



# The Heart of Our Enterprise

ANNUAL REPORT 2012

Corporate Branch  
Leasing/Factoring  
NAMAL - Retail Business

Corporate Banking • Treasury  
Trade Services • Personal Banking  
Auditorium

Central Operations  
Human Resources  
Administration

Finance • Investment Banking  
SME Banking • Structured Financing  
Information Technology

Marketing • Internal Audit  
Credit Administration • Recoveries  
Information Technology

## The Heart of Our Enterprise

Walk in through our doors and experience a distinction in service, a dedication to creating prosperity and success and a staff that is committed to creating an aura of support and trust. Built with a strong foundation and moored by a solid financial history, we have grown and spread out our reach, while maintaining our own unique brand of service that has been replicated all over the island. As you familiarise yourself with our work ethic, and walk through an organisation that is renowned for being the lifeblood of the Small and Medium Enterprises of Sri Lanka, we take you to higher levels of stability and confidence.

As we continue to evolve, it is with great pride that we state, this is the Heart of our Enterprise, this is the Heart of Union Bank.

## Contents

Financial Highlights	3
Our Focus	4
A Walk Through Our 17 Years	5
Chairman's Review	14
Leadership Forum	20
GRI Compliance Index	36

## Stewardship

Corporate Governance	46
Audit Committee Report	67
Human Resources and Remuneration Committee Report	69
Integrated Risk Management Committee Report	72
Directors' Statement on Internal Control Over Financial Reporting	76
Assurance Report on Internal Control	78
Nomination Committee Report	79
Board of Directors	82
Profiles of the Board of Directors	84
Executive Committee	88
Chief Managers	89
Senior Managers	90
Reaching Higher – Our Brand	94
Corporate Social Responsibility	103
Review on Human Resources	105
Subsidiary Update	108
Managing Risk at Union Bank	112
Investor Relations	124

## Financial Reports

Annual Report of the Board of Directors on the State of Affairs of the Bank	133
Number of Meetings held and Attendance	146
Independent Auditor's Report on Financial Statements	147
Income Statement	148
Statement of Comprehensive Income	149
Statement of Financial Position	150
Statement of Cash Flows	151
Statement of Changes in Equity	152
Notes to the Financial Statements	153
Capital Adequacy	222
Ten Years at a Glance	226
Quarterly Performance of the Bank 2012	228

## Supplementary Information

Glossary	229
Corporate Information	232
Branch Network	233
Notice of Meeting	234
Form of Proxy	235

## 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.

## mission

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

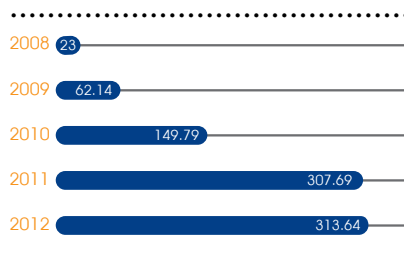
## values

- We value and believe in a high degree of integrity, honesty and ethical 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.

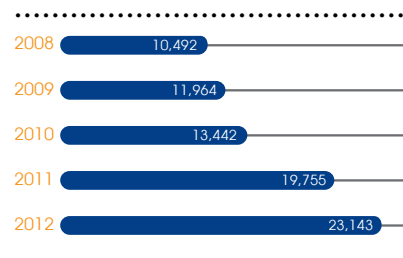
## Financial Highlights

	2012	Bank 2011	Change	2012	Group 2011	Change
<b>Results for the Year (Rs.000)</b>						
Total Income	3,942,649	2,523,139	56.3%	4,214,388	2,628,654	60.3%
Profit Before VAT on Financial Services & Taxation	559,237	534,028	4.7%	551,420	556,470	-0.9%
Profit Before Taxation (PBT)	462,975	451,244	2.6%	452,626	473,685	-4.4%
Provision for Taxation	149,331	143,550	4.0%	(35,076)	158,654	-122.1%
Profit for the year	313,644	307,693	1.9%	487,703	315,031	54.8%
<b>Assets &amp; Liabilities (Rs.000)</b>						
Due to Banks & Other Customers (Deposits only)	23,142,809	19,754,603	17.2%	23,737,528	19,888,012	19.4%
Gross Loans & Receivables	20,442,843	17,720,002	15.4%	21,937,485	18,794,107	16.7%
Total Assets	30,822,875	26,391,323	16.8%	31,631,831	26,618,526	18.8%
Shareholders' Funds (Capital & Reserves)	5,463,004	5,198,944	5.1%	4,934,547	4,530,213	8.9%
<b>Investor Information</b>						
Earnings per Share - Basic (Rs)	0.90	0.89	1.0%	1.24	0.90	38.1%
Net Assets Value (Rs)	15.64	14.89	5.1%	14.13	12.97	8.9%
Market Value at the Year end (Rs)	13.80	19.00	-27.4%	13.80	19.00	-27.4%
Dividend per share (Rs)	0.15	-	100.0%	-	-	-
Dividend Yield	0.01	-	100.0%	-	-	-
Dividend cover (Times)	5.99	-	100.0%	-	-	-
Gross Dividends (Rs. '000)	52,387	-	100.0%	-	-	-
Number of Employes	502	470				
Number of Branches	36	30				
<b>Key Indicators</b>						
Return on Average Shareholders' Funds	5.87%	6.29%	-6.7%	9.13%	7.37%	23.9%
Return on Average Assets (after tax)	1.09%	1.35%	-20.0%	1.67%	1.40%	19.4%
Price Earning ratio	15.37	21.38	-28.1%	11.16	21.21	-47.4%
Liquid Asset Ratio						
- Domestic Business Unit	23.11%	23.38%	-1.2%	-	-	-
- Foreign Currency Business Unit	22.91%	25.27%	-9.3%	-	-	-
<b>Capital Adequacy Ratios (%)</b>						
Tier I - Minimum Requirement (5%)	21.24	25.63	-17%	17.73	21.32	-16%
Tier II - Minimum Requirement (10%)	20.24	24.35	-16%	17.96	21.55	-16%

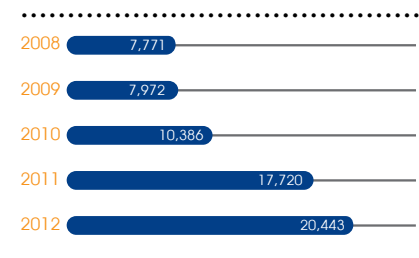
### Profit After Tax



### Total Deposits



### Total Advances



## Our Focus

### Small and Medium Enterprises (SMEs)

Recognising the importance of the Small and Medium scale entrepreneurs to the growth of the national economy, Union Bank is positioned as a preferred Bank for the SMEs with a vision to create sustainable development across the sector. The Bank's value proposition to the SME sector is directly in alignment with the Government's vision for accelerated economic development and the recognition of SMEs as an integral component of economic advancement for the nation.

Union Bank serves diverse types of businesses, providing opportunities to achieve business expansion and growth.

It strives to meet the needs of the sector by offering a comprehensive range of financial solutions that provides an array of advantages and benefits, an unparalleled service and the flexibility required to fuel businesses to greater heights.

### Focus 2012

The Bank's financial assistance included offering support to new, existing and start up ventures in agro industries, animal husbandry, horticulture, food processing, fisheries, construction, tourism, transport, wood based products, retail and other small business service categories.

Key focus of the Bank's strategic intent for the sector encompassed continuous development of its product portfolio, a pragmatic channel strategy that included branch network expansion and the development of alternate channels, technology advancement and the introduction of value added services that guide SMEs to realise their full potential and business growth.

In this regard, improvement and development of the lending products has been key. The first SME centre was opened at the Gampaha branch offering an array of value added services including, internet facilities, SME credit information, and the speedy approval of credit facilities using video conference. As an integral part of its process and efficiency improvements, the Bank also commissioned a new core banking system, which places Union Bank at the helm of information technology in the Banking industry in Sri Lanka. The Bank also introduced free advisory services ("Viyaparika Saviya") for its existing and prospective SME clients. 19 workshops were carried out across several geographical areas with the primary focus being to provide required knowledge and skill for entrepreneurial development.

### Objective 2013

Union Bank's objective for 2013 is to further strengthen its positioning as a Bank of choice for the SME sector, whilst strengthening the Bank's SME structure and enhancing the scope of its products and services. In keeping with the Government's vision of developing the SME sector, which has been recognised as the backbone of economic development, Union Bank will continue to develop and upgrade its services.

The Bank will continue to aggressively focus on developing a robust structure that will enable to absorb new growth opportunities whilst enhancing the Bank's service offering to the sector. Strategic intent for 2013 includes quantum change in approach with regard to focus on product innovation, channel strategy, value added services, and superior delivery which will enable Union Bank to create greater agility in catalysing growth for SMEs.



# A Walk Through Our 17 Years

## Shaping Banking Through 17 Years

Sri Lanka's financial services landscape is multi-dimensional, given the coterie of Licensed Commercial Banks and other related entities competing in a backdrop that has in the last two decades seen myriad challenges and in that light, opportunities emerging to make it a vibrant and dynamic industry that has been a pioneer in some areas, in this region. In 1995, into a milieu that already had within it a considerable number of commercial banks, most of them with renowned international presence, the eighth indigenous bank in Sri Lanka opened its doors. Union Bank of Colombo PLC (UBC) was first conceptualised to service the second tier corporates. A new strategic direction saw the Bank subsequently repositioning to fulfill a niche, the SMEs, one that had thus far remained untapped to its optimum. This strong objective drove UBC to position itself as the preferred Bank for Small and Medium Enterprises in Sri Lanka, which the Bank identified as being the real engine of growth for an emerging economy.

## Strengthening the financial foundations

The journey through these 17 years has been interesting, exciting and has certainly made UBC reach horizons never aspired towards before. Given the transformations in the macro environment as well as within UBC, the last decade has seen the Bank consolidate, restructure and emerge even stronger and with better focus. The expertise and financial stability infused by a Sampath Bank led consortium in 2003 and the change in direction and in turn, the strategy formulation driven by external consultants which was an imperative to aid this direction, established the springboards for the Bank to achieve its vision. Every process, system, network expansion, product development and training and development initiative was engineered to position UBC strongly within this niche of being the preferred SME Bank.

Further financial stability was added with the IPO held in 2011, the highest oversubscribed IPO in Sri Lanka, which also spelled immense confidence of the stability, founding values, ethics, governance and long term sustainability. This is well observed in the credibility UBC has imbued through its shareholder strength, comprising high calibre local and foreign investors, the consistent financial stability and innovative range of technology driven products which are ably supported by superior service delivery. This positions the Bank as a rapidly progressive business entity that has assuredly displayed consistent performance and growth.

Given the competitive landscape, UBC however needed to continue augmenting its presence, its portfolio of products and services and its team's competencies in the light of providing total financial solutions. This was speedily achieved through strategic diversification, designed to complement the core business of the Bank. In February 2011, UBC acquired 51% stake in National Asset Management Limited (NAMAL) which is Sri Lanka's premier asset management company and 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, now rebranded as UB Finance Company Limited, established in 1961 is one of Sri Lanka's oldest finance companies.

## Corporate Brand Fundamentals Emphasised

There was also a conscious need to strengthen UBC's corporate brand whilst communicating the brand's core fundamentals, values and delivery promise. It was imperative that UBC's indigenous and therefore totally Sri Lankan identity be pushed ahead. Based on this, the corporate brand communication strategy which included both below the line and above the line campaigns, brought forth the strong fundamental embedded within the brand, complementing it with creating an innovative, flexible, friendly and approachable identity that has surely paid dividends in creating the apt perceptions among our stakeholders. This is amply seen in the fact that Brand Finance conferred the accolade of being one of the most recognised and leading brands in corporate Sri Lanka on UBC in 2012.

## Expanding Presence and Reach

The Bank's unique value proposition is well tied in with accessibility and reach and a very strategic branch network expansion plan which began in 2011 was beginning to show results.

However, UBC's strategic decision to slow down its expansion plans based on external diktats not being conducive added growth in that time, saw it change the branch expansion strategy to suit the times in 2012, but in its stead, work on alternative reach channels. With innovation always being one of the Bank's very strong points that has seen some pioneering banking initiatives being introduced including alternate channels of Kiosk Banking, smaller branches managed by smaller teams geared to deliver higher efficiencies, productivity and speed. 2012 saw the new initiative of dedicated SME Centres, fully manned and equipped to provide consistent, efficient and completely focused products and services to SME customers being launched.

## A Walk Through Our 17 Years contd.

Today, the network is strategically positioned, with 36 branches including seven in the Northern and Eastern provinces. Being the route the Bank truly wants to forge into the future, 2013 is billed to have more of these customised dedicated SME centres added to the fray, while the network expansion plan will gain added momentum and be accelerated.

### A pioneer in banking technology

Since its inception, UBC has always believed in maximising and optimising the use of technology to ensure that Sri Lanka's banking landscape continues to be competitive in the region. Way back in 1995, UBC was the first to introduce computer generated deposit slips and Unitel phone banking, the latter truly revolutionising the banking sphere. Just one year later, cheque clearance was done in a single day, certainly a novel concept around the world which had very few banks if any offering this service, while Internet Banking, enabling ATM withdrawals for pawning and daily e-statements followed, with some award winning products introduced as well, including the E-Cheque system and UB Online.

With this emphasis of using technology to aid service delivery and also benefit from the intangible advantage of reducing the Bank's carbon footprint, UBC now uses Skype and video conference extensively for approvals and client meetings. In 2012, UBC notched yet another pioneering milestone to its value added product portfolio by launching TV banking with national telecommunication services provider Sri Lanka Telecom to truly revolutionise the way banking will be performed in Sri Lanka.

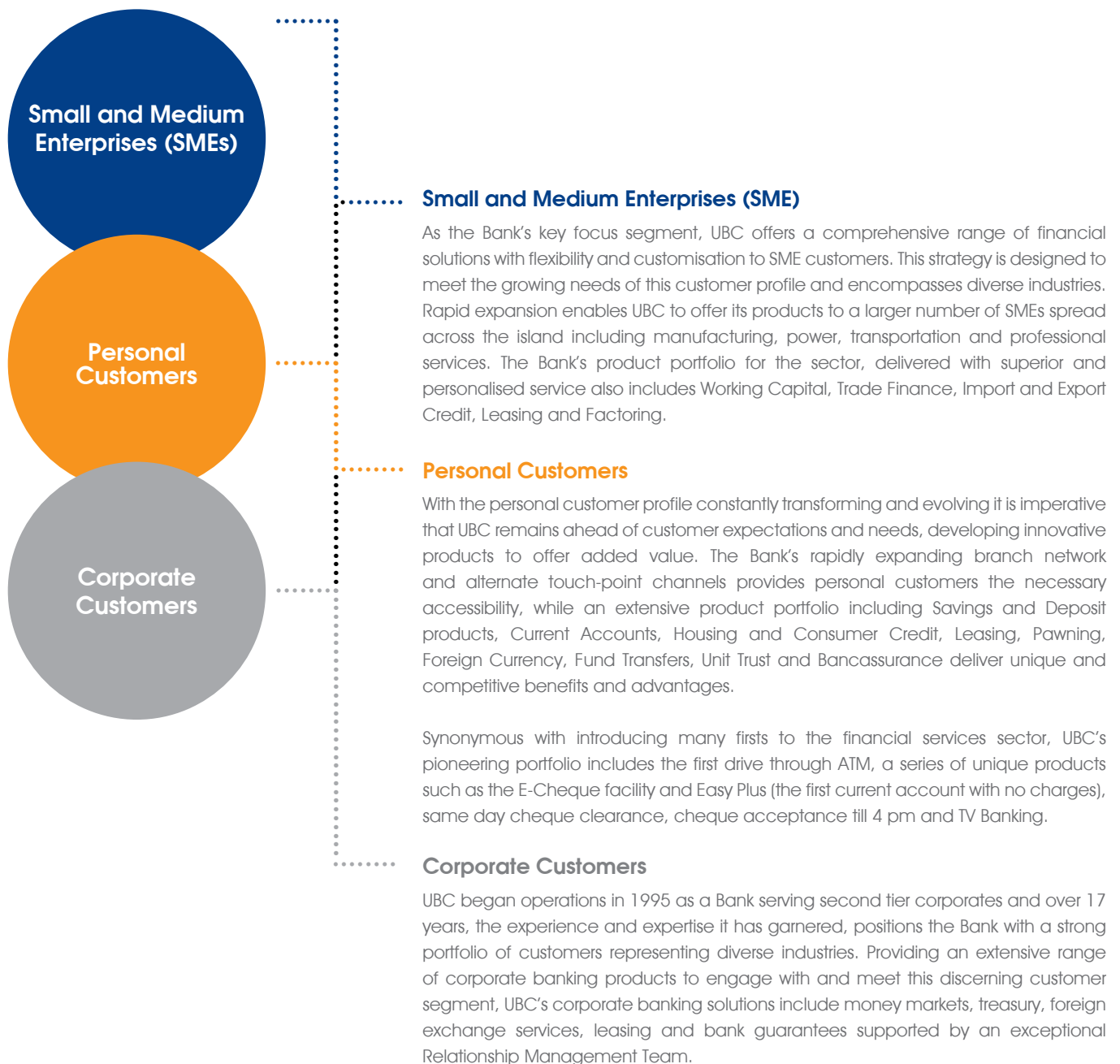
### The focus remains

Well established now as one of the country's fastest growing banks, the strong concentration we have infused into ensuring that we meet our vision of partnering the SMEs of this country into contributing optimally to this burgeoning economy, remains strongly in focus. The comprehensive range of financial solutions we have developed to suit the customer diversity has certainly seen tangible advantages emerge within the SME sector.

