | 4,956,353 | |

Limits :

- (i) Approved subordinated Term Debt is limited to 50% of Total Tier 1 Capital.
- (ii) The total of Tier 11 Supplementary Elements should not exceed a maximum of 100% of Tier 1 Elements.
- (iii) General Provision should not exceed 1.25% of Risk Weighted Assets.

| | Bank | | Group | |
|--|---------------|--------------|---------------|------|
| | 2011 | 2010 | 2011 | 2010 |
| Core Capital Ratio (Minimum Ratio - 5%) | | | | |
| Core Capital (Tier 1) x 100 | 481,790,946 | 447,656,300 | 490,891,141 | |
| Total Risk-weighted Assets | 19,072,698 | 12,856,881 | 20,268,079 | |
| Total Capital Ratio (Minimum Ratio - 10%) | | | | |
| Capital Base x 100 | 457,491,032 | 451,431,200 | 495,635,326 | |
| Total Risk-weighted Assets | 19,072,698 | 12,856,881 | 20,268,079 | |
| Core Capital (Tier 1) Ratio (%) | 25.26% | 34.82 | 24.22% | |
| Total Capital Ratio (%) | 23.99% | 35.11 | 24.45% | |

Ten Years at a Glance

Ten Year Summary

| | 2011 Rs. | 2010 Rs. | 2009 Rs. | 2008 Rs. |
|---|----------------|----------------|----------------|----------------|
| Operating Results | | | | |
| Gross Income | 2,551,415,701 | 2,078,120,074 | 2,052,704,053 | 1,935,829,061 |
| Interest Income | 2,103,584,968 | 1,771,976,557 | 1,855,783,799 | 1,750,332,385 |
| Interest Expense | 1,106,816,608 | 997,841,287 | 1,392,872,704 | 1,387,000,585 |
| Net Interest Income | 996,768,360 | 774,135,270 | 462,911,095 | 363,331,800 |
| Exchange Income | 77,882,192 | 48,204,897 | 39,728,046 | 44,404,151 |
| Other Income | 369,948,541 | 257,938,620 | 157,192,208 | 141,092,525 |
| Profit/ (loss) before Taxation | 529,870,707 | 412,841,729 | 180,451,783 | 112,104,760 |
| Value Added Tax | 82,784,786 | 104,850,021 | 46,468,715 | 36,659,428 |
| Income Tax | 138,691,438 | 158,194,702 | 71,842,056 | 52,343,464 |
| Profit/ (loss) After Income Tax | 308,394,483 | 149,797,006 | 62,141,012 | 23,101,868 |
| Assets | | | | |
| Cash & Short Term Funds | | | | |
| Balances with Central Bank of Sri Lanka | 3,840,921,538 | 2,036,050,482 | 1,396,635,110 | 2,144,048,967 |
| Investment Securities | 2,836,390,791 | 2,667,414,404 | 2,848,257,103 | 2,350,343,067 |
| Bills of Exchange | 289,032,238 | 354,488,715 | 330,734,648 | 121,274,375 |
| Net Loans and Advances | 16,384,690,662 | 9,207,940,756 | 7,189,589,535 | 7,367,482,120 |
| Deferred Taxation | | | 39,182,113 | 65,762,470 |
| Other Assets | 537,644,631 | 403,062,965 | 352,605,675 | 299,212,971 |
| Property, Plant & Equipment | 449,772,559 | 227,849,316 | 201,581,378 | 163,031,569 |
| Total Assets | 26,058,898,542 | 18,864,400,704 | 14,306,149,188 | 12,679,354,059 |
| Liabilities | | | | |
| Deposits | 19,345,366,917 | 13,193,558,524 | 11,963,995,607 | 10,492,076,858 |
| Borrowings & Due to foreign banks | 504,962,943 | 401,126,524 | 92,396,759 | 92,983,345 |
| Deferred Taxation | 39,967,836 | 13,789,728 | | - |
| Other Liabilities | 982,125,078 | 715,733,531 | 650,982,544 | 613,330,591 |
| Total Liabilities | 20,872,422,775 | 14,324,208,307 | 12,707,374,910 | 11,198,390,794 |
| Shareholder's Funds | | | | |
| Share Capital | 4,979,791,113 | 4,573,820,996 | 1,813,170,000 | 1,757,500,000 |
| Reserves | 206,684,655 | (64,598,716) | (214,395,722) | (276,536,734) |
| Total | 5,186,475,768 | 4,540,192,397 | 1,598,774,278 | 1,480,963,266 |
| Contingencies | | | | |
| Guarantees | 3,046,794,128 | 2,540,197,217 | 3,552,649,733 | 2,633,841,926 |
| Docuemntary Credit | 999,865,160 | 1,155,874,452 | 458,399,214 | 280,735,267 |
| Others | 3,897,856,894 | 3,938,232,991 | 1,614,871,192 | 862,033,930 |
| Total | 7,944,516,182 | 7,634,304,660 | 5,625,920,139 | 3,776,611,123 |
| Share Information | | | | |
| Earnings per share | 0.88 | 0.64 | 0.44 | 0.17 |