Truly committed to being the Heart of Enterprise, infrastructure and technology was very much the catalyst in leveraging our strengths and competencies in 2012 and is now the firm and stable trusses to take us forward. In entrenching this SME focus, the core values of the Bank however remain the overarching tenet in the overall growth strategy, the evolution and transformations the Bank has experienced and will, given the external and macro landscape, continue to experience.



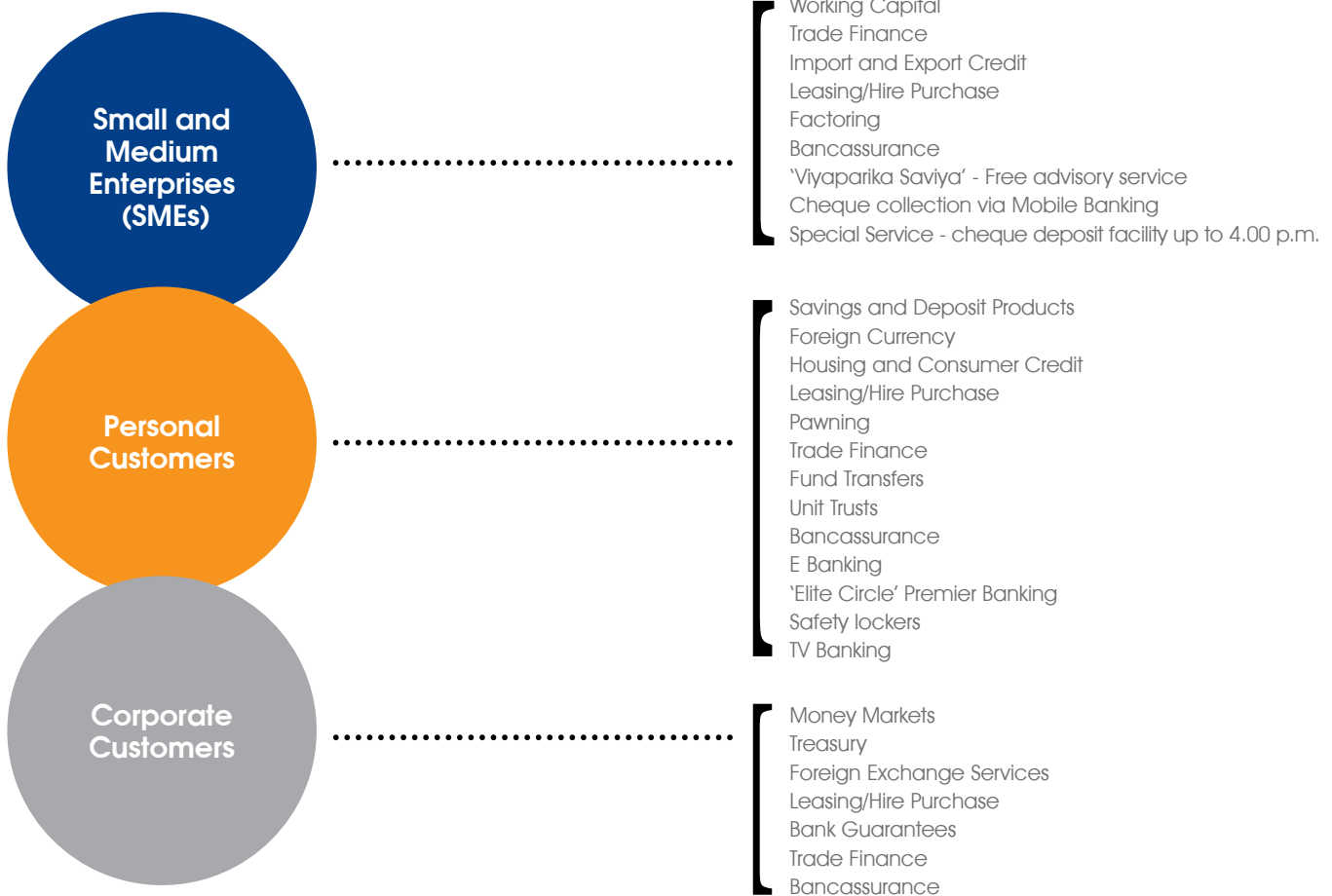
## Customers



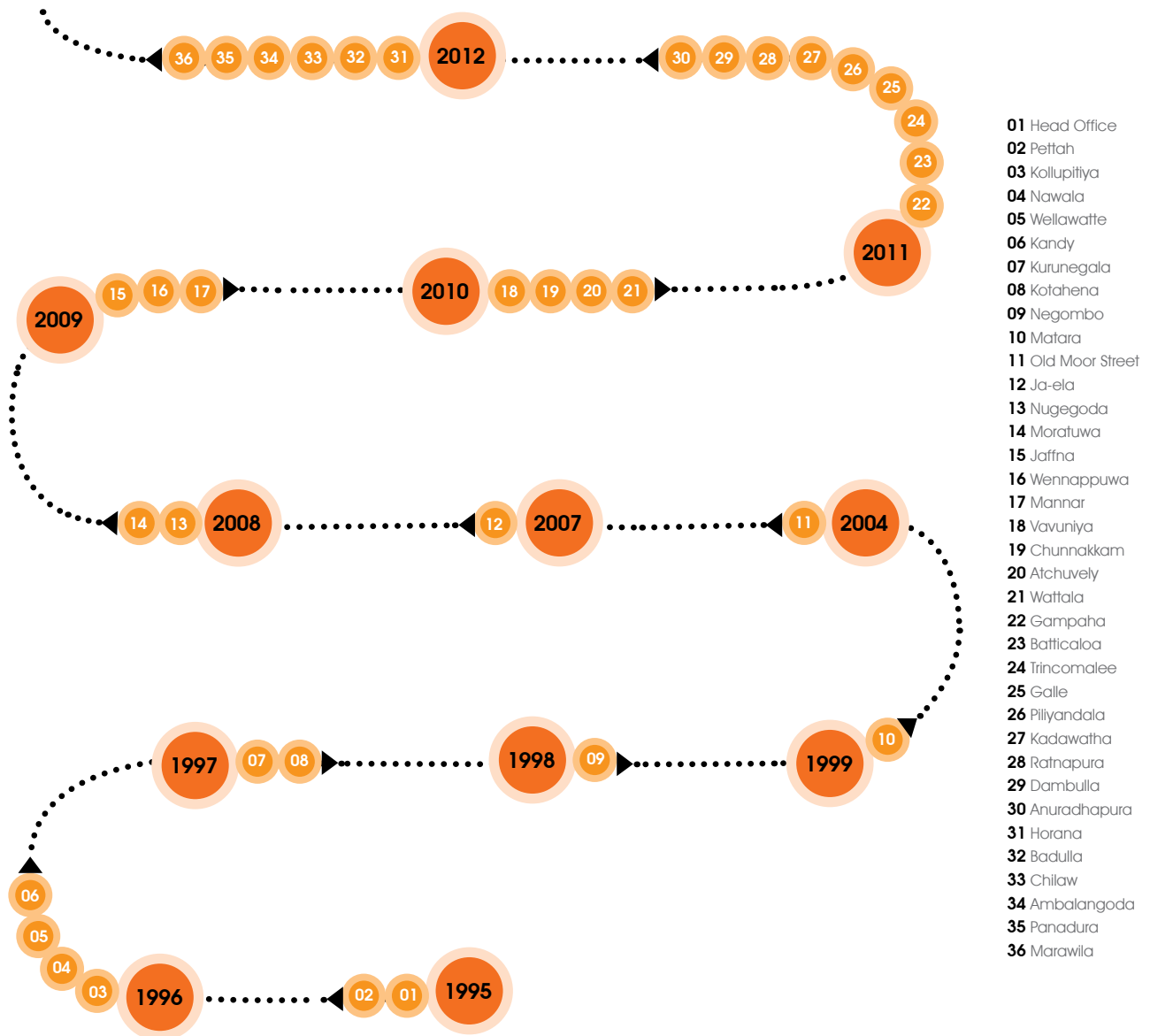
## A Walk Through Our 17 Years contd.

### Products

The extraordinary ability of combining technology prowess with in-depth knowledge, expertise and experience have 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.



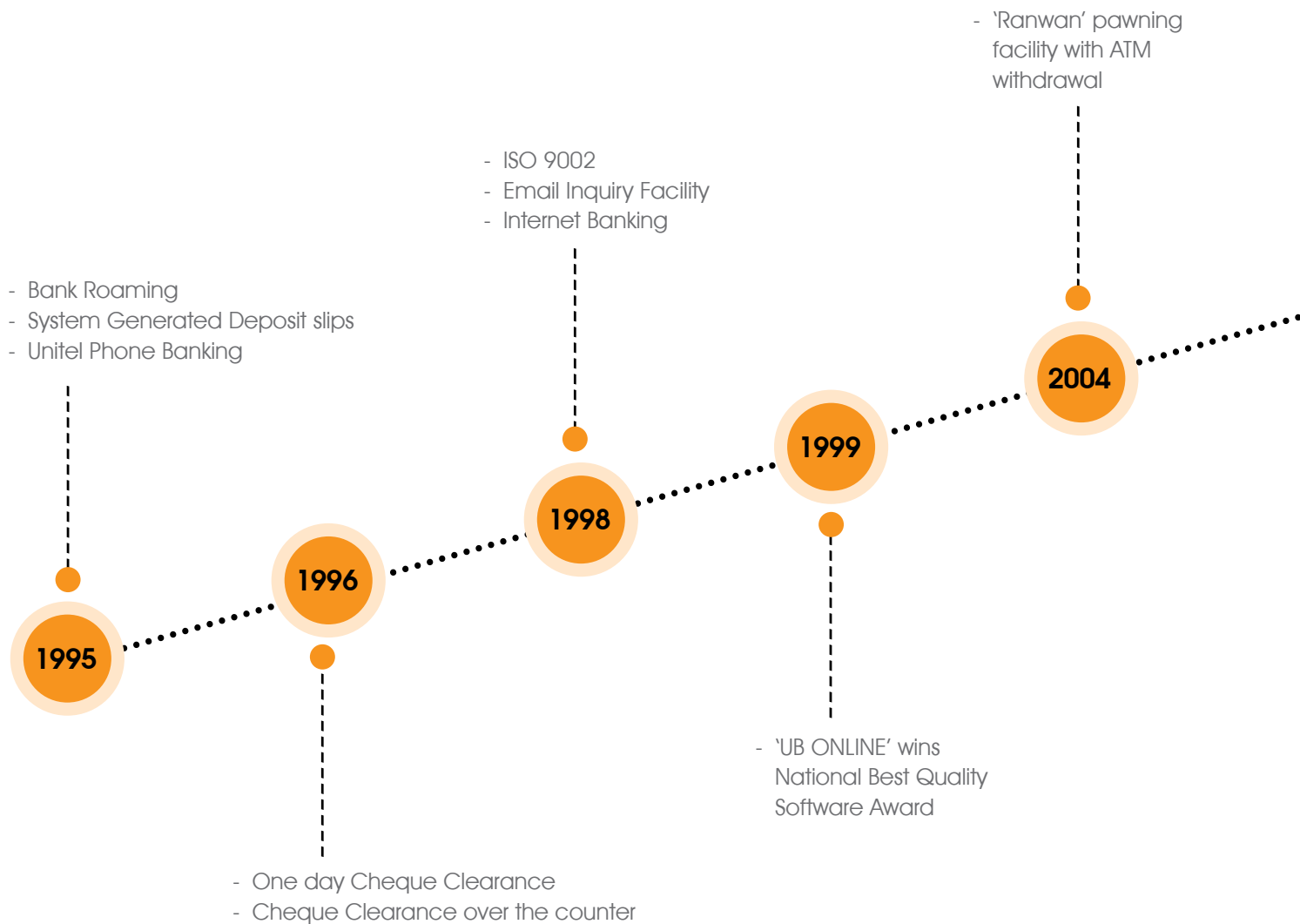
## Branch Network

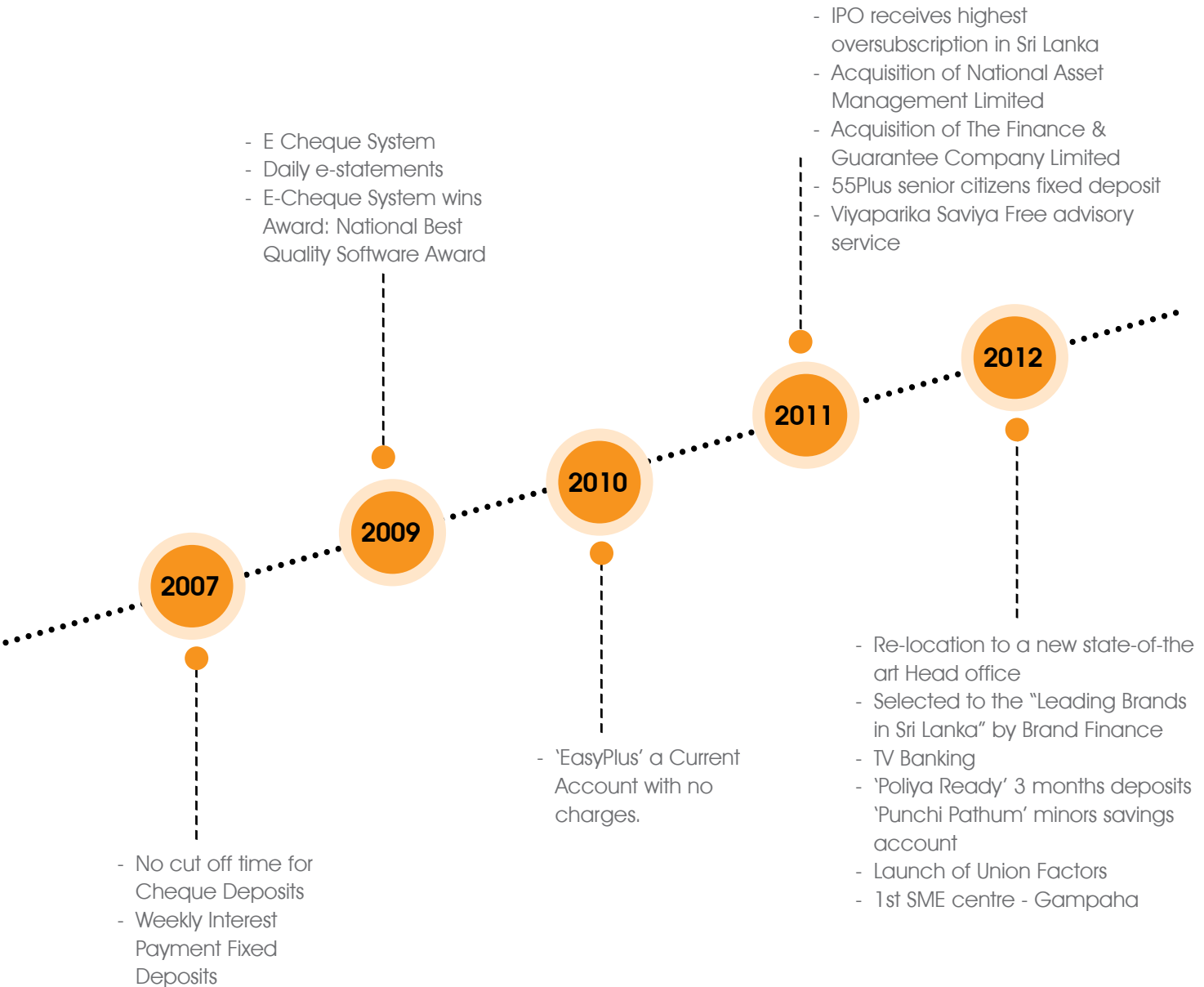


- 01 Head Office
- 02 Pettah
- 03 Kollupitiya
- 04 Nawala
- 05 Wellawatte
- 06 Kandy
- 07 Kurunegala
- 08 Kotahena
- 09 Negombo
- 10 Matara
- 11 Old Moor Street
- 12 Ja-ela
- 13 Nugegoda
- 14 Moratuwa
- 15 Jaffna
- 16 Wennappuwa
- 17 Mannar
- 18 Vavuniya
- 19 Chunnakkam
- 20 Atchuveley
- 21 Wattala
- 22 Gampaha
- 23 Batticaloa
- 24 Trincomalee
- 25 Galle
- 26 Piliyandala
- 27 Kadawatha
- 28 Ratnapura
- 29 Dambulla
- 30 Anuradhapura
- 31 Horana
- 32 Badulla
- 33 Chilaw
- 34 Ambalangoda
- 35 Panadura
- 36 Marawila

## A Walk Through Our 17 Years contd.

### Milestones









A Walk Through  
**LEVEL G**

- Corporate Branch
- Leasing Division
- Call Centre

## Chairman's Review



As we look back on a year that has assuredly presented the world with a further set of economic woes, we also see the emergence of the 'Chindian Century', where China and India are beginning to take on the mantle of becoming the world's economic giants supported ably by the other BRIC countries. Sri Lanka in the meanwhile has held her head high in the economic milieu, meeting her objectives and targets and certainly proving that the island nation is quickly overcoming the challenges imposed by its thirty year war, being ready to enter into her accelerated development agenda to be a 'break-out' nation.

For UBC this stance naturally paves the way for rapid growth, given our unequivocal focus on developing the SME sector of this country as the backbone of economic development. Given our vision of becoming the 'Top of Mind' SME Bank which undoubtedly is where we want to grow, we are now firmly aligned to the Government's and Central Bank's aspirations in this focus as well. It is in this progressive and optimistic backdrop therefore, that it gives me great pleasure to present the Annual Report and Financial Statements for UBC and its subsidiaries for the year ending December 31st 2012.

### Global Economic Trends

The economic news dominating the headlines this year as in the previous years was the recovery or lack of recovery of the global economy, with the sharp decline in the budget deficit pointing to a looming fiscal cliff in 2013 in the US. However, an eleventh hour reprieve was seen when the American Tax payer Relief Act of 2012 was passed on the 31st of December 2012. The Act, signed into law by President Barack Obama on 2nd January 2013 saw some relief projected with an increase of 8.13% in revenue and 1.15% incline in spending for the coming fiscal year. A US \$ 157 Bn decline in the 2013 deficit is also projected. These measures vis a vis the Act will surely posit permeating positives across Europe, Asia and Africa, given the trading influences the US has in these continents.

It was the weaknesses seen in developed economies that remained at the core of the world's economic woes. The renewed escalation of the Euro debt crisis saw meager growth in the global economy, just 3% compared to 3.6% in 2011. However, even though this sluggish pace is likely to persist, economists are



We, as a Bank have to journey towards our aspirations, positioning ourselves for the growth paradigms we anticipate. This could take many transitional and transformational forms but we do believe that this will open myriad of opportunities for development, while also seeing some consolidation.

optimistic and believe that the global economy will showcase 3.25% growth in 2013. There also seems to be an increasing dependency on emerging markets to garner growth although it must be noted that emerging markets remain vulnerable and impacted to worsening economic conditions.

This was seen when Emerging Asia did see a slowing of growth, despite massive optimism at the beginning of the year. Fragile export demand was key to this. However, the bloc did pick up marginally by 6.3% having worked on initiatives that would lessen its trade dependence on the largest contributors to the global economic crisis, the US and Europe. The consequences of the Arab Spring of 2011 too continued to leave its mark with economic growth in MENA remaining gloomy, augmented by depressed tourism and FDIs, rising social spending and continued political instability. Sub Saharan Africa however displayed a converse outlook, being quite encouraging with its stable domestic demand, heightened exports and political stability.

With growth expectations being firmly placed in the hands of developing countries, I do believe that sufficient resources must

be made available to accelerate the envisaged progress, especially if these countries are to achieve their Millennium Development Goals and attract investment for sustained long term growth.

### The Sri Lankan Economy

One of the most comprehensive aspects showcased within the country's landscape this year has been the clearly visible peace dividends, evidenced amply by remarkable performances in all key sectors of the economy, a significant leap in business confidence and macro-economic fundamentals firmly established across all vital sectors. We began 2012 on a considerable high, having notched good performance in all key indicators; 6.5% growth in GDP, increased levels of investment standing at 29.9% of GDP, low inflation and a historic decline in unemployment to 4.2%, buoyant external trade and accelerated tourism development, a declining budget deficit and similar trends in Government debt/GDP ratio being the lowest in thirty years.

Maintaining these thresholds and building upon it for a more sustainable foundation therefore became key in fiscal strategy and management for 2012. However, there was the added conundrum of heightened global and domestic challenges to overcome, including the European Sovereign debt crisis, the fiscal cliff and geo-political uncertainties exacerbated by sanctions on Iran resulting in petroleum prices remaining persistently high. Droughts and floods during various parts of the year affected agricultural output in Sri Lanka as well as the country's hydropower generating capacities, while excessive credit demand and high imports also posed challenges to meeting the end economic objectives.

The progressive policy decisions pertaining to monetary, exchange rate, fiscal and administered pricing implemented during the year therefore, proved to be the panacea to dealing with the challenges that ensued. As has been characteristic of the Sri Lankan economy in years past, it showed resilience and adjusted well to the measures adopted. Cumulative expenditure on imports, though declining by 4.5% saw it stand at 31.5% of GDP, while export earnings overall also declined as a result of weakening global demand to 16.5% of GDP. The most decrease was seen in consumer goods imports, down by 17.2 %, while despite all other sectors showing a decrease in export earnings, mineral products increased by 68.1%.

## Chairman's Review contd.

The Central Bank of Sri Lanka expects the trade deficit to contract to 15.1% of GDP this year while the current account deficit was buoyed considerably by tourism, workers' remittances (up by 16.8% to US \$6 Bn) and BPO and KPO sectors gathering momentum. Hence, the current account deficit is also slated to reduce to US \$3.3 Bn or 5.5% of GDP compared to 7.8% in 2011. The Balance of Payments thus recorded a surplus of over US \$100 Mn, from the previous year's deficit of US \$1,01 Mn. Fiscal deficit declined further to 6.2% by end 2012.

Considerable focus was also given to maintaining inflation at single digit levels, although challenged on numerous fronts including supply disruptions due to drought conditions, upward adjustments and revisions of administratively determined prices and imports, depreciation of the rupee and high credit expansion in the past. Core inflation however was maintained at 7.6% YOY, while annual average remained at about 7% in December 2012. The Department of Census and Statistics posts that unemployment decreased to 3.9% during the first half of the year but inclined to 4.1% in the third quarter, which yet is a positive sign, when compared to other economies which saw unemployment rise much more. These indicators certainly augur well for SME development and entrepreneurship capabilities being honed at national level.

While tourism achieved its set target of welcoming one million tourists by end 2012 in preparation for the 2.5 million anticipated by 2016, there was accelerated focus on mega infrastructure development in the road, power, ports, airports and rural infrastructure sectors. Two expressways, namely the Southern and Colombo- Katunayake Expressways are due for completion in 2013, while several others are well on target. With thoughts of fulfilling the goal of 100% electrification for the nation by 2013, numerous hydropower and coal power projects including small rural electrification schemes are being completed. The Oluwil Port is earmarked for completion in 2013, while the Southern Colombo Harbour Project, Hambantota and Kankesanthurai projects are well within their timelines. Similarly, the Mattala International Airport will also be completed in 2013, while domestic airport development in five cities are on track as well. Mega hotel projects, real estate and mixed development projects are augmenting the national canvas of development, all of which have seen Sri Lanka climb its way up several global indices.

Sri Lanka gained accolades when it reached the best ranked in South Asia in the Human Development Index, being ranked

97 of 187 countries, well above world average. The nation also moved up the Global Prosperity Index to 58 from being ranked 63rd in the previous year, while in the Ease of Doing Business Index, once again Sri Lanka was the highest ranked in South Asia and the only country in the region to improve its ranking this year. In the Ease of Doing Business Index, Sri Lanka is currently at 81st position and for the first time in seven years, was presented the laurel of being the only South Asian country to rank among those countries improving the most. The country also did well in the Economic Freedom Index (climbing from 107 to 97), Corruption Perception Index (ranked 79 from 86 last year) and rising in the Global Competitiveness Index as well (from 68 to 52). While the IMF presented kudos to Sri Lanka post a series of reviews, etching a significant milestone in the country's economic history in releasing the entirety of the Stand-By Arrangement facility of US \$2.5 Bn, in an year when other countries saw their sovereign credit ratings downgraded, Sri Lanka maintained its status. Fitch Ratings maintained Sri Lanka at BB- Stable, Standard and Poors rated Sri Lanka at B+ Stable and Moody's also maintained Sri Lanka at B+ Positive.

### The Banking Industry in Sri Lanka

With a strong and steady focus in developing Sri Lanka into the US \$4,000 per capita economy, the banking sector has assuredly been an aggressive yet stable feature in ensuring that objectives are met. Sri Lanka has faced its fair share of challenges, whether in the conflict era or post conflict one but one stabilising facet in the economy has always been Sri Lanka's financial sector. It has always showcased an astute emphasis on expansion, sustained long term performance, a far sighted regulatory milieu and efficient and productive systems and processes that have created a strong progressive environment.

The Central Bank of Sri Lanka (CBSL), has over the years ensured that prudent monetary and fiscal policies, introduced in timely fashion would aid in maintaining the stable foundation that the financial sector has showcased. For example, when by the latter half of 2011 a paradigm of excessive growth was seen in imports and private sector credit, 2012 saw a comprehensive policy package introduced by the CBSL, earmarked to decelerate this growth pattern. There was an upward adjustment of policy rates, a credit ceiling, a change in CBSL's intervention policy in the forex market, reduction of Banks' Non-Operating Profits, adjustment of prices of petroleum products, fuel adjustment charges introduced for electricity consumption, revised transport fares and an increase in motor vehicle taxes.

Both the government and Central Bank of Sri Lanka are emphatic on maintaining this stability in the financial services sector, which is a priority in the economic development agenda. In 2012, total assets accounted for Rs 5,102 Bn and asset quality of the sector also improved significantly. The Gross NPA ratio reduced from 3.8% to 3.6%. Loans and Advances were posted at Rs 3,146 Bn which is 62% of assets of which finance leasing and hire purchases accounted for 72%. Deposits stood at Rs 3,598 Bn, while capital funds increased about Rs 436 Bn.

Being keen on increasing all KPIs, CBSL is projecting Total Asset to be Rs 9,334 Bn, Loans and Advances Rs 6,000 Bn and Deposits will reach Rs 6,500 Bn by 2016. Private Sector Credit which this year stands at Rs 2,387 Bn, an increase from Rs 2,005 Bn in 2011, is estimated to reach Rs 4,143 Bn in 2016. It is also advantageous that the Capital Adequacy Ratio was maintained well above the minimum level of 10% with the Basel II standards being implemented and monitored. Under Pillar 2 of Basel II, the Consultation Paper on the implementation of ICAAP (Internal Capacity Adequacy Assessment Process) and Supervisory Review Process (SRP) was also issued.

There will be added emphasis on enhancing the vibrancy of the equity market, introducing wider investment opportunities and broader investor groups, as will the Corporate Bond Market which is currently approximately Rs 100 Bn (to reach Rs 1,000 Bn by 2016) expecting to be driven by the availability of long term funds and a growing corporate sector. Long term external financing at a lower cost will be key to driving international investor confidence corroborated by the country's borrowing cost from international markets being lowered.

Over the years, it has been seen that there is considerable expansion in the financial services sector and a pertinent need for consolidation has emerged. By the end of September 2012, the branch network increased by 129, while by end 2012, the entire industry encompassed 2,193 bank branches, 4,103 other banking outlets and 2,331 ATMS, which amply displays the rapid expansion paradigm being worked on cohesively by the entire banking industry. This was surely augmented by continuous supervision and guidance added to with speedy approval for new outlets, a reviewing of current classifications of banking outlets in order to streamline and rationalise approval procedure and the safety net mechanism and customer protection being strengthened. The Mandatory Deposit Insurance Scheme, introduced a few years ago, continued to show immense

progress and grew to Rs 8.9 Bn by end 2012, while yet another initiative was introduced detailing the obligations of customers and banks in a Customer Charter.

To grow this vibrant sector which in turn will facilitate rising credit demand and cushion potential risks, a steady growth in the capital base is imperative. Similarly, with the sector becoming larger in scale, smaller banks may not be able to compete. Mergers and Acquisitions would be the astute path to tread, if Sri Lanka is to become internationally competitive. Several banks are already probing the international pulse, having successfully accessed international debt capital for a total of US \$ 973 Mn, 70% of which is in long term borrowings, leveraging their balance sheets more efficiently.

### **Paving Our Path of Growth**

For Union Bank, there's just one focus – to be the preferred SME Bank of choice. This is the space we see ourselves in and the strategy that we are journeying towards. Into this singular focus therefore, we are very cognizant that with Sri Lanka moving towards the US \$4,000 per capita threshold, our nation is being propelled into a newer growth realm, which will trigger major structural change in addition to socio-economic transformations. We are now in an economy with a per capita income of US \$2,900 and our products and services are geared for that prescriptive economy. Moving on up means we innovate and introduce a portfolio that would be focused on higher incomes, different qualities of life and more sophisticated aspirations.

One of the most strategic initiatives therefore was the acquisition of National Asset Management Ltd (NAMAL) and The Finance & Guarantee Co Ltd (Renamed UB Finance), which we believe affirms our objectives of gearing towards the anticipated new era. We are now equipped with a comprehensive suite of products to suit any customer who wants to bank with us, whether in deposit, commercial products or even in fund management or leasing and hire purchase. We are going beyond simply being a Bank to becoming a total solutions provider.

With last year being one of consolidation, where we looked inwards to re-strategise our entire outlook in anticipation of what is to come, we are now positioned to look upwards and outwards. Even though we did face the challenge of restricted growth due to the prescribed credit curtailment having met the target within the first three months of the year, UBC has always been pragmatic in its workings. There is an uncompromising focus on complying

## Chairman's Review contd.

with the policy and continually developing innovations that would add to our bottom line.

Realising the vital role that IT plays in customer outreach certainly slated to gather further momentum as we move towards 2015, the vision of an IT based economy fuelled some changes into our systems and processes during the year. From better efficiencies being infused into systems and processes, UBC is in the process of changing the entire core banking software, having sourced software that's very relevant to the Asian context.

Our Core Banking System which is currently in implementation, is billed for complete rollout in 2013 and is certainly another significant milestone achieved. While brick and mortar structures will continue to be fundamental in the banking landscape of Sri Lanka, we expanded the presence of these conventional bank branches by six this year, with hopes of expanding it to a network of fifty by next year. In tandem, we are enthusiastically implementing initiatives using technology to make virtual banking an everyday occurrence accessible to all parts of the country.

One of our significant IT imperatives this year was the partnership we sealed with a leading risk management solutions company, tasked with implementing customised risk management systems into our operations, given our unwavering focus on the SME sector and the need therefore to have a customised risk management framework that will assist us in reaching our objectives.

Our Team continues to be one of the most dynamic in the industry and in fact, together with our other stakeholders, are emphatically etched into our Strategic Intent, a document which we formulated this year, post an enthusiastic brainstorming series held with our Board and Senior Management. We are keen on making UBC the employer of choice within five years, where our team will be proud to be employed at the best place to work. We are conscious that we must have the right blend of young blood and experience and our recruitment process therefore is extremely comprehensive, ensuring that the relationship we espouse with our team is a win-win one. The strengthening of our middle management core therefore is vital and given the need to attract vibrant qualified people into this segment, UBC had a very successful 'UB Talent Night' an initiative that further strengthened comradeship and assisted in improving the bank's profile as a preferred employer of choice. The cohesive succession planning, career path mapping and matching

corporate vision to personal aspirations gives UBC a firm pattern to plan and implement sustainable progress.

Our shareholders would surely have renewed confidence in UBC, having seen the strategic transformations made and those spearheading this change. Our Board of Directors remains one of the most respected, comprising eminent respected professionals who are renowned for their principles, ethics, impartiality and independence. The directorate practices an uncompromising stance on governance, transparency and accountability, stringently following a culture that goes beyond compliance. Their vision is to position the Bank on a long term sustainable platform of growth. There is also a need for organic growth, which has seen us make prudent acquisitions, a paradigm which we will augment provided the acquisitions are aligned to our end vision. This singular focus has seen us perform well this year too, growing on our KPIs and our bottom line, which will see us present final dividend to our shareholders this year.

Union Bank recorded an impressive 41% growth in core banking operations in comparison with 2011. These results were achieved despite a very challenging environment where policy restrictions highlighted limitations on areas such as credit thus impacting the banks planned expansion initiatives.

The Group reflected Rs. 487.7 Mn, a 54.6% growth in profit after tax (PAT), resulting in an increase of Rs. 172 million in comparison to the previous year.

### The Journey From Now

In the backdrop of our very successful IPO held in February 2011, UBC now has a strong and stable capital base, being adequately capitalised and aligned to all CBSL requirements at least for the next four years. We, as a bank have to journey towards our aspirations, positioning ourselves for the growth paradigms we anticipate. This could take many transitional and transformational forms but we do believe that this will open myriad of opportunities for development, while also seeing some consolidation. While we are seeing prudent fiscal policies and strategies being mooted by the regulator and relevant authoritative bodies, we also know that it would be some time before the world begins to gain some momentum in an economic sense and hence, the controls and monitoring processes Sri Lanka has in place certainly augurs well for the furtherance of a stable and sound financial services industry.

For UBC, our focus is clear. We want to become 'The SME Bank' in Sri Lanka, because we know our fundamentals are apt for us to add value to this vision. We believe that in playing our part to create an empowered nation built on a sustainable foundation, we are playing a vital role in creating a sustainable Sri Lanka, that can achieve its medium and long term goals due to an unrelenting focus on the end vision. Hence, we are positioned to complement the nation's development journey because there's an affirmation of corporate stewardship in our make up as well and that corporate stewardship is strong in its sustainability principles, values and foundation.

#### **In appreciation**

I'm most grateful to the Governor and officials of the Central Bank of Sri Lanka for extending their continued advise and consultation to UBC. The strong fundamentals implemented in the recent past have undoubtedly been the trusses that gives UBC the strength and stability we see today. I am appreciative of the pragmatic leadership extended by former Chairman Ajita de Zoysa who retired in April, 2012, for spearheading the Bank for nine years and wish to extend my thanks also to Directors Ananda Wijetilaka Atukorala and Chithrupa Premalal Ajith Wijeyesekera both of who retired in May 2012 after serving on this board for nine years and Mr. Toh Yiu Joe who resigned in August. A special note of appreciation to Mr. Aslam Omar who resigned in December 2012 as Director and Chairman of the Audit Committee. His invaluable advise is noted. My appreciation also goes out to Alternate Directors Mr. Ashan Suresh de Zoysa who resigned in March 2012 and Mr. King Tak Blondel who resigned in August 2012. These eminent individuals have been instrumental in charting the progressive path your Bank places itself on today. To my Board of Directors too who are with me today, my grateful thanks and

I know that we are equipped with those strong fundamentals to forge a journey that will take your Bank to new heights.