| | 2007 Rs. | 2006 Rs. | 2005 Rs. | 2004 Rs. | 2003 Rs. | 2002 Rs. |
|--|----------------|---------------|---------------|---------------|---------------|---------------|
| | 1,311,123,307 | 1,000,773,915 | 705,687,077 | 597,218,322 | 600,282,556 | 562,275,194 |
| | 1,155,289,418 | 851,527,221 | 606,702,899 | 504,210,559 | 507,845,785 | 505,144,115 |
| | 912,902,139 | 591,520,173 | 447,056,713 | 342,510,341 | 347,906,534 | 481,784,520 |
| | 242,387,279 | 260,007,048 | 159,646,186 | 161,700,218 | 159,939,251 | 23,359,595 |
| | 36,530,449 | 32,396,218 | 23,793,826 | 26,135,448 | 19,740,058 | 5,458,688 |
| | 119,303,440 | 116,850,476 | 75,190,352 | 66,872,315 | 72,696,713 | 51,672,391 |
| | 60,316,076 | 115,413,441 | 22,118,048 | 28,658,027 | 26,728,659 | (161,151,312) |
| | 19,351,651 | 30,565,802 | 8,267,796 | 6,329,955 | 6,652,821 | - |
| | 27,548,269 | 33,732,854 | 8,229,697 | 9,260,858 | - | - |
| | 13,416,156 | 51,114,785 | 5,620,555 | 13,067,214 | 20,075,838 | (161,151,312) |
| | 1,855,471,509 | 1,524,976,488 | 1,805,826,818 | 1,288,714,717 | 925,331,194 | 712,628,286 |
| | 2,032,421,349 | 1,961,317,620 | 1,894,804,039 | 1,830,335,683 | 1,605,069,722 | 32,251,308 |
| | 111,750,401 | 114,255,785 | 164,734,810 | 57,542,686 | 69,291,063 | 29,840,102 |
| | 5,835,916,796 | 4,918,345,967 | 3,987,249,510 | 3,206,098,905 | 2,174,096,575 | 3,402,946,280 |
| | 89,116,311 | 99,038,775 | 107,904,756 | - | - | - |
| | 414,270,269 | 317,101,045 | 338,796,830 | 184,433,879 | 196,925,012 | 140,788,725 |
| | 114,236,432 | 86,709,807 | 88,047,596 | 95,979,320 | 94,972,704 | 119,717,575 |
| | 11,160,179,679 | 9,058,346,864 | 8,449,017,515 | 6,700,301,649 | 5,536,977,630 | 4,615,538,577 |
| | 8,932,543,714 | 7,807,072,788 | 6,866,717,047 | 5,623,655,755 | 4,595,154,258 | 4,093,148,582 |
| | 130,543,576 | 148,044,309 | 204,015,507 | 228,226,882 | 148,727,131 | 326,729,441 |
| | - | - | - | - | - | - |
| | 766,730,991 | 356,284,525 | 705,787,904 | 440,266,565 | 398,011,028 | 345,651,179 |
| | 9,829,818,281 | 8,311,401,622 | 7,776,520,458 | 6,292,149,202 | 5,141,892,417 | 4,765,529,202 |
| | 1,630,000,000 | 1,060,000,000 | 1,036,666,600 | 885,000,000 | 885,000,000 | 360,000,000 |
| | (299,638,602) | (313,054,758) | (364,169,543) | (476,847,573) | (489,914,787) | (509,990,625) |
| | 1,330,361,398 | 746,945,242 | 672,497,057 | 408,152,427 | 395,085,213 | (149,990,625) |
| | 1,822,445,064 | 1,251,473,265 | 977,271,801 | 968,959,310 | 787,080,012 | 610,489,467 |
| | 418,912,792 | 508,218,821 | 344,605,325 | 540,906,447 | 309,719,076 | 316,341,306 |
| | 865,210,194 | 498,548,041 | 469,033,573 | 354,922,729 | 151,636,364 | 339,684,457 |
| | 3,106,568,050 | 2,258,240,127 | 1,790,910,699 | 1,864,788,486 | 1,248,435,452 | 1,266,515,230 |
| | 0.11 | 0.48 | 0.06 | 0.15 | 0.32 | (4.47) |