We have also been most fortunate to have among our stakeholders, shareholders who have remained loyal to the Bank and have retained an unrestrained confidence in everything we do. To our customers and our Team, you remain our backbone and while I say thank you for your continued commitment in partnering UBC to achieve its vision, I assure you of our unrelenting cooperation at all times. My appreciation to our valued business partners, the communities we work with and all other stakeholders who surely make us what we are today.



**Alexis Lovell, MBE**

*Chairman*

Union Bank of Colombo PLC

## Leadership Forum



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

UBC is firmly and surely positioning itself as the top of mind recall SME Bank. All our strategies, intents and plans have revolved on this focus for a number of years and we see it bearing fruition within the next few years.

### CEO's Review of Operations

We are a relatively young bank when one observes the financial landscape of Sri Lanka but we perceive that youthfulness as an exemplary advantage. Our progressive outlook and ability to transform quickly in a backdrop that is constantly evolving, affirms this youthfulness. Over the last few years we have honed our capabilities, capacities and competencies, all of which have placed us firmly as your choice for growth. We have brought in innovation and accessibility into the equation, while strengthening governance fundamentals. This places UBC in a league that speaks of commitment and excellence, constructed on the trusses of stability, confidence and a very solid financial history, which surely remains at the heart of enterprise.

The axis of our nation's development agenda is in the hands of the SMEs of this country. Riding on the features contained within Sri Lanka's Development Vision, the SME nexus is a facet we identified some years ago and UBC began working towards becoming the preferred bank for SMEs. To us, this is a niche we can fit into with ease due to the very persona of the bank being one that is geared to work with SMEs. Our youthfulness which allows us greater flexibility, strategic branch expansion into SME concentrated areas and therefore accessibility, our astute combination of human engagement and technological intervention prompting service excellence and our unequivocal commitment to ensuring that we journey together with our stakeholders has given us the impetus to firmly position ourselves in that SME banking sphere.

### Macro Overview

Looking back on Sri Lanka's economic performance over 2012, there was some prudence that was reflected in the fiscal decisions made over the year. One such was the forecast GDP growth for

the year being realistically reduced to a more manageable 6.7% from a record 8.3% growth last year, yet remaining above those countries in the region. With the global economy continuing to show little respite from its economic woes and the US lamenting its dangerous proximity to a fiscal cliff, Sri Lanka's growth paradigm was certainly encouraging and emphasised that our economic fundamentals remained strong. The downward forecast was due to the country experiencing prolonged drought conditions, which impacted the agriculture sector (a very active contributor to the economy in past years) and the cascading impacts of the global slowdown.

This also caused the fiscal landscape to be strategically pruned, with the regulator bringing in some tough policy measures to ensure that shocks will be minimised. To avert the balance of payment crisis and reduce the trade deficit, key policy rates were increased twice during the year, banks underwent a restrictive lending landscape and the rupee was allowed a free float. Inflation however, as measured by the CCPI remained at single digit level, although it did increase on an annual average basis to 7.6% in December from 7.2% in November. The US \$59 billion economy that has now placed us at Middle Income Country status did manage to weather the storm, ending the year with a more dirigible trade deficit, a stabilisation of the broader economy, more positives from international rating agencies and a nod of approval from International Monetary Fund, all of which augur well for the accelerated development and investment phases the country is working towards.

Meanwhile with the global economy tipped to be driven by China and India and emerging economies expected to grow faster than advanced economies, there are some implications that surface for emerging economies. It is imperative that smaller

economies like ours must shift export focus to intra-regional trade and away from advanced economies, using the growing domestic consumer base to sustain growth. Fiscal flexibility is also important given the external shocks that are bound to ensue in this volatile global milieu.

### Operating Environment

While in a macro sense the monetary and fiscal policies enacted did have the larger well being of the country in focus, for the financial landscape, the year became a challenging one. Firstly, managing our credit growth in the milieu that ensued proved to be one of the biggest. The 18% credit ceiling with an added 5% for foreign borrowings became restrictive, especially given that we are one of the smaller banks in the larger equation and this, therefore forced us to rethink the strategies planned for 2012. However, this also brought forth our inherent innovative stance, which UBC has always been renowned for, allowing us to use diverse strategies and different avenues to grow our KPIs.

All areas of business were impacted by various fiscal diktats including the increase in motor vehicle duties and upsurge in fuel prices which saw the leasing industry endure some setbacks. The high interest regime too had considerable negativities. Deposits did not perform as expected due to cost of living seeing considerable increases and household budgets being expended on other priorities. This was further exacerbated due to intense competition in the market, resulting in deposit rates being higher than anticipated and creating a stifled market environment with all players wanting a slice of the same pie. Investment within the micro and SME sector however did see some expansion, although not in the proportions anticipated, once again due to the interest rates being somewhat prohibitive for the smaller businesses to endure and thus sustain performance levels. In general, coupled with the fact that lending was restricted and hence capacity to earn was also limited and raising deposits involved high cost, profitability did suffer.

It was also interesting that the Governor of the Central Bank enumerated a 21 point 'To Do List' for bankers, urging the financial sector stakeholders to be very cognisant of the macro-economic factors both in Sri Lanka and around the world. His emphasis on focusing on capital adequacy, regulatory direction, corporate governance, IT, risk management, need for innovation, productivity improvement and maintaining the SME focus including supporting local entrepreneurship and creating future business leaders is well aligned to the strategic plan that UBC is already well into practicing.

### The SME Focus Gains Momentum

And so we continued to develop our focus of becoming the Heart of Enterprise, primarily in being a strategic partner to the country's economic backbone, the SME sector. While the credit ceiling did pose challenges and made us re-think the expansion plan we had set for ourselves in 2011, we re-analysed our strategy and geared for the new challenges ahead. This meant that our branch expansion would have to be very honed and focused, geared specifically to grow our SME portfolio.

Firstly however, we were keen on ensuring that the fundamentals that would make us the preferred SME bank among our target customer was in place. This meant expressly ameliorating SME knowledge, skills and competencies among our team. Extensive training programmes specifically geared to creating a team that would compliment our focus was carried out throughout the year. This also infused attitudinal change which brought in greater flexibility to systems and processes and a culture that was committed to creating entrepreneurs and sustaining small business. I am now confident that our team is fully equipped with the apt knowledge and skill set, being the foundation to creating a vibrant SME sector, to partner this backbone of the economy.

Once this foundation was established, our focus turned towards our accessibility to our target customer. The external milieu did not warrant extensive expansion strategies but instead, we worked on a more prudent plan. Expansive analysis and a study of various key locations saw us concentrate on new locations to integrate our SME presence to compliment the 6 branches we opened during the year.

Our alternate channel strategy of smaller banking units commenced in Marawila, as with its large agricultural presence, Marawila formed the ideal geographical locale to pilot our first SME dedicated branch which offer all services of a SME Centre. In addition we also opened our first SME centre affiliated to the Gampaha branch.

Equipped with the necessary technology and manned by a very knowledgeable and professional staff, these have surely paved the way for plans of opening at least ten more similar SME dedicated branches / centres in 2013.

We have also begun positioning a dedicated SME team at other branches in localities that are not represented by a SME Centre, to ensure that any SME customer will always have speedy responses to their requirements.

## Leadership Forum contd.

A significant advantage that UBC has in this SME milieu, is that we have created a very definite niche for ourselves in this space. Having fully analysed the characteristics of the country's burgeoning SME sector and being well aware of its challenges, we also do know that these challenges reap extraordinary rewards. There's a definite identification of volume rather than value, which is the base upon which we have set ourselves firmly on. We have studied the overall persona of our SME customer being well aware of aspirations, drawbacks, advantages and most of all the inherent enthusiasm and believe firmly that this is a winning formula that can be built and strengthened sustainably.

Using the core competencies we have honed this year as well as the technology platforms being introduced, we are currently developing a host of products and ancillary services that will surely be pioneering, adding to our promise of providing total financial solutions to the micro and SME sectors.

### IT Advancements

We also intend using our IT interventions much more emphatically to grow our business. Firstly, our new Core Banking Package will begin its roll out soon giving us significant upward momentum in technological advancements. It is pertinent to mention here that UBC, despite being a small and young bank in the banking landscape, has been quite a pioneer in introducing numerous technological initiatives since our genesis in 1995. From bank roaming, to phone banking, to one day cheque clearance, e-cheque systems and daily e-statements and this year, TV banking are some of the revolutionary and first time IT introductions by UBC, into the country's banking industry.

Given that we intend accelerating our SME presence and therefore that business, we acquired a sophisticated robust risk management system that will enable us to be more responsive to our customers. The system, once implemented will take UBC into the realm of advanced risk measurement and management. The Risk Management Solution enables the Bank to compute capital, commensurate with the Risk Weighted Assets of the Bank for all three major risk types viz Credits, Operations and Market risk. It also has the capability to assess capital adequacy for standardised approaches which as per regulatory requirements are currently in place, to advanced approaches such as the Foundation Internal Rating Based Approach and Advanced Internal Rating Based Approach for Credit Risk, Advanced Measurement for Operational Risk and Value at Risk for Market

Risk. The Loan Origination System, another pragmatic feature within the system, allows a streamlined flow of credit proposals to reach appropriate approval channels for speedy response.

To augment the application process and ensure that our values of flexibility, speed and efficiencies are espoused, we now use both Skype and video conferencing to communicate with SME customers. The processes and systems being infused will also see a centralisation of disbursements and the credit approval process for better controls and monitoring, although there is also much more autonomy being given to the SME Centres.

### Synopsis of Financial Performance

While the next few pages in this Leadership Forum will showcase our financial performance for the year in considerable detail, I have summarised some of the key highlights this year, including the fact that our Net Profit increased to Rs. 313Mn.

### Moving Ahead

Having operated in an year that saw us work on re-honing our core competencies and getting our infrastructure in place, we are ready for 2013. We have ambitious plans. With no credit ceiling applicable for the coming year, we intend growing our advances portfolio by at least 30%, adding to our portfolio of products and services that encompass total financial solutions to the SME sector and get back on track with our branch expansion plan which was held back due to it not being prudent to continue this year due to the external landscape, while adding at least ten more dedicated SME Centres into our network.

We are also very confident that our acquisition last year of The Finance & Guarantee Company Limited will add impetus to the microfinance sector of our business, tying in very aptly to our SME focus. Similarly, NAMAL (National Asset Management Limited), the investment and wealth management arm of the Group opens more doors of opportunity for the Bank with more varied investment options we can add, into our bid of providing total financial solutions.

We do foresee intense competition looming ahead. The SME space undoubtedly will see the entrance of more players, including those from the non-banking sector. The growth of the banking industry however, will remain considerably consolidated as seen from the trends emerging and thus, will see more players sharing the same amount of business. This also points to the fact that the financial services industry is showing signs of crowding



and will soon require more astute ways to maintain sustainability, which will include mergers and acquisitions if our banks intend competing in the region.

However, UBC is firmly and surely positioning itself as the top of mind recall SME Bank. All our strategies, intents and plans have revolved on this focus for a number of years and we see it bearing fruition within the next few years. Our plans have been pragmatic and well thought out, based on the fundamental that we will concentrate on building and developing a robust SME sector. We are seeing the positive results emerging and we intend affirming that presence we have now garnered, so that our stakeholders are aware of our very earnest intentions of continuing to be the Preferred SME Bank.

### In Appreciation

It has certainly been an interesting year and one that forced us to transform and evolve according to the dictates and directions emerging from the external milieu. And in this context, the leadership, direction and guidance that I received from the Chairman and Board of Directors has been timely and appropriate, allowing me to lead the Bank with confidence and showcase the good performance you see within these pages. I have also been fortunate to gain much insight and leadership focus from Chairman Ajita de Zoysa, who retired in April 2012 and am most grateful for the constant counsel he extended to me throughout his chairmanship.

I'm also most appreciative of the continued guidance and advice received from the Governor and officials of the Central Bank of Sri Lanka. With the continuous dialogue and communication maintained, UBC has been very fortunate to always be well versed and aware of governance, regulatory and fiscal dictates, remaining very much aligned to the required procedures, rules and regulations.

My Management and team have been the wind beneath my wings and surely showed their prowess and professionalism when faced with challenges. Thank you for your continued loyalty, commitment and to your unwavering earnestness in ensuring that we journey towards our goals.

Our valued business partners and our customers have remained vital stakeholders in the path we have chartered. The confidence you have maintained, the support you have extended and the constant feedback we receive from you has helped us shape

our future and ensure that we build a sustainable, caring, ethical bank that will truly be an anchor to the burgeoning SME sector in Sri Lanka.

## Leadership Forum contd.



**Mr. A. N. de Silva**  
*Chief Operating Officer*

Focus of our operations was primarily on improving efficiencies, branch based productivity and developing and growing our market share.

The year has been one in which we have emphasised our strategic focus even more, given that the country itself is accelerating its development agenda, which hence expressly puts the micro and SME sectors under the spotlight. With the Bank's strategic focus very much aligned to this macro canvas, this year saw us further strengthen this strategy, by using the Heart of our Enterprise as the axis to our journey ahead, supported by the trusses of our stability, experience, history and good customer service. The move to the new state of the art Head Office building is aligned to this strategic focus, where the Head Office houses all key divisions in a single location, streamlining systems and processes for seamless transition, enhancing prospects of better more informed, timely and speedy decision making. We are now firmly entrenched in this focus of identifying ourselves primarily as the preferred bank for the SMEs in this country, ensuring that we will be the partner in their growth and they in ours.

Accordingly, the focus of our operations was primarily on improving efficiencies, branch based productivity and developing and growing our market share. This was augmented by re-aligning our team's goals and objectives towards aggressive marketing, thereby enhancing our visibility and image both in a corporate, product and service sense, while supporting these with better delivery methods including improving our IT capabilities. One of the drivers initiated this year to enhance delivery and service standards is the investment in a new Core Banking System which is currently being implemented. This will assuredly add further impetus in capturing and growing our market share.

Therefore, using this robust dynamism to enhance and improve our offerings, we continued to found our product and service development on innovation. This permeates an imperative competitive edge to our portfolio and this year too, we introduced appealing and timely banking products, to add value to both the

SME and retail sectors. These included 'Punchi Pathum', 'Poliya Ready' deposits, Factoring, Small Business Loans and yet another pioneering product by UBC, TV Banking, in partnership with the country's National Telecommunications Provider, Sri Lanka Telecom and PEO TV.

With the SME strategy being the overarching factor in achieving our goals, the branch network was expanded to 36 branches, which also fuelled growth in our Western Union operations. We also etched a milestone by opening the first dedicated SME Centre in Gampaha, a successful initiative that will assuredly continue with much vigour in 2013. Very emphatic on centralising unit based activities to prompt better efficiencies and productivity, UBC centralised several operations through a customised Central Unit, bringing unit based activities within this centralised umbrella. Prior to this, such operations were conducted at branch level. The new centralisation initiative ensures that our branches have the ability to spend more time in pursuing SME customers and once established, nurturing and strengthening those relationships. There was added emphasis therefore on business development, marketing and enhancing service quality and efficiencies which certainly added tangible results. The success of the strategies employed overall bore fruition when we observed our customer base increase in 2012, which is a considerable achievement in the highly competitive environment we functioned in.

This success was further observed when the SME/Retail Sectors contributed significantly towards UBC's overall deposit growth, showcasing an increase YOY, while the UBC's overall loan and advances portfolio also moved upwards. This was in an environment when the Central Bank of Sri Lanka had imposed a credit ceiling of which we remained extremely conscious of and thereby, input strategies into our plans objectively, with the external milieu in mind.

Despite the restrictions in growth, liquidity and cash flow constraints faced by several sectors, especially the construction sector, our recovery activities however remained aggressive and as such, we were able to contain our non performing advances, with a penetrative focus on minimising our exposure. Another feature that ensured astute interventions with regard to difficult or problem accounts, was that the Bank strengthened its 'watch list' monitoring, which naturally fuelled proactive recovery measures being initiated more effectively and speedily.

There was also a concerted effort to further define our position in the corporate banking sector, which contributes a sizable volume to our operation. Emphasis this year was on growing our trade financing business, to augment our bottom line.

The year did bring with it numerous challenges, one of which was acute competition especially in growing our deposit portfolio. Fueled by escalating mobilisation costs and market liquidity constraints, the high interest rates for deposits brought about a highly competitive environment within the industry. As is characteristic of UBC, we were ready for the trends that ensued in a market that displayed such traits, infusing a number of initiatives including focused new products that successfully helped the Bank mobilise deposits, which grew by 17% YOY in 2012.

It is also pertinent to mention that given external, macro and internal factors, UBC is extremely conscious of adhering to best practices in governance and thereby the tenets of risk management. Regular risk monitoring and review mechanisms are in place and are implemented to full compliance standards as dictated by regulatory authorities and the Bank's stringent internal controls. The findings and observations are presented to the Risk Management Committee which comes under the aegis of the Board Integrated Risk Management Committee, which ensures that the Bank remains compliant to applicable governance directives and best industry practices. The Risk Management Division provides timely and effective independent credit risk assessments with risk mitigants, conducts post sanctioning review of credit facilities with follow up action and assesses key operational risk indicators and risk assessment with the aid of Heat Maps.