Here at Union Bank, we recognize the myriad of needs that come with corporate banking and we have equipped ourselves to provide you with all the necessities that you require. Whether it's finance, leasing, loans, or even a wide network that embodies our ethic we ensure that your needs are met, every time. That's why we're your choice for corporate financing.



Glossary

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Capital Adequacy

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central bank of Sri Lanka.

Capital Reserves

Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act, No 30 of 1988 and shall not be reduced or impaired without the approval of Monetary Board.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

Commitments

Credit facilities approved but not yet utilized by the clients as at the Balance Sheet date.

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost Income Ratio

Operating expenses as a percentage of net income.

Cost method

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Credit Ratings

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

Dealing Securities

These are marketable securities acquired and held with the intention to resale over a sort period of time.

Deferred Tax

Sum set aside in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Earning Per Share (EPS)

The profit attributable to each ordinary share in the bank, based on the profit for

the period after tax and after deducting minority interest and preference share dividends.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity Method

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Fair Value

Fair Value is the amount for which as asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Foreign Exchange Income

The realized gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date. Foreign exchange income also arises from trading in foreign currencies.

General Provisions

General provisions are established for loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Guarantees

A promise made by a third (Guarantor), who is not a party to a contract between

two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

Interest Margin

Net interest income expressed as a percentage of interest earning assets.

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest in suspense

Interest suspended on non-performing loans and advances.

Investment Properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of exchange and Treasury Bills and Bonds.

Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Market Capitalisation

The value of a company obtained by multiplying the number of issued shares by its market value as at date.

Materiality

The relative significance of a transaction or an event, the omission or misstatement

of which could influence the decisions of users of Financial Statements.

Minority Interest

The interest of individual shareholders, if more than 50% of which is owned by a holding company.

Net Asset Value Per Share

Shareholders' Funds divided by the number of ordinary shares in issue.

Net-Interest Income (NII)

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and inter-bank borrowings.

Non-Performing Loans & Advances (NPL)

All loans are classified as nonperforming when a payment is 90 days in arrears.

Non-Performing Loan Cover (NPL Cover)

Cumulative loan loss provision as a percentage of total Non-Performing Loans and Advances (net of Interest in Suspense)

NPL Ratio

Total non-performing loans & advances (net of Interest in Suspense) divided by total loan portfolio (net of Interest in Suspense)

Off Balance Sheet Transactions

Transactions that are not recognized as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

Provision for Bad and Doubtful Debts

A charge to income statement which is added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realizable values.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Related Parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return On Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis if intra-industry performance comparison.

Return On equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserves

Reserves set aside for future distribution and investment.