This unrelenting focus on risk management saw UBC invest in a new Integrated Risk Management Framework to compute capital adequacy using advanced risk management approaches as is detailed in BASEL II. This System will assess risk proactively, while ensuring that the Bank conforms to best practices in risk

management. In strengthening and enhancing risk management functions further, UBC has also introduced a Stress Testing Policy, Market Risk Policy, Loan Review Policy, Disclosure Policy and an extended Operational Risk Management Policy. A Group-wide risk management frame work has also been established. Parallel to this, regular meetings and frank dialogue foras are held with the leadership team, corporate management and managers at strategic and operational level, who are tasked with continually reviewing the Bank's operational performance. This includes operational targets, emerging and prevalent risk triggers, conduct of comprehensive audits, prompt responses to customer concerns and rectification of operational issues. These minimise risk factors that could emerge on a regular basis given the uncertainty of the macro environment we function and operate in.

Our Bank remains extremely focused and committed to operating in a culture that goes beyond compliance. Imposing self compliance rudiments into stringent processes and systems, UBC maintains a vigilant stance to changing pronouncements or directives that may emerge from time to time.

Our commitment to ensuring a smaller carbon footprint is worked on from a top down approach, to ensure that all stakeholders, especially the UBC team will be encouraged to gain ownership within our 'green' philosophy. There is emphatic focus on prudent cost management especially in energy related activities, which will cascade to minimising waste, better operational efficiencies and enhanced productivity as well. There is a concerted effort to eventually promote a paperless environment in the entirety of the Bank's operations and this has already been encouraged with Board papers and Management Memoranda and Operational reports where submissions and approvals are circulated electronically on soft copy.

## Leadership Forum contd.



### 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

Having worked through an year that did bring with it some external consolidation pursuant to fiscal directives, our Bank aligned itself to placing looking inwards more pragmatically and ensuring that our fundamentals are well strengthened to journey towards being the Preferred SME Bank. We looked into the Heart of Our Enterprise and continued to build the platforms of service excellence, reach, accessibility, governance, trust and ethics, with greater emphasis on strengthening the foundations of our solid financial history. We are now well positioned to make the difference we anticipated in the niche banking area we are pursuing.

The Treasury performed admirably well this year, despite numerous challenges faced by fixed income operations. We recorded significant overall growth of 116.9% in the collated figures of both fixed income and foreign exchange which stands at Rs 168.8 Mn in 2012, compared to last year's total of Rs 77.8 Mn. Foreign Exchange income posted significant increase of 116.9%, from Rs 57.5 Mn in 2011 to Rs 124.7 Mn this year, contributing substantially to the overall growth of Treasury income. Treasury income stands at Rs 44.1 Mn this year, an increase from Rs 20.3 Mn previous year and certainly creditable, given that this area of business did face considerable setbacks throughout the year.

Our securities portfolio too was very astutely managed by the Treasury despite the external milieu being very volatile, exacerbated by a prevalence of high interest rates and a shortage of liquidity during the second half of 2012. Resultant to the pragmatic management therefore, the portfolio reaped in considerable rewards, recording sustainable gains.

We faced numerous drawbacks even in trade with the continued slowdown of the global economy having permeating negative

impacts on all areas of business, credit curtailment as mandated by the regulatory authority coming into effect and the free float of the Sri Lanka Rupee impacting the trade figures. Documentary collections decreased by 3%, while documentary credit volumes also decreased by 17%, resulting in an overall reduction of 13% in import business. However, a bright spark on the horizon was that exports increased by an exemplary 300%, largely driven by the concerted efforts we employed in growing our customer base in the commodity and apparel industry segments.

Another positive facet is that Sri Lanka did manage to maintain all Key Performance Indicator targets and closed the year on a prudent 6.7% GDP growth. This is believed to improve for 2013 when forecasts indicate a GDP growth of 7%. This heralds good news for the trade department and we have already begun initiatives to fuel our growth paradigm by securing funding and discounting facilities from overseas correspondent banks, IFC guarantee for UBC Letters of Credit and maintaining a strong and continuous rapport with overseas counterparts. We also added further impetus to our objectives by infusing best practices via training and development in international trade for our team.

The unique value propositions we have always employed have been built on the truss of innovation and it is this that drives our mission to be the Preferred SME Bank. While this year has seen us augment our IT systems and processes in this bid, ensuring that we communicate our message effectively and with absolute reach is now a priority. Building brand equity therefore was an imperative. This imperative therefore was forged on an aggressive path, as UBC was now tasked with ensuring visibility, accessibility and awareness of the fundamentals, values and mission that the Bank stands for.

A strategic marketing plan began during the year, wherein brand visibility in tandem with the expansion of our branch network began. While we did not launch the new branches according to the plan set out for 2012 due to perceiving limited growth especially in the advances area led by the credit ceiling, we focused instead primarily on augmenting the SME niche with dedicated SME Centres. In tandem, corporate brand building initiatives were also pursued to create awareness of the brand promise, positioning, values and delivery, while the product portfolio also gained emphasis with innovative products being developed. One of these was the pioneering TV Banking launched together with the national telecommunication solutions provider Sri Lanka Telecom, which showcased our prowess in innovatively using IT platforms to make banking anytime anywhere a reality.

We also continued to add value to our existing product and service portfolio as well, while concentrated training and development to support our advantage of superior service was also implemented during the year, in order to deliver our value proposition of service excellence.

The focus which we have constantly infused into brand building paid dividends this year when UBC was ranked a Most Valuable Brand in Sri Lanka by Brand Finance in the LMD Most Valuable Brands edition.

Given the SME focus we are most emphatic on pursuing, our sustainability platform is well founded on growing this sector. We strongly believe that SMEs have immense potential to become a primary driver in growing Sri Lanka's burgeoning economy and as a responsible corporate steward, remain unfailingly committed to partnering the nation's growth strategy. Hence our CSR strategy is well aligned to this and our target stakeholder segment assured of a continued long term relationships with UBC.

## Leadership Forum contd.



### Mr. Ravi Divulwewa

#### *Vice President – Credit*

One of our biggest advantages in positioning ourselves as the preferred bank for SMEs is that we have earned a very positive reputation among this niche segment as being flexible and efficient and a bank that truly delivers on our promises.

### Credit Operations

One of our biggest advantages in positioning ourselves as the preferred bank for SMEs is that we have earned a very positive reputation among this niche segment as being flexible and efficient and a bank that truly delivers on our promises. Add a strategically located branch network and a team that truly believes in achieving our objectives in contributing to the national goal of developing the SME backbone, UBC is able to unequivocally deliver holistic banking solutions to our customers.

The year in hindsight has been challenging given that the financial services sector was faced with the credit ceiling of 18% imposed by the regulator at the beginning of 2012. While it was certainly a prudent diktat aimed at reducing the exacerbating import threshold, with rates being somewhat higher than expected, the market in itself found the milieu somewhat challenging to work in. Having envisioned various scenarios that could emerge, including meeting the ceiling far earlier than anticipated, UBC which worked on a higher budget at the beginning of the year, re-forecast targets and was able to achieve overall lending figures at 18% well within the CBSL stipulated directives. With the credit ceiling being eliminated in 2013, our playing field will be much more pragmatic and we are looking forward to setting our sights higher.

The imposition of vehicle duties and taxes also posed considerable challenge in the leasing business as with rates being high, the market saw significant decline. As was emblematic of most of the industry, there was a shortfall on targets in the vehicle leasing segment. The general credit milieu was further aggravated due to high interest rates, which strained recoveries. This was mostly prevalent in the construction industry which in turn faced non-payment by principals. The pawning business too has remained

on even keel, though falling below target as a reflection of the higher interest regime but towards the last quarter of 2012, we did see palpable incline.

However, focused monitoring and strategic controls saw our NPA maintained at prudent levels, albeit slightly above budget and industry norm. UBC's NPA is currently 4.5% although our target was to maintain it below 3.8%. It is pertinent to note that this characteristic of a slight incline in NPAs is not due to bad credit being extended but rather due to unforeseen external circumstances assailing our valued customers, which extends a responsibility on us to ensure that we restructure the facilities and ensure better sustainability in the long term. This has also mooted a closer look at our internal processes and administration, where UBC has implemented strategic initiatives that will be responsive to similar circumstances that may arise in the future as well. Already, the restructured facilities are beginning to turn around and we are confident that the first quarter of 2013 will see us back on track.

With the emphasis that we are continuing to augment on building our SME business, we are also keen on diversifying our portfolio to reflect this emphasis, while adding value to the sector. In fact, this year, one of our strategic initiatives was in curtailing facilities extended to corporates, so we could increase the facilities we could extend to SMEs. Another initiative was in launching a dedicated SME branch in Marawila, which after focused analysis proved to be an area that held burgeoning SME promise given expansive coconut and other agricultural producers being located there. We are also working on a pilot project of having dedicated SME divisions within selected branches, so as to facilitate better accessibility to our SME customers. The pilot project was launched within the Gampaha branch and given its

success, will soon see strategic permeation within our well spread branch network, based on the fundamental trusses of penetrating into rural and lesser accessed areas to fuel SME development, making it an aggressive contributor to the national economy.

Our promise of flexibility and speed is further expanded as we intend to decentralise the approval, monitoring and control processes. While stringent checks and balances will be imbued into the internal process and systems and Head Office will retain its stance as the Command Centre. UBC is initiating moves that would add more flexibility to the SME branches and SME Centres to approve and monitor SME facilities on a more hands-on basis. Where necessary, we use technological facets including Skype and video conference calls with potential loan applicants, to accelerate the approval process. A constant dialogue is also maintained.

With SMEs comprising entrepreneurs, micro manufacturers, craftsmen and small industrialists, it is imperative that UBC maintains and strengthens the personalised relationships we already have within our purview. We are keen on extending our portfolio to environmentally friendly projects within this SME purview, as well as agricultural sectors that have export potential.

We envision working in a less restrictive credit environment next year and given the foundations we have already placed, are confident that together with the branch expansion plans, we can achieve the target of over 25% we have placed for advances. An ideal low interest regime would surely fuel growth as the current rates are prohibitive for small borrowers. The cascading impact of a lower interest regime would also make the NPA ratio more manageable. UBC will continue to focus very closely on external policy decisions and trends that may arise, ensuring that we remain attuned to features that may impact our business with specific reference to our target SME business.

## Leadership Forum contd.



**Mr. Malinda Samarathunga**  
*Chief Financial Officer*

Focusing on the heart of enterprise, we reignited the focus on our values, integrity, ethics and principles, while strengthening the financial foundation we have constructed to infuse the necessary stability and sustainability.

As highlighted, the theme for this Annual Report aptly charts the journey that UBC decided to map at the beginning of the year to ensure that we remained progressive, inclusive and ready for transformation. Focusing on the heart of enterprise, we reignited the focus on our values, integrity, ethics and principles, while strengthening the financial foundation we have constructed to infuse the necessary stability and sustainability, imperative for the changing times ahead. We analysed the external paradigms and brought these into consolidating our internal workings, operations and processes, while conforming to the new regulations and compliance standards being introduced into Sri Lanka's accounting standards landscape.

For all periods up to and including the year ended 31 December 2011, the Bank prepared its financial statements in accordance with Sri Lanka Accounting Standards effective as at 31 December 2011. These financial statements for the year ended 31 December 2012 are the first time adoption of Sri Lanka Accounting Standards comprising SLFRS/LKAS effective as at 1 January 2012. Accordingly, the Bank has prepared the Financial Statements, which comply SLFRS/LKAS applicable period ending on or after 1 January 2012 together with comparative period data as at and for the period ended 31 December 2011 as described in accounting policies.

### Challenges and Limitations

The regulator's decision to introduce a credit ceiling for 2012 did contract growth capabilities in the entire financial services sector, which also had to contend with increasing cost of funds. From a macro perspective, inflation, although remaining within the single digit landscape, did rise from last year's 6.7% to 7.6%, showing further patterns of rising, which was another factor that curtailed growth. The fact that the global economic slowdown and other

key indicators showing slight downturns saw the country revise its initial GDP forecast to 6.5%, capital markets not performing as expected and market interest rates remaining progressively high, all added to a very challenging environment for us to operate in. The Sri Lanka Rupee also depreciated by 10.4%.

Expenditure on imports recorded declines from the second quarter of 2012 in response to the policy measures adopted in the early months of the year, while Sri Lanka's key exports lost some of its competitive edge as advanced economies, particular our largest export partners the USA and EU remained embattled in the quagmire of an economic depression.

These challenges were not without permeating impacts. There was considerable pressure on the narrowed net interest margin and increases in NPLs although, UBC did maintain our stringent control and monitoring culture we have in place to keep the NPL ratio well within industry norms. Another area that faced some pressure was the return on our equity portfolio.

Being a Bank that has always kept a clear focus on its fundamentals, UBC infused some sweeping strategies to assuage some of the fallouts that may occur due to these external influences impacting our internal workings. Beginning with looking inwards, we used the Balanced Scorecard emphatically to monitor and evaluate individual divisions, mapping progress and targets achieved into the macro performance picture. Given the intense competition in the market, product development was designed on the platform of innovation and new products introduced had immense success due to this unrelenting focus. We also re-looked at our products and pricing and infused the thought process of the right product pricing in order to maintain margins.



### A Key Driver to Progress

In our bid to infuse IT as an imperative fundamental into our journey ahead, UBC has been very mindful of creating a technologically savvy mindset and operating environment that would take this premise further. There have been astutely planned IT initiatives that have been infused into the Bank's systems and processes and this year some milestones were surely achieved in this progressive journey. At the beginning of 2012, UBC focused on three primary areas to further power our IT infrastructure, that would keep us well ahead of the industry, namely to select a new Core Banking System, strengthen security and automate manual processes.

These focus areas were well achieved when the new Core Banking System implementation was initiated and began its rollout. A sophisticated Risk Management System is also in the implementation process. UBC is in the pilot phase of moving to the common payment switch, which on completion in 2013, will add further connectivity and access to ATMs.

A key milestone in our IT annals was the winning of a Bronze Award at the National Best Quality Software Awards which was conferred on us for the launch of a unique TV banking system, that created a new dimension banking, which was introduced via PEO TV in association with the national telecom provider Sri Lanka Telecom. We also launched a host of innovative and empowered products including interest upfront for Fixed Deposits which use intelligent technology platforms. Our new mobile platform enables the scanning of cheques online remotely, even at a customer's doorstep, which brings the concept of mobile banking even closer and convenient to the customer.

Going forward, our focus includes the introduction of a more focused Disaster Recovery Mechanism, which will prompt the restructuring of the existing site for more resilience. An android application for Banking in Sinhala, English and Tamil enabled via downloads is also in the pipeline.

### Financial Performance Overview

It is more than apparent that UBC is on the right track when it comes to long term economic fundamentals. The accordant performance which has seen the Bank's quantitative figures retain consistency throughout the last few years with a rising curve that has always reflected stability and constancy is apparent in the performance we have posted this year.

### Profitability

This is amply exemplified in the highest ever profits in the Bank's history that we notched this year, Profit After Tax rising to Rs 313.6 Mn. Profit before VAT on Financial Services VAT and Corporate Taxes showed 4.7 % growth over 2011 and stood at Rs.559mn.

However, due to external diktats which saw a credit ceiling of 18% introduced by the CBSL for 2012, our Loans and Receivables growth was maintained at 15.36% significantly lower than the previous year's 71% growth, but aligned with this credit growth, we kept our deposit base at an increase of 17.1%.

### Expansion

Prior to 2012, we did harbour ambitious plans to accelerate the expansion of our network. However, given the various regulations imposed for 2012 including the credit ceiling, it seemed prudent to pan out this expansion programme more systematically and astutely, aligned to the external milieu. Hence, the Bank's network was increased to 36 touch points this year, which is a 20% increase over last year.

### Income from Fund based operations

Interest income on Loans and Receivables saw a growth of 73% during the year primarily due to increasing interest rates and a noticeable level of change in yields during 2012.

The high cost of deposits was mainly due to the change in the CASA mix and the highly competitive interest rate milieu. Interest expense increased by almost 100%. This stands at Rs. 2.2 Bn compared to Rs. 1.1 Bn in 2011.

Due to the combined reasons of interest income and interest expense, interest margin inclined by 25.6% to Rs.1.2Bn during the year.

### Income from Fee based operations

Due to stagnant market conditions, fee based income remained flat, posted at Rs.134 Mn compared to Rs.139 Mn in 2011.

### Other Operating Income

Other Operating Income showed a 12% increase compared to previous year despite having Rs. 95Mn as capital gains by disposal of 38Mn UB Finance shares in 2011.

## Leadership Forum contd.

Foreign Exchange income climbed upwards to showcase 108% growth, primarily due to the depreciation of the Rupee, a definite favourable impact on this segment of income.

### Operating expenses

We have always maintained that our team is integral to our success. Remuneration and rewards therefore are a compounded investment and reflected in the tangible and intangible benefits we present to our team. Personnel costs increased by 23% this year due to a revision of salaries instituted during the year. Remaining focused on ensuring the 'right person for the right job' and in being cognisant of allowing individuals to optimise their potential, team members were encouraged to achieve their aspirations. This is permeated throughout the bank and even in increasing our branch network, which this year saw a 20% increase. The team numbers were only increased by 7% as we do believe in creating the right equilibrium between personal capabilities and the Bank's goals and objectives for complete job satisfaction. This was further augmented through the numerous process improvements introduced in the Bank to gain maximum operational efficiency and productivity.