Risk Weighted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

Securities Purchased Under Resale Agreement (Reverse REPO)

These are loans collateralized by the purchase of Treasury Bills and/or guaranteed commercial papers from

Glossary

the counterparty to which the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price on a specific future date.

Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

Single Borrower Limit

30% of tier II Capital

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No.30 of 1988.

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Tier I Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

Tier II Capital (Supplementary Capital)

Supplementary Capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II)

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Value Added

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Corporate Information

Name of the Company

Union Bank of Colombo PLC

Legal Form

A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 17 of 1982. Re-registered under Companies Act No. 7 of 2007.

Listed as a public quoted Company in the Colombo Stock Exchange with effect from 29th March 2011.

A Licensed Commercial Bank under Banking Act No. 30 of 1988.

Date of Incorporation

February 2nd 1995

Company Registration Number

PB 676 PQ

Registered Office

No.64, Galle Road,
Colombo 03
Sri Lanka.

Tel : 0094112374100

Fax : 0094112370971

E-mail : ubc@unionb.com

Website : www.unionb.com

SWIFT Code

UBCLLKLCXXX

VAT Registration Number

134005610-7000

Credit Ratings

Fitch Rating BB+(lka)

RAM Rating BBB/P3

VAT Registration Number

134005610-7000

Auditors

Ernest & Young,
Chartered Accountants
No.201, De Saram Place,
Colombo10

Board of Directors

Mr. Ajita de Zoysa - **Chairman**
Mr. Alexis Indrajit Lovell - **Deputy Chairman**
Mr. Bodahandi Asoka Keerthi de Silva - **Senior Director**
Mr. Ajith Wijeyesekera
Mr. Ananda Wijetilaka Atukorala
HRH Prince Faisal Al Abdulla Al Faisal Al Saud
Dr. Liyanamohottige Joseph Sri Harsha Cabral PC
Mr. Anil Suneetha Amarasuriya
Mr. Kin Leong Chong
Mr. Gerard Ewe Keng Lim
Mr. Yiu Joe Toh
Mr. Mohamed Aslam Omar
Mr. Priyantha Damian Joseph Fernando

Alternate Directors

Mr. David Nigel Bartholomeusz
Mr. Ashan Suresh de Zoysa
Mr. King Tak Blondel So
Ms. Lee Sian Goh
Ms. Sow Lin Chiew

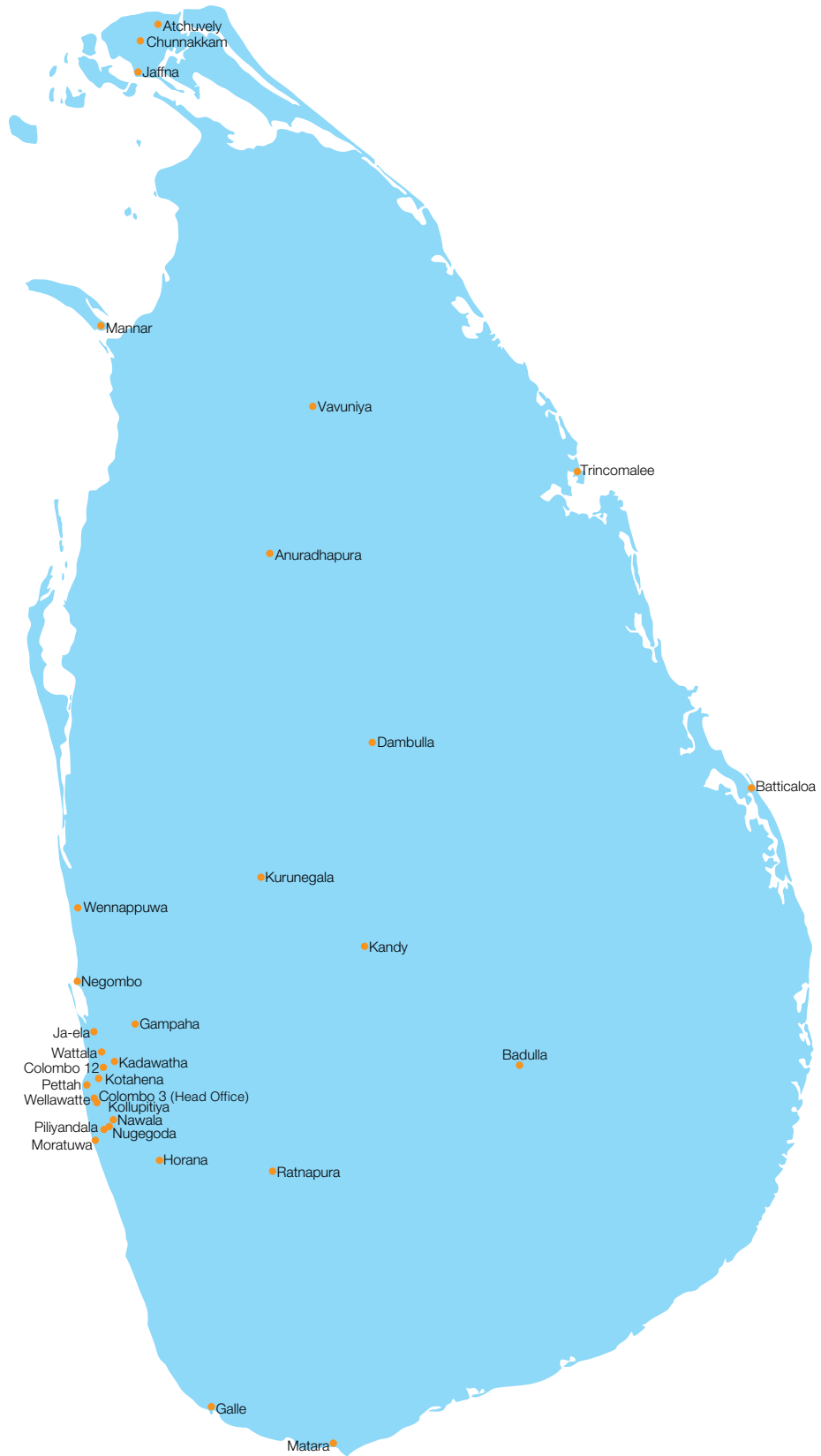
Advisors to the Board

Mr. Edgar Gunatunge
Mr. Dishan Amrit Jitendrakumar Warnakulasuriya

Board Secretary

Mrs. Nirosha Kannangara (LLM(*Sri Lanka*))