Office administration and establishment expenses increased by nearly 39% due to the 20% increase in the branch network and

the relocation of the UBC Head Office to new state of the art premises, the heart of our enterprise.

### Loan Loss Provision

The adoption of SLFRS affected the provisioning policy with the time based provisioning being replaced by the Specific and Collective Impairment. The threshold decided by the Management to conduct specific impairment testing adequately represents the total loan portfolio of the Bank.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances were then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgement on the effect of concentrations of risks and economic data.

The following table shows the movement in provisions for 2012:

	31.12.2012	31.12.2011	01.01.2011
<b>In Rupees</b>			
Gross loans and receivables (Note 20.1)	20,442,842,571	17,720,001,722	10,385,865,192
(Less): Individual impairment charges (Note 20.4)	(330,457,436)	(372,271,860)	(401,727,957)
Collective impairment charges (Note 20.4)	(87,655,847)	(54,800,817)	(64,672,573)
<b>Net loans and receivables</b>	<b>20,024,729,288</b>	<b>17,292,929,045</b>	<b>9,919,464,662</b>

### Business Volumes

Despite the macro environment charging UBC with some difficult challenges to overcome, the dynamism that has always been inherent in the Bank saw us venture into the deposit milieu armed with innovation, new developments and even better customer service.

The initiatives proved fruitful as evidenced by a Rs. 3.4Bn. growth reflected in deposit volume which stands at Rs. 23.1Bn. at the end of 2012. This is a 17.15% increase over last year's Rs. 19.7 Bn. Time deposits showcased the highest growth of 32%. We did observe a decline in CASA primarily due to the increase in Fixed Deposit interest rates. CASA mix of the bank has fallen sharply from 27.2% in 2011 to 20.1% in 2012.

Advances increased by 15% reaching Rs. 20.4 Bn in contrast to Rs.17.7 Bn in 2011, partially due to the credit curtailment as mentioned above. Growth was reflected in term loans, inclining nearly Rs. 2.7 Bn, with the highest percentage growth posted by the leasing sector.

### Total Assets

The total asset base increased by 16.8% from 2011 to stand at Rs. 30.8 Bn.

### Return on Assets and Return on Equity

ROA decreased to 1.09% in comparison to 1.35% in 2011 due to combined reasons of reduced margins and increased portfolio. ROE also showed similar movement to 5.8% from 6.3%.

### Liquidity

UBC maintained a healthy liquid asset ratio right throughout the year.

### Liquid Asset Ratios

	2012
Year End	23.35%
Maximum	23.46%
Minimum	21.28%
Average	22.29%

### Capital Adequacy

Indicating the stability of the Bank, capital adequacy of the Bank remained well above the statutory required levels during the year.

	2012	2011
Core Capital (Tier 1) Ratio	21.24%	17.73%
Total Capital Ratio	20.34%	17.96%

### Credit Quality ratios

NPL ratios calculated based on CBSL guidelines are as follows.

Assets Quality (Quality of Loan Portfolio)	2012	2011
Gross Non - Performing Advances Ratio, % (Without Interest in Suspense)	5.43%	4.07%
Net Non - Performing Advances Ratio, % (Net of Interest in Suspense and Provision)	4.45%	2.98%

For a combination of reasons, the rapid growth in the loan book in 2011 and the moderate growth in the loan book in 2012, NPL ratio as a percentage showed an increased in comparison to 2011.

### Group Performance

Union Bank Group consists of National Asset Management Limited and UB Finance Company Limited as subsidiaries. Bank also consolidated Serendib Capital Limited, a special purpose vehicle as a requirement under new Accounting Standards.

The Group reflected Rs. 487.7 Mn, a 54.8% growth in profit after tax, resulting in an increase of Rs. 173 million in comparison to the previous year.

On the assessment of the recoverability of tax losses in the foreseeable future, a differed tax asset of Rs. 200mn was booked at UB Finance Company Limited. The Company was carrying a tax loss of Rs.1.6Bn,

Total assets of the Bank accounts for 97% of the Total Assets of the Group by the year end. The following table shows the asset distribution of the Group.

	National Asset Management Limited	UB Finance Company Limited	Serendib Capital Limited
	December 2012 Rs.	December 2012 Rs.	December 2012 Rs.
Total Assets	191,231,308	2,020,279,045	1,808,206,725
Total Liabilities	13,061,053	1,426,325,865	2,438,177,867
Net Assets	178,170,255	593,953,180	(629,971,142)
Profit/Loss after Tax	8,086,658	164,241,575	26,494,223





A Walk Through  
**LEVEL 1**

- Corporate Banking • Treasury
- Trade Services
- Auditorium

## GRI Compliance Index

### About the Sustainability Report

The Global Reviews Initiatives organisation (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 have adopted its guidelines and rationale as we believe this framework helps to summarise the contents of this Annual Report based on key areas of materiality in the concepts of stakeholder inclusiveness, strategic planning and performance review. In addition, this index ensures the completeness and ease of use for the stakeholder.

### Report Scope and Boundary

The scope of this Annual Report focuses on the Bank's performance with respect to the strategic objectives and performance and information pertaining to the Bank and its corporate profile. The financial statements have been prepared in accordance with the guidelines of Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards.

We believe that sustainability reporting encompass 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 databases of the Bank and external data was derived from various Government and Non-Government institutions and those that are available in the public domain. 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 recognises its existing and future customers, shareholders and other fund providers, employees, the community, suppliers and regulators as 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.

This Annual Report discusses areas of corporate governance, risk management and human capital through the following 4 key reports:

- Corporate Governance
- Audit Committee Report
- Integrated Risk Management Committee Report
- Human Resource and Remuneration Committee Report

We believe that a fair and balanced view of operations for the period is included in this Annual Report.

<b>1. Strategy and Analysis</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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
<b>2. Organisational Profile</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
2.1	Name of the organisation	Yes	Corporate Information
2.2	Primary brands, products and / or services	Yes	"A Walk Through Our 17 Years" and "Reaching Higher-Our Brand"
2.3	Operational structure of the organisation	Yes	Leadership Forum
2.4	Location of organisation's headquarters	Yes	Corporate Information
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	Customers
2.8	Scale of the reporting organisation	Yes	Leadership Forum
2.9	Significant changes during the reporting period regarding size, structure or ownership	Yes	Investor Relations
2.10	Awards received during the reporting period		A Walk Through Our 17 Years
<b>3. Report Parameters</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
3.1	Reporting period	Yes	Chairman's Review, Report of External Auditors Financial Statements, Directors' 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, Corporate Profile
3.5	Defining report content	Yes	Annual Report Contents Pages
3.6	Boundary of the report	Yes	Sustainability Report

## GRI Compliance Index contd.

<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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	Financial Accounts, Subsidiary Update
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	Yes	Notes to Financial Accounts
<b>4. Governance, Commitments and Engagement</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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	Corporate Governance and Annual Report of the Board of Directors
4.3	The number of members of the highest governance body that are independent and / or non-executive members	Yes	Annual Report of the 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	Vision, Mission, Values Corporate Social Responsibility (CSR)
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, CSR
4.10	Processes for evaluating the highest governance body's own performance	Yes	Corporate Governance



<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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	Leadership Forum, A Walk Through Our 17 Years, Review on Human Resources, CSR
4.15	Basis for identification and selection of stakeholders	Yes	Investor Relations Leadership Forum, A Walk Through Our 17 Years
<b>Economic</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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, Review on Human Resources
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial in-kind or pro bono engagement	Yes	Branch Network, A Walk Through Our 17 Years, Corporate Social Responsibility, Reaching Higher-Our Brands
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Yes	Leadership Forum, Managing Risk at Union Bank
<b>Environment</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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

## GRI Compliance Index *contd.*

<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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
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

<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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
<b>Society</b>			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
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

## GRI Compliance Index *contd.*

Labour			
<i>Index #</i>	<i>Description</i>	<i>Reported</i>	<i>Relevant Chapter</i>
LA01	Total workforce by employment type, employment contract and region	Yes	Review on Human Resources
LA02	Total number and rate of employee turnover by age group, gender and region	Yes	Review on Human Resources
LA03	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Yes	Review on Human Resources
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 fatalities 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	Review on Human Resources
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Yes	Review on Human Resources

Index #	Description	Reported	Relevant Chapter
LA12	Percentage of employees receiving regular performance and career development reviews	Yes	Review on Human Resources
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	Breakdown by employment category is provided. The Bank believes in equal employment opportunities
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							





A Walk Through  
**LEVEL 2**

- Central Operations
- Human Resource Development
- Administration
- Cafeteria

# Corporate Governance

Corporate governance can be defined as a set of relationships between a Company's management, its board, its shareholders, and other stakeholders. Corporate Governance also provides the structure through which objectives of the company are set, the means of attaining those objectives and monitoring performance. Good Corporate Governance should provide proper incentives for the Board and the Management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system with an individual company or group across an economy as a whole helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. 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.

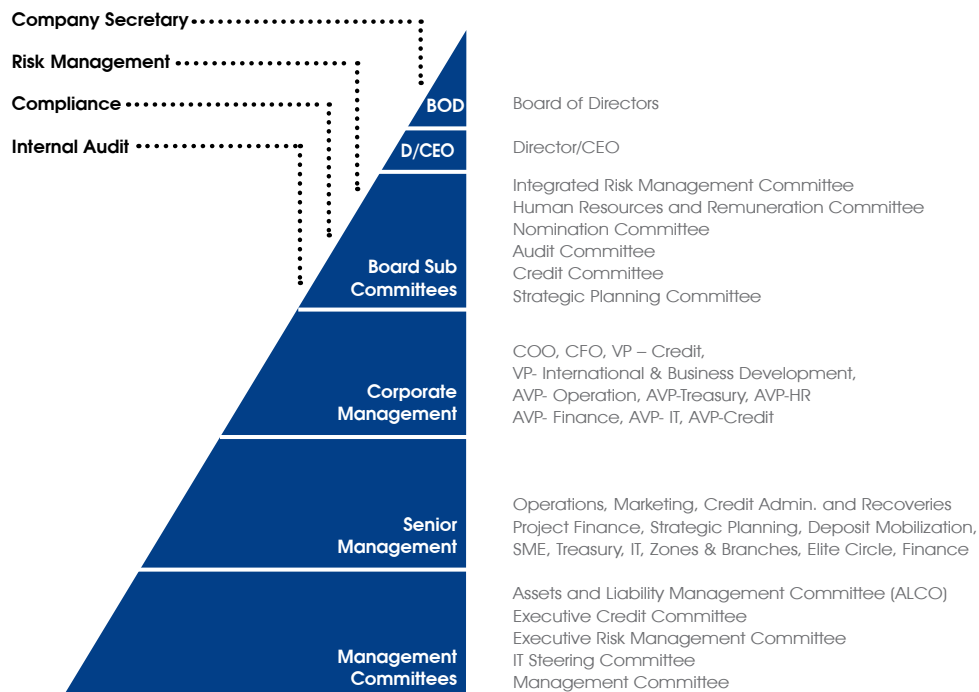
There had been a number of corporate governance failures and lapses around the world during the financial crisis that began in mid 2007. These included for example insufficient board oversight of Senior Management, inadequate risk management and unduly complex or opaque bank organisational structures

and activities. Poor corporate governance has contributed to bank failures as illustrated in research relating to the financial crisis. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a bank run or liquidity crisis. In addition to their responsibilities to shareholders, banks also have a responsibility to their depositors and to other recognised stakeholders.

From a banking industry perspective, corporate governance involves the allocation of authority and responsibilities, i.e. the manner in which business and affairs of a bank are governed by its Board and Senior Management including how they

- Set the Bank's strategy and objectives
- Determine the Bank's risk tolerance/appetite
- Operate the Bank's business on a day-to-day basis
- Protect the interest of depositors, meet shareholder obligations, and to take into account aspirations of other recognised stakeholders
- Align corporate activities and behavior with the expectation that the Bank will operate in a safe and sound manner, with integrity and in compliance with applicable rules and regulations.

## Corporate Governance Structure at UBC





### Initiatives During 2012

Towards achieving the objective of building a strong corporate governance culture within the Bank, during the year Directors and the Management of the Bank initiated several measures

- Comprehensive Code of Corporate Governance encompassing best practices of corporate governance such as, responsibilities and duties of the Board and individual Directors, composition and training, group governance, managing conflicts of interests, prohibition of insider dealing, managing related party transactions, disclosures and transparency requirements etc. was approved by the Board.
- Policies and a procedure on selection criteria for Directors, CEO and Key Management Personnel and a policy on Remuneration for Key Management personnel were also approved and are being implemented, strengthening the governance culture.
- Mr. Ananda Athukorala and Mr. Ajith Wijeyesekara both stepped down due to completion of 9 years of Services as per Direction No 11 of 2007.
- Three new Independent Non Executive Directors joined the Board strengthening the composition of the Board.
- Composition of the Board sub committees were amended to further expand support for the Board successful discharge its overall responsibility.

### Statement on UBC's Corporate Governance Philosophy and Commitment

The Board understands the importance of high standards in corporate governance being fundamental to maintaining Bank's strategic position within the local banking sector and the community. Hence, it recognises the requirement for continuous review and adherence to corporate governance practices in order to help enhance compliance levels according to local standards and best practice.

The Bank shall continue in its endeavor to enhance shareholders value, protect their interests and defend their rights by practicing pursuit of excellence. The Bank shall not only comply with all statutory requirements but also formulate and adhere to strong corporate governance practices. Also, The Bank shall continuously strive to best serve the interests of its stakeholders including shareholders, customers, staff and public at large.

In compliance to the Direction No 11 of 2007 the Bank present the level of compliance to the same in the following report, and hereby confirm that the Bank is in compliance to the said

direction and all disclosures required under the said direction has been published hereto.

Further I confirm that the factual findings of the auditors issued under the Sri Lanka related Services Practice statement 4750 is in line with the Annual Corporate Governance Report below.



**Alexis Lovell, MBE**  
*Chairman*  
*Union Bank of Colombo PLC*

28 March 2013

## Corporate Governance contd.

### Corporate Governance

The Bank's compliance with Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'

Annual Corporate Governance Report of Union Bank of Colombo PLC for the year ended 31st December 2012 is given below:-

### Annual Corporate Governance Report – 2012 Licensed Commercial Bank

Section	Rule	Level of Compliance
3 (1)	<i>The Responsibilities of The Board</i>	
3 (1) (i)	<i>The Board Shall Strengthen The Safety and Soundness of The Bank by Ensuring the Implementation of the following</i>	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	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.  Communicating the same throughout the Bank is via the key management personnel.
	(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.	Board has approved an overall three years business strategic plan. Such plan includes measurable goals for three years.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Identifying and implementation of the principal risks and implementation are performed via Board appointed integrated Risk Management Committee.  Terms of Reference of the IRMC stipulates that minutes of IRMC meetings are submitted to the Board periodically.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders and borrowers.	Board approved communication policy in place.
	(e) Review the adequacy and the integrity of the Bank's Internal control systems and management information systems.	Adequacy and the integrity of the Bank's internal control systems and management information systems are reviewed by the Board Audit Committee on a regular basis.
	(f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) Significantly influence policy (ii) Direct activities and (iii) Exercise control over business activities, operations and risk management	Board has designated the Key Management Personnel (KMP) for the bank.
	(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 mentioned matters that can not be delegated and that are reserved exclusively to the Board.

Section	Rule	Level of Compliance
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	Code of Corporate Governance of the bank approved by the Board has a process for appropriate oversight of the affairs of the bank by KMPS.
	(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"> <li>• Self assessment of Directors has been obtained for the year 2012</li> <li>• Complied</li> <li>• Board has delegated the functions of selection, nomination, and election of directors to the Nomination Committee</li> </ul>
	(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;	Key Management Personnel are called regularly when the need arises by Board to explain matters relating to their area of Functions.
	(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.	As per the Terms of reference the Board Audit Committee functions include recommending the appointment and oversight of external auditors.
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.	Positions of the Chairman and the Director/Chief Executive Officer (CEO) are separated. Further, function and responsibilities of the Chairman and the CEO are properly defined and approved in line with the Direction 3(5) of these Directions.
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 meets regularly at least on 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.	Board approved procedure is in place to enable all directors to include matters and proposals in the agenda for regular Board Meetings.

## Corporate Governance contd.

Section	Rule	Level of Compliance
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.
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.	Board approved procedure is in place to enable all directors to have access to advice and services of the Company Secretary.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Minutes of board meeting are maintained by the Company Secretary and can be inspected by any Director with reasonable notice.

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"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(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;</li> <li>(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;</li> <li>(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</li> <li>(f) the decisions and board resolutions.</li> </ul>	<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>Code of Corporate Governance includes provisions and process for independent advice.</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 organisations 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 is not counted to the quorum.</p>

## Corporate Governance contd.

Section	Rule	Level of Compliance
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.	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.	This Report serves the said requirement.
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 2012 and is in the custody of the Company Secretary.
<b>3 (2)</b>	<b>Boards Composition</b>	
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 12 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.	Mr. Ananda Athukorala and Mr. Ajith Wijesekara both stepped down due to completion of 9 years of services as per Direction No 11 of 2007.
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.	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.	There is only one Executive Director on the Board; the number does not exceed the 1/3 of the Board.