Branch Network



Branch Network

1. **Head Office**
64, Galle Road, Colombo 03
Tel.011 2374100 Fax. 011 2370692
2. **Anuradhapura Branch**
38, Main Street, Anuradhapura
Tel. 025 2224888-9
Fax 025 2224890
3. **Atchuvely Branch**
Pathameny, Sannadhy Road,
Atchuvely
Tel/Fax 021-3215447
4. **Badulla Branch**
No.81, Bank Road, Badulla
Tel.055-2224657
5. **Batticaloa Branch**
No.3, Station Road, Batticaloa
Tel/Fax 065-2228512
6. **Chunnakam Branch**
No.130-132, Station Road,
Chunnakkam
Tel.021-2240930/1
Fax. 021 2240932
7. **Dambulla Branch**
723, Anuradhapura Road, Dambulla
Tel. 066 2285511/2285510
Fax. 066 2285512
8. **Galle Branch**
No.66, Matara Road,
Pettigalawatte, Galle
Tel/Fax 091-2247307
9. **Gampaha Branch**
No.6, Asoka Gardens, Colombo
Road, Gampaha
Tel.033-2248812
Fax. 033-2248813
10. **Horana Branch**
No.41, Panadura Road, Horana
Tel.034 2263156
11. **Ja-ela Branch**
No.151/B, Colombo Road, Ja-ela
Tel.011 2228572/2228573
Fax.011 2228574
12. **Jaffna Branch**
No.62/17, Stanley Road, Jaffna
Tel.021-2224567/2224568
Fax. 021-2224569
13. **Kadawatha Branch**
No.315F, Kandy Road, Kadawatha
Tel.011 2927716
Fax.011 2928816
14. **Kandy Branch**
No.15/1, Temple Street, Kandy
Tel.081 4472101/4472102/
2204610, Fax. 081 4472103
15. **Kollupitiya Branch**
51A, Ananda Coomaraswamy
Mawatha, Colombo 03
Tel.011 2565475/2565476
Fax 011 4717463
16. **Kotahena Branch**
No. 16A, Kotahena Street,
Colombo 13
Tel.011 2448825/2329098
Fax. 011 2440232
17. **Kurunegala Branch**
No.11, Rajapihilla Road, Kurunegala
Tel.037 2225419/0372225421/
2225422 , Fax. 037 2225423
18. **Mannar Branch**
No.66, Main Street, Mannar
Tel.023 2251343/2251344
Fax.023 2251345
19. **Matara Branch**
No.17, Station Road, Matara
Tel.041 2228441/2228442/
2228443/2228444
Fax.041 2228440
20. **Moratuwa Branch**
No.729, Galle Road, Idama,
Moratuwa
Tel.011 2642501/2642503
Fax. 011 2642504
21. **Nawala Branch**
No.232, Nawala Road, Rajagiriya
Tel.011 2805814/4401414/
4401415/4401416
Fax. 011 4401417
22. **Negombo Branch**
No.387, Main Street, Negombo
Tel.031 2238229/2238319
Fax. 031 2238208
23. **Nugegoda Branch**
No.114, Stanley Thilekeratne
Mawatha, Nugegoda
Tel.011 2832300/2832323
Fax 011 2832301
24. **Old Moor Street Branch**
No.330, Old Moor Street,
Colombo 12
Tel.011 2399994/2399995
Fax 011 2399996
25. **Pettah Branch**
215/53, Bodhiraja Mawatha,
Colombo 11
Tel.011 2321139/4710942
Fax 011 4627664
26. **Piliyandala Branch**
No.71, Moratuwa Road, Piliyandala
Tel.011 2606152
Fax.011 2606172
27. **Ratnapura Branch**
No.109, Main Street, Ratnapura
Tel. 045 2224422
Fax 045 2224423
28. **Trincomalee Branch**
No.114, NC Road, Trincomalee
Tel.026 2226505
Fax.026 2226506
29. **Vavuniya Branch**
No.124, Bazaar Street, Vavuniya
Tel/Fax 024 2225612/2225613
Fax.024 2225614
30. **Wattala Branch**
No.258, Negombo Road, Wattala
Tel.011 2980731
Fax 011 2980732
31. **Wellawatte Branch**
No.50, Galle Road, Colombo 06
Tel.011 2553223/2553224/
2553225/2553226
Fax. 011 4710943
32. **Wennappuwa Branch**
No.33, Colombo Road,
Wennappuwa
Tel.031 2253543/2253544
Fax.031 2253545

Notice of Meeting

Notice is hereby given that the 17th Annual General Meeting of UNION BANK OF COLOMBO PLC will be held on 29th of May 2012 at 10.30a.m at the Head Office Building of Union Bank of Colombo PLC of No.64, Galle Road, Colombo 3, for the following purposes.

1. Ordinary Business

- 1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st December 2011 together with the Report of the Auditors thereon.
- 1.2 To re-elect in terms of Article 89 of the Articles of Association of the Bank, H R H Prince Faisal Al Abdulla Al Faisal AL Saud who retires in terms of Article 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director.
- 1.3 To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Kin Leong Chong who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director
- 1.4 To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Yiu Joe Toh who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director
- 1.5 To re-elect in terms of Article 95 of the Articles of Association of the Bank Mr. Priyantha Damian Joseph Fernando who retires in terms of the said Article a Director.
- 1.6 To authorize the directors to determine donations for the year ending 31st December 2011 and upto the date of the next Annual General Meeting.
- 1.7 To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors and authorize the Board of Directors to determine their remuneration.
- 1.8 Presentation of Reports of the performance on Human Resources and Remuneration Committee, Integrated Risk Management Committee, Nomination Committee and Audit Committee.
- 1.9 To consider any other business of which due notices has been given.