Section	Rule	Level of Compliance
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 2012 the Board comprise of six Independent Non Executive Directors which represents over one third of the total number of Directors.</p> <p>Details of independent and Non Independent Directors are given in page 136.</p>
	<p>a) Has direct and indirect shareholdings of more than 1% of the Bank</p>	
	<p>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;</p>	
	<p>c) Has been employed by the Bank during the two-year period immediately preceding the appointment as Director</p>	
	<p>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;</p>	
	<p>e) Represents a specific stakeholder of the Bank;</p>	
	<p>f) If an employee or a Director or a material shareholder in a company organisation:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(ii) In which any of other Director of the Bank are employed or are material shareholders; or</li> <li>(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.</li> </ul>	
3 (2) (v)	<p>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.</p>	<p>Independent Directors had not appointed alternates during the year 2012.</p>
3 (2) (vi)	<p>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.</p>	<p>Nominations committee has a procedure in place to appoint Non-Executive Directors, who possess skills and experience.</p>

## Corporate Governance contd.

Section	Rule	Level of Compliance
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
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Complied. Please refer page 136.
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.	Nominations 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 137.
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 136.
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 acts as a Director of any banks. Nominations Committee has 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.
<b>3 (3)</b>	<b><i>Criteria to Assess The Fitness and Propriety of Directors</i></b>	
	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.	Complied



Section	Rule	Level of Compliance
3 (3) (i)	<p>The age of a person who serves as Director shall not exceed 70 years</p> <p>(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.</p>	None of the Directors have reached age 70 as of 31st December 2012.
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>	None of the Directors holds directorships of more than 20 companies / entities / institutions inclusive of subsidiaries or associate companies of the Bank.
<b>3 (4)</b>	<b><i>Management Functions Delegated by The Board</i></b>	
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.
<b>3 (5)</b>	<b><i>The Chairman and Chief Executive Officer</i></b>	
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 136.

## Corporate Governance contd.

Section	Rule	Level of Compliance
3 (5) (iii)	The Board shall disclose in its Corporate Governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial , business, family or other material/relevant relationship(s) ], if any, between the Chairman and the Chief Executive Officer and the relationship among members of the Board.	<p>Identity of the Chairman and the CEO are disclosed in the Annual Report Ref Page 136.</p> <p>Directors' interests in Contracts with the Bank have been separately disclosed in the Annual report of 2012. Please ref page 137.</p> <p>There are no financial, business, family or other material / relevant relationships between, Chairman, CEO and among Directors.</p>
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 and 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 stipulate 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.

Section	Rule	Level of Compliance
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.
<b>3 (6)</b>	<b>Board Appointed Committees</b>	
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.	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 Pages 140-141.
3 (6) (ii)	<b>The following rules shall apply in relation to the Audit Committee:</b>	
	(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Mr. Aslam Omar appointed as the Chairman of the Audit Committee and he is an Independent, Non-Executive Director who possesses qualifications and related experience.
	(b) All members of the committee shall be Non-Executive Directors.	Annual Report information evidence that all members of the Committee are Non-Executive Directors.
	(c) The Committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	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 2012 indicates that the audit is carried out in accordance with SLAuS.

## Corporate Governance contd.

Section	Rule	Level of Compliance
	<p>(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,</p> <ul style="list-style-type: none"> <li>(i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services</li> <li>(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</li> <li>(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.</li> </ul>	<p>The Committee has implemented a process on the engagement of an External Auditor to provide non audit services after considering applicable relevant statutes, regulations, requirements and guidelines.</p>
	<p>(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.</p>	<p>The signed Letter of Engagement contains the agreed nature and scope of the audit, to be performed in accordance with SLAuS.</p>
	<p>(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;</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) the going concern assumption; and</li> <li>(iv) the compliance with relevant accounting standards and other legal requirements, and;</li> <li>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</li> </ul>	<p>Committee has process to review financial information of the bank when the quarterly and annual audited financial statements and the reports prepared for disclosure are presented to the Committee by the Chief Financial Officer.</p>

Section	Rule	Level of Compliance
	(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	BAC Meeting minutes evidence that they have met the external auditors twice during the year without the Executive Directors being present.
	(i) The Committee shall review the External Auditor's management letter and the management's response thereto.	BAC has reviewed the external auditor's Management letter and management's response thereto
	(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. (iii) Complied (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 twice without the executive director being present.

## Corporate Governance contd.

Section	Rule	Level of Compliance
	(m) The committee shall have: <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	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
	(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 pages 146.
	(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.	The Head of Internal Audit has been appointed as the Secretary of Board Audit Committee.
	(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.	Board approved whistle Blowing Policy covers the process of dealing with the stipulated matters.
<b>3 (6) (iii)</b>	<b><i>The following rules shall apply in relation to the Human Resources and Remuneration Committee:</i></b>	
	(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.	Committee has implemented remuneration policy for KMP and for CEO and Directors respectively.
	(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management personnel.	Complied
	(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.

Section	Rule	Level of Compliance
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Board approved HRRC charter defines the criteria that the CEO shall attend all meetings of the Committee by invitation except when matters relating to him are being discussed.
<b>3 (6) (iv)</b>	<b><i>The following rules shall apply in relation to the Nomination Committee:</i></b>	
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management personnel.	The Policy is in place to select/appoint new Directors.
	(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.	Board approved policy and process in place.
	(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.	Approved policy on 'Selection criteria for Directors, CO and KPM's which include required criteria.
	(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.	Nomination Committee Secretary has obtained signed declarations from each directors and from the CEO.
	(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.	Committee is chaired by Dr. Harsha Cabral who is an Independent Director CEO has attended NC meetings by invitation.
<b>3 (6) (v)</b>	<b><i>The following rules shall apply in relation to the Integrated Risk Management Committee:</i></b>	
	(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 five 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.	Risks of the Bank and Subsidiary Companies of the Group are assessed on a monthly/quarterly basis through Risk indicator reports/Quality Reports together with Compliance Reports.

## Corporate Governance contd.

Section	Rule	Level of Compliance
	(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.	IRMC has held 6 meetings covering each quarter during the financial year 2012.
	(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.	The Board approved Disciplinary policy includes provisions and criteria for such situations.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	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 to assess the bank's compliance. 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.



Section	Rule	Level of Compliance
<b>3 (7)</b>	<b><i>Related Party Transactions</i></b>	
3 (7) (i)	<p>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</p> <ul style="list-style-type: none"> <li>(a) Any of the Bank's subsidiary companies;</li> <li>(b) Any of the Bank's associate companies;</li> <li>(c) Any of the Directors of the Bank;</li> <li>(d) Any of the Bank's Key Management personnel;</li> <li>(e) A close relation of any of the Bank's Directors or Key Management personnel;</li> <li>(f) A shareholder owning a material interest in the Bank;</li> <li>(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.</li> </ul>	<p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties.</p> <p>Related Party Transaction Policy of the Bank has been approved by the Board and is implemented.</p>
3 (7) (iii)	<p>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.</p>	<p>Please refer 3.7 (i)</p>
3 (7) (iv)	<p>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.</p>	<p>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.</p>

## Corporate Governance contd.

Section	Rule	Level of Compliance
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
<b>3 (8)</b>	<b><i>Disclosures</i></b>	
3 (8) (i)	<p>The Board shall ensure that:</p> <p>(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</p> <p>(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied</p> <p>Complied</p>
3 (8) (ii)	<p>The Board shall ensure that the following minimum disclosures are made in the Annual Report:</p> <p>(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p> <p>(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.</p> <p>(c) The External Auditor's Certification on the effectiveness of the internal control mechanism reported by the Board of Directors.</p>	<p>Please ref page 154.</p> <p>Please ref pages 76.</p> <p>Please ref page 78.</p>

## Corporate Governance contd.

Section	Rule	Level of Compliance
	<p>(d) Details of Directors,</p> <p>(i) including names, fitness and propriety,</p> <p>(ii) transactions with the Bank and</p> <p>(iii) the total of fees/remuneration paid by the Bank.</p> <p>(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.</p> <p>(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</p> <p>(g) The External Auditor's Certification of the compliance with these Directions in the annual Corporate Governance Directions in the annual corporate governance reports published in the Annual Report.</p> <p>(h) A report setting out details of the compliance with</p> <p>(i) prudential requirements, regulations, laws and</p> <p>(ii) internal controls and</p> <p>(iii) Measures taken to rectify any material non-compliance.</p> <p>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.</p>	<p>(i) Please refer page 136, 137</p> <p>(ii) Please refer page 212-214</p> <p>(i) Please refer page 212-214</p> <p>Details of the accommodations outstanding are disclosed in page 214.</p> <p>Please ref page 212-214.</p> <p>The Bank has obtained External Auditor's certification on this Corporate Governance Report.</p> <p>(i) There is no such non compliance issues pointed out by the Director of Bank Supervision to be disclosed to the public.</p>

# Audit Committee Report

## Composition and performance

The Board appointed Audit Committee at end of the year comprised the following Independent Non-Executive Directors of the Bank.

Mr. Aslam Omar - Chairman  
Mr. Sunil Karunanayake (Appointed w.e.f. 29 May 2012)  
Mr. Sabry Ghouse (Appointed w.e.f. 30 August 2012)

Mr. Sunil Karunanayake who was a member of the Board Audit Committee appointed the acting Chairman w.e.f. 1 January 2013 as Mr. Aslam Omar, Chairman of the Board Audit Committee ceasing to be a Director of the Bank w.e.f. 31 December 2012. Mr. Ananda Atukorala and Mr. Alexis Lovell who were members ceased to be members of the Committee w.e.f. 7 May 2012 and 29 May 2012 respectively.

Chairman of the Committee, an Independent Non Executive Director, is a Fellow of the Institute of Chartered Accountants of Sri Lanka and possess considerable experience in the field of finance and administration.

Profiles of the members are given in page 84 to 87.

The Chief Internal Auditor functioned as the Secretary to the Committee for the year ended 31 December 2012. The Director/Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and other Senior Managers attended meetings by invitation, in order to brief the Audit Committee on specific matters. The External Auditors too, attended meetings by invitation when necessary.

The Audit Committee held fourteen formal meetings during the year under review, with the External Auditors attending five of these by invitation. Attendance of Committee members at each of the meetings is given in the table on page 146 of the Annual Report.

## 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 related changes thereto, alternative accounting treatments, major judgmental areas, material audit

adjustments, compliance with accounting standards, 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.

Audit committee reviewed the process of the Bank's transition to new Sri Lanka Financial Reporting Standards (SLFRS) and monitored progress on a continuous basis until the transition was complete. An interim Audit was proposed by the Board Audit Committee on the Financial Statements prepared in accordance with SLFRS for the nine months ended 30 September 2012 which helped completing the year end Audit Smoothly.

### Internal Controls

The Committee reviewed with management and the internal auditors the reports of 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.

Over 109 inspection reports on branches and Head Office departments and investigation reports received attention of the Committee and the operational deficiencies, lapses highlighted and recommendations were given due attention.

## Audit Committee Report contd.

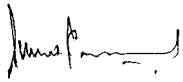
### External Audit

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. Policy on Non Audit Services provided by the External Auditors was introduced by the Committee with the approval of the Board in 2012.

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 examined the existence of 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 31 December 2013 subject to the approval of shareholders at the next Annual General Meeting.



**Sunil Karunanayake**

*Interim Chairman – Board Audit Committee*

1 March 2013



**Aslam Omar**

*Chairman - Board Audit Committee*

as at 31 December 2012

## Human Resources and Remuneration Committee Report

The Human Resources and Remuneration Committee comprised of  
Mr. Asoka de Silva - Chairman  
Mr. Priyantha Fernando  
Dr. Harsha Cabral  
Mr. Suren Madanayake  
Mr. Anil Amarasuriya (Director/Chief Executive Officer)

The Committee held 8 meetings during the year under review.

The main objectives of the Human Resources and Remuneration Committee as per the Charter approved by the Board of Directors are as follows:

- To formulate and establish a set of comprehensive remuneration policies and practices within the Bank.
- Review and propose, appropriate remuneration policies for Chief Executive Officer, Directors and Key Management Personnel of the Bank.
- To determine and recommend to the Board of Directors, objectives and targets to be set for the Chief Executive Officer and Key Management Personnel.
- To evaluate performance of the Chief Executive Officer, and Key Management Personnel of the Bank, against the agreed objectives and targets and make suitable recommendations to the Board
- Advice on Corporate Governance matters in relation to the Committee

The Committee during the year in furtherance of its objectives, implemented the following key policies to encourage and promote continuous development of the staff, and to make the Bank a cohesive work place for all staff.

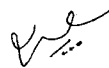
- A subscription reimbursement policy, to enable eligible staff to have their annual subscription fees relating to professional memberships reimbursed.
- Formal transfer policy whereby man power mobilisation across Departments, Branches, and Sub-Officers are handled in a more structured manner.
- Leave Policy to cultivate work life balance for staff.

The Bank implemented a Human Resource Policy in 2011, to broad base its scope of activity. The policy emphasizes HR planning, Recruitment and Selection, Compensation Management, Performance Management, Training and Development, Health, Safety & Welfare, employee services and Industrial relations.

The policy encompasses the need to provide the correct practices of Human Resource Management within the organization with the prime task of ensuring a competent, committed and contented workforce at all times.

In Keeping with the objectives of the Committee, benefits awarded to staff in terms of housing and vehicle loans and medical insurance limits were revisited and increased. Performance of Chief Executive Officer and other Key Management Personnel was evaluated against the set targets and goals and remuneration awarded accordingly. Certain staff in specialised areas were exposed to internationally accredited training programs.

The Committee in an effort to better optimise human resources approved the purchase of a comprehensive Human Resource Information System the implementation of which would be completed by mid 2013.



**Asoka de Silva**

*Chairman - Human Resources and Remuneration Committee*

29 March 2013







A Walk Through  
**LEVEL 3**

- Finance • Zonal Office
- Development Banking
- Information Technology
- Strategic Planning

# Integrated Risk Management Committee Report

## Introduction

A bank is exposed to various risks during its operations. At Union Bank the Board of Directors defines the risk appetite and approves the broad risk parameters the Bank could endure. The responsibility that the risks are appropriately managed is vested with the Board of Directors (BOD). In discharging the risk governance responsibilities the BOD operates through two key Board Committees, the Integrated Risk Management Committee and the Audit Committee.

## IRMC Committee members

The Integrated Risk Management Committee (IRMC) is the Board Risk Committee formed in line with the Central Bank Direction no. 11 of 2007. IRMC constitutes of five Non-Executive Directors and is chaired by an Independent Director. The current IRMC is represented by the following Board of Directors:

- Mr. Priyantha Fernando (Chairman)
- Mr. Asoka De Silva
- Dr. Harsha Cabral
- Mr. Sunil Karunanayake
- Mr. Suren Madanayake

Other permanent members of the Committee are the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Internal Auditor, Head of Treasury, Head of Risk Management and the Compliance Officer. The Company Secretary acts as the Secretary to the Committee.

## Role of IRMC

The role of the Committee is one of oversight. The IRMC provides the BOD the assurance that the risk management framework, risk management policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings, performance, reputation and capital. The approach to risk management requires an active monitoring of the level of risk exposure against parameters set in the risk appetite defined by the BOD. Functionally, the IRMC identify, measure, monitor and control risks while keeping the BOD informed.

## Supporting Structure

The IRMC is supported by various sub committees viz

- Executive Risk Management Committee (ERMC) – The Committee is responsible for Execution of risk management policies and procedures through monitoring and reviewing of exposures in credit risk, operational risk, market risk and other risks.

- Asset /Liability Committee (ALCO) - manages the Bank's Balance Sheet strategy by determining the policy and alignment of assets and liabilities of the Bank.
- Operational Risk Committee (ORMC) – ensures the Bank's operational risks are managed as per established policies/procedures and existence of strong Business Continuity Plan (BCP) and Disaster Recovery (DR) plans which are tested and updated periodically.
- The Executive Credit Committee – The Committee approves credit proposals under delegated authority taking into account concerns raised by RMD.
- The Risk Management Department.
- Compliance Division.

Each sub - committee has its own Terms of Reference to effectively monitor risks within its scope. The adequacy and effectiveness of these committees are assessed annually by the IRMC. All sub-committees meet at least once a month. The role of the Risk Management Department (RMD) is to inculcate the risk culture required to have a balance between target driven expansions and returns commensurate with risks taken, in addition to monitoring, assessing and controlling of risks. Moreover, the RMD independently reports to the IRMC and coordinates across the Bank to ensure that risk management is ingrained in the Union Bank culture. Meanwhile the Compliance Division is responsible to give the assurance to the IRMC and the BOD with regard to regulatory adherence and regulatory reporting of the Bank. The Compliance Division also ensures that the Bank complies with AML/CFT regulations. An AML software was installed in February 2012 enabling automatic alerts on rule based parameters.

The rules stated in the above CBSL Direction no. 11 of 2007 are meticulously followed by the members of IRMC as detailed hereunder:


- During the period under review, the Committee worked closely with Key Management Personnel and have appraised the Board of Directors accordingly.
- All types of risks of the Bank and Subsidiary companies of the Group are assessed on a monthly / quarterly basis through Risk Indicator reports / Quality reports together with Compliance reports.
- Corrective actions have been taken where necessary to mitigate / avoid current and potential risks envisaged.
- Have conducted a detailed study to ensure the adequacy and effectiveness of all management level committees to assess the level of risk monitoring and management.