By order of the Board.



Nirossha Kannangara
Company Secretary

Date: 16th April 2012.

Notes:

1. A Shareholder unable to attend the Meeting is entitled to appoint a proxy to attend and vote in his/her/its place.
2. A Proxy need not be a Shareholder of the Bank.
3. A Shareholder wishing to vote by proxy at the meeting may use the Form of Proxy enclosed.
4. In order to be valid, the completed Form of Proxy must be lodged at the registered office at No. 64, Galle Road, Colombo 03 not later than 36 hours prior to the meeting.

Form of Proxy

I/We, of being a Shareholder/Shareholders
 of Union Bank of Colombo PLC hereby appoint:

.....
 (or failing him)

| | |
|--|--------------------------------|
| Mr. Ajita de Zoysa | of Colombo or failing him |
| Mr. Alexis Indrajit Lovell | of Australia or failing him |
| Mr. Bodahandi Asoka Keerthi de Silva | of Colombo or failing him |
| Mr Ananda Wijetilake Atukorala | of Colombo or failing him |
| Mr Ajith Wijeyesekera | of Colombo or failing him |
| Mr. H R H Prince Faisal Al-Abdulla Al-Faisal Al-Saud | of Saudi Arabia or failing him |
| Dr. Liyanamohottige Joseph Sri Harsha Cabral PC | of Colombo or failing him |
| Mr. Anil Suneetha Amarasuriya | of Colombo or failing him |
| Mr. Mohamed Aslam Omar | of Colombo or failing him |
| Mr. Kin Leong Chong | of Malaysia or failing him |
| Mr. Gerard Ewe Keng Lim | of Malaysia or failing him |
| Mr. Yiu Joe Toh | of Australia or failing him |
| Mr. Priyantha Damian Joseph Fernando | of Sri Lanka |

as my/our proxy to represent and speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 29th May 2012 at 10.30 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereon.

| | For | Against |
|--|--------------------------|--------------------------|
| 1. To re-elect in terms of Article 89 of the Articles of Association of the Bank, H R H Prince Faisal Al Abdulla Al Faisal AL Saud who retires in terms of Article 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 1.2 of the Notice of Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Kin Leong Chong who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 1.3 of the Notice of Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Yiu Joe Toh who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 1.4 of the Notice of Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-elect in terms of Article 95 of the Articles of Association of the Bank Mr. Priyantha Damian Joseph Fernando who retires in terms of the said Article a Director as set out in Clause 1.5 of the Notice of Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorize the directors to determine donations for the year ending 31 st December 2011 and upto the date of the next Annual General Meeting as set out in Clause 1.6 of the Notice of Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors and authorize the Board of Directors to determine their Remuneration as set out in Clause 1.7 of the Notice of Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |

In witness my/our hands this day of Two Thousand and Twelve

.....

Signature

Notes: Instructions as to completion appear overleaf.
 Please indicate with 'X' in the space provided, how your Proxy is to vote on the Resolutions.
 If no indication is given, the Proxy in his discretion will vote as he thinks fit.

Form of Proxy

Instructions for Completion

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company, No.64, Galle Road, Colombo 03 not less than 36 hours before the time appointed for the holding of Meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. If the appointor is a Company or Corporation this Form must be executed. As depicted in the Articles of Association of the Company either under the Common Seal of the Company when applicable.
6. Please indicate with an 'X' in the space provided how your Proxy is to vote on the resolution. If no indication is given, the Proxy will vote as he thinks fit.

Please fill the details :

Please fill the details :

Share Certificate No. :

Name :

Address :

Jointly with :



Union Bank of Colombo PLC
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Web : www.unionb.com