- Have met six (6) times during the year (minimum regulatory requirement is once a quarter).
- Detailed risk assessment reports are submitted to the Board of Directors within one week from the IRMC meeting.
- The Committee also monitors the Compliance activities of the Bank.
- Group risk monitoring process was established from October 2012 for assessment of group risk to be reported to the BOD on a quarterly basis.
- Business Continuity and Disaster Recovery policy was strengthened and reviewed in October 2012

During the year under review, the IRMC under its supervision witnessed a substantial change in the risk culture of the Bank, starting with a revised policy and a procedural guideline for Operational Risk Management, introduction of a Stress Testing policy and a Disclosure policy, enhanced Integration Risk Management Framework, Group Risk Management coordination and reporting procedure, road map to advanced risk management approaches under Basel II etc. , as well as regular presentations to the Board of Directors on technical areas to facilitate understanding of the Bank's journey towards more Advanced Risk Management methods.

### Plans for year 2013

Finally, plans for year 2013 would be to further inculcate the risk culture within the Bank, implementation of Internal Capital Adequacy Assessment Process (ICAAP) by early 2013 and a complete system based risk assessment and monitoring using a sophisticated Risk Management systems, which is capable of moving into Advanced Risk Management approaches leading to efficient capital management as mentioned in Basel II. The Advanced approaches are Foundation and Advanced Internal Rating Based approaches for Credit risk, Standardised and Advanced Measurement approaches for Operational Risk and Value at Risk for Market risk.

P.D.S 

**Priyantha Fernando**

*Chairman - Integrated Risk Management Committee*

8 December 2012





A Walk Through  
**LEVEL 4**

- Marketing
- Credit Administration and Recoveries
- Internal Audit

# Directors' Statement on Internal Control Over Financial Reporting

## Responsibility

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Union Bank of Colombo PLC ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of 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 control over financial reporting 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 Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

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

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of 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 Over 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:

1. Various 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.
2. 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 Board Audit Committee for review at their periodic meetings.
3. The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Committee meetings are forwarded 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 67.
4. In assessing the internal control system over financial reporting, 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. As the current year was

the first year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure were being introduced, as at balance sheet date. The process was subsequently completed and reflected in the audited financial statements of the Bank for the year ended 31 December 2012. The assessment did not include subsidiaries of the Bank.

5. The Report of the External Auditors in connection with internal control system is appearing on page 78.

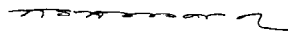
### Confirmation

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 and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

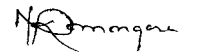
By order of the Board



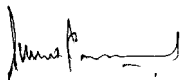
**Alexis Lovell**  
Chairman



**Anil Amarasuriya**  
Director / Chief Executive Officer



**Nirosha Kannangara**  
Company Secretary



**Sunil Karunanayake**  
Interim Chairman – Board Audit Committee

28 March 2013

### Review Of The Statement By External Auditors

The external auditors have reviewed the above Directors Statement on Internal Control over financial reporting included in the annual report of the Bank for the year ended 31 December 2012 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 over financial reporting of the Bank.

# Assurance Report on Internal Control



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

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

We were engaged by the Board of Directors of Union Bank of Colombo PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2012.

#### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

#### Our 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 Standards 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 supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supported 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 over financial reporting of the Bank.

28 March 2013  
Colombo



## Nomination Committee Report

The Board Nomination Committee was reconstituted on 29th May 2012. The following members comprised the Committee since the said date;

- Dr. Harsha Cabral PC
- Mr. Asoka de Silva
- Mr. Alexis Lovell

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

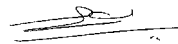
- (1) The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel according to the regulations and directions imposed by the Monetary Board.
- (2) The Committee shall consider and recommend or not recommend the re-election of current 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 Chief Executive Officer and the Key Management positions.
- (4) The Committee shall ensure that Directors, Chief Executive Officer 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 5 times during the year 2012.

Following were few initiations implemented by the Committee during the year.

- A policy on selection criteria for Directors, Chief Executive Officer and Key Management Personnel.
- The Committee ensured that the Directors selected to be appointed as Directors are fit and proper as per the criteria given in the Direction No.11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka.

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*

29 March 2013

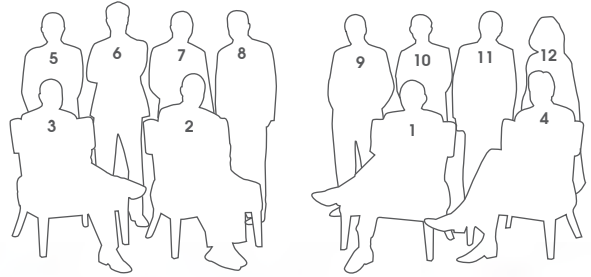




A Walk Through  
**LEVEL 5**

- Risk • Compliance
- Legal
- Gymnasium

# Board of Directors



1. **Alexis Lovell**, *Chairman/Non-Executive Director*
2. **Asoka de Silva**, *Deputy Chairman/  
Senior Director/Independent Non-Executive Director*
3. **Anil Amarasuriya**, *Chief Executive Officer/  
Executive Director*
4. **Dr. Harsha Cabral**,  
*Independent Non-Executive Director*
5. **Gerard Ewe Keng Lim**, *Non- Executive Director*
6. **Nigel Bartholomeusz**, *Alternate Director to  
H R H Prince Faisal Al Abdullah Al Faisal Al Saud*
7. **Sabry Ghouse**, *Independent Non-Executive Director*
8. **Suren Madanayake**, *Independent Non-Executive Director*
9. **Kin Leong Chong**, *Non-Executive Director*
10. **Sunil Karunanayake**, *Independent Non-Executive Director*
11. **Priyantha Fernando**, *Independent Non-Executive Director*
12. **Nirosha Kannangara**, *Chief Manager-Legal/Company Secretary*



**Not in Picture:**

**H R H Prince Faisal Al Abdullah Al Faisal Al Saud**, *Non-Executive Director*, **Aslam Omar**, *Independent Non-Executive Director*  
**Ms. Lee Sian Goh**, *Alternate Director to Mr. Gerard Ewe Keng Lim*, **Ms. Sow Lin Chiew**, *Alternate Director to Mr. Kin Leong Chong*

## Profiles of the Board of Directors

### Mr. Alexis Lovell, MBE

#### *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 was appointed as the Chairman in May 2012. 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.

### Mr. Asoka de Silva

#### *Deputy Chairman/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 to December 2010 and was appointed as the 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.

### Mr. Anil 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, 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 Bank'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 a 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 currently serving as the Vice Chairman of the Sri Lanka Banks' Association and as a Director of the Financial Ombudsman Sri Lanka Guarantee Limited. Mr. Amarasuriya was the former Chairman of the Sri Lanka Banks' Association. 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).

**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. 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 four 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 is a Commissioner of the Law Commission of Sri Lanka. He is a member of the Advisory Commission on Company Law in Sri Lanka and was a key member in drafting the Companies Act No.7 of 2007.

Dr. Cabral is a Council Member of the University of Colombo, a member of the Board of Studies of the Council of Legal Education in Sri Lanka, a member of the Academic Board of Studies of the Institute of Chartered Accountants of Sri Lanka, a member of the Corporate Governance Committee of the ICASL and a Senate member of Aquinas College of Higher Education. Dr. Cabral is the Vice President of the Business Recovery and Insolvency Practitioners Association of Sri Lanka.

**Mr. 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, in Malaysia and is a Member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

**Mr. 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.

**Mr. Aslam Omar**  
*Independent Non-Executive Director*

Mr. 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.

Mr. Omar, recognised 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.

Mr. 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. Mr. Omar is a fellow member of the Institute of Chartered Accountants, Sri Lanka and serves as a Director of Union Bank of Colombo PLC.

**Mr. Priyantha Fernando**  
*Independent Non-Executive Director*

Mr. Fernando has more than 35 years of experience in the banking and finance 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 clusters. Mr. Fernando has extensive experience and expertise in the fields of Banking and Financial Sector regulation, Information Technology, national accounting and statistics, fund

## Profiles of the Board of Directors contd.

management, risk management and restructuring, recovery and stabilisation of financially distressed companies. 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 of the National Payment Council.

He was an ex-officio board member in several regulatory organizations 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 advancement 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.

### **Mr. 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 practised 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. Kanag-Isvaran 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 Courts 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.

### **Ms. Sow Lin Chiew**

**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.

### **Mr. Sunil Karunanayake**

**Independent Non-Executive Director**

Mr. Karunanayake FCA, FCMA, MBA was formerly the Commercial Controller at Unilever Ceylon Ltd - Tea Division having commenced his career at Hayleys Limited, latterly, he served the Institute of Chartered Accountants Sri Lanka as a Project Director of the World Bank funded IRQUE project and was also Secretary to many committees inclusive of the Company Law and other Legislation Committees where he was involved in many representations to the Colombo Stock Exchange, Securities & Exchange Commission and Registrar of Companies in related matters. He was a regular Columnist to Sunday Business Times for several years and released his maiden publication "Business and Corporate Affairs" recently. He also functions as an Independent Non-Executive Director of Union Bank of Colombo PLC, Alliance Finance PLC, Ceylon Grain Elevators PLC and Three Acre Farms PLC. He is a Member of the Audit Committee of Union Bank of Colombo PLC and Chairs the Audit Committees in Alliance Finance PLC, Ceylon Grain Elevators PLC and Three Acre Farms PLC.



**Mr. Sabry Ghouse*****Independent Non-Executive Director***

Mr. Sabry Ghouse was appointed to the Board as an independent Non Executive Director on 30th August 2012. His banking career spans over 25 years with leading international Banks. He was employed by American Express Bank, Standard Chartered Bank and Al Rajhi Bank of Saudi Arabia, and was responsible for the setting up of Retail Banking, allied operations and crafting of Strategy at all of these banks to emerge a leader in their chosen market. He was seconded by Standard Chartered Bank in 2000, as Regional Head of Consumer Banking for the Levant Region where he was responsible for the successful acquisition and transition of the Grindlays bank business, subsequent to Standard Chartered global acquisition of Grindlays franchise.

Also recognised by Standard Chartered Bank for his contribution to society and sustainable business in spear heading a community project for mentally challenged Children in Jordan with a tag line "Charity Pays". In 2006, he was head hunted by Mckinsey for Al Rajhi Bank Saudi Arabia to set up a Retail Banking model in Malaysia. As a director of the Al Rajhi Bank Malaysia, he was able to break even in the 4th year with a network of branches throughout Malaysia. He was a Director of the Credit Information Bureau (CRIB) in Sri Lanka. He was also recognised by the banks he was employed, and was selected for training at the London Business School, UK and a leadership program at Templeton, Oxford UK. He holds a Master Degree in Business Administration (MBA) from the University of Western Sydney, Australia.

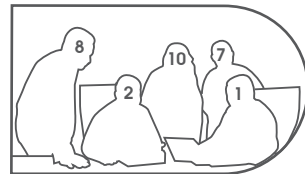
**Mr. Suren Madanayake*****Independent Non-Executive Director***

Mr. Madanayake had his education at Royal College, Colombo and qualified as a Mechanical Engineer from the University of Texas at Austin, USA. He has 21 years experience in the Cable industry and 18 years experience in the Plastic industry. He was appointed to the Board of ACL Cables PLC in June 1991 and appointed as Managing Director in September 2005. When Kelani Cables PLC was acquired in October 1999, he was appointed as Managing Director of KCL and Lanka Olex Cables (Pvt) Ltd, which is the holding Company of KCL. In 2003 he was appointed as Deputy Chairman of KCL. He also serves as the Managing Director of Ceylon Bulbs and Electricals Ltd, ACL Plastic PLC and Director of ACL Metals & Alloys (Pvt) Ltd., ACL Polymers (Pvt) Ltd., ACL Kelani Magnet Wire (Pvt) Ltd., Fab Foods (Pvt) Ltd and Ceylon Tapioca Limited. He also serves as Chairman of CCC foundation of Sri Lanka, which is an approved charity. He also captained the Royal College 1st XV Rugby team in 1987.

## Executive Committee



1. **Anil Amarasuriya**, *Director/Chief Executive Officer*
2. **A. N. de Silva**, *Chief Operating Officer*
3. **Beverley Labrooy**, *Vice President - International & Business Development*
4. **Ravindra Divulwewa**, *Vice President - Credit*
5. **Malinda Samaratunga**, *Chief Financial Officer*
6. **Kusal Perera**, *Assistant Vice President - Finance*
7. **A. E. R. Candappa**, *Assistant Vice President - Treasury*
8. **Rajeev Munasinghe**, *Assistant Vice President - IT*
9. **Ned Gomez**, *Assistant Vice President - Operations*
10. **Thiroshani Ratnayake**, *Assistant Vice President - Human Resource Development*
11. **Rushira De Silva**, *Assistant Vice President - Credit 1*



## Chief Managers

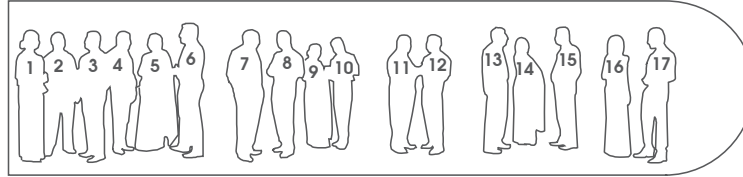


1. **Sanjev Perera**, *Chief Manager - International*
2. **Jeevan Jayawardene**, *Chief Manager - Zone I*
3. **Thishani Dissanayake**, *Chief Manager - Marketing*
4. **Mahendra Dahanayake**, *Chief Relationship Manager - Corporate Banking*
5. **Halantha Hewasiliyange**, *Chief Manager - Operations*
6. **Nirosha Kannangara**, *Chief Manager - Legal / Company Secretary*
7. **Asanga Tennakoon**, *Chief Manager - Zone II*
8. **Nandika Nawagamuwu**, *Chief Manager - Risk Management*



## Senior Managers





1. **Ramanie Wijeratne**, Senior Manager - Priority Banking
2. **Shiran Punchihewa**, Senior Manager - IS Audit
3. **Jayanath Kariyakarawana**, Senior Manager - Credit Administration & Recoveries
4. **Malinda Perera**, Senior Manager - Deposit Mobilisation
5. **Nilmini Weerasekera**, Senior Manager - Corporate Banking
6. **Meril Perera**, Senior Manager - IT
7. **Udaya Bandara**, Senior Manager - Agricultural & Micro Finance
8. **Sameera Wijegunawardena**, Senior Manager - Pettah Branch
9. **Chaya Gunarathne**, Compliance Officer
10. **Nissanka Rajapaksha**, Senior Manager - Internal Audit
11. **Asoka Pandithasekera**, Senior Relationship Manager - Corporate Banking
12. **Deepal Liyanage**, Senior Relationship Manager - Development Banking
13. **Manisha Fernando**, Senior Manager - Strategic Planning
14. **Niloufer Vandergert**, Senior Manager - Corporate Communications
15. **Asanka Ranasinghe**, Senior Manager - SME Zone II
16. **Minoli Fernando**, Senior Manager - Finance
17. **Asela Wijesinghe**, Senior Manager - Treasury







A Walk Through  
**LEVEL 6**

• Information Technology  
Project Office

## Reaching Higher – Our Brand

### Blossoming towards Prosperity

Like a lotus that rises above the surface to display its beauty and purity, we believe in rising up, nurturing relationships and together growing to greater heights. As we unfold our petals, we continue to evolve and blossom. Join with us and let us lead you to prosperity.



.....  
 "The Bank's new strategic direction highlighted the need for a brand perception representing the local identity of the Bank and its core values of flexibility, innovation and openness, all of which continue to deliver the Bank's value proposition"  
 .....

Union Bank continues to evolve as one of Sri Lanka's fastest growing Banks, creating a distinctive image by leveraging on its commitment to offer superior value and service to customers. The Bank's new strategic direction highlighted the need for a brand perception representing the local identity of the Bank and its core values of flexibility, innovation and openness, all of which continue to deliver the bank's value proposition.

Branding crystallises Union Bank's USP's as a Bank of choice for the preferred sectors and enables it to move from a wayward track to a modeled trajectory that maximises returns for business. The Union Bank brand continues to evolve and value additions to product development, infrastructure, technology, network expansion and service delivery enables the Bank to provide superior product offering to customers enabling to nurture stronger relationships and together grow to new heights. Its unique and innovative value propositions have thus carved out a distinctive niche and continues to showcase Union Bank as a preferred Bank for the SME and Retail sectors.

### A Winning Brand

#### Union Bank becomes a Most Valuable Brand in Sri Lanka

Highlighting on the Bank's continuous efforts to create brand equity, Union Bank was selected to the most valuable brands in Sri Lanka published by LMD and Brand Finance, adding yet another milestone for the Bank. UBC received a BBB rating and has been ranked 13th in the Banking Industry and 61st, amongst the most valuable 100 brands in Sri Lanka.

Overall rank	61st
Bank ranking	13th
Brand value	346 Mn
Enterprise value	25,334Mn
Brand Rating	BBB

Source: LMD, Brands Annual 2012



## Accolade for ICT Innovation

Since its inception, Union Bank has been synonymous for technology innovations in the Banking industry in Sri Lanka with the launch of many technology driven products including the launch of internet banking in Sri Lanka. Adding yet another feather to its collection on technological innovations, Union Bank TV Banking application was awarded the Bronze title under the 'in-house applications category' at the National Best Quality ICT awards 2012.



## Annual Report Commended

A Certificate of Recognition was received by the Bank in the 2012 Annual Report Competition organised by the Institute of Chartered Accountants Sri Lanka.

## An Array of New Products

Union Bank's focus on new product development saw the launch of the following products during the year 2012.

### Factoring

Union Factors is yet another value added service to enhance the product offering to the Small and Medium Enterprises, enabling even greater convenience and efficiency to conduct business operations. The Factoring Service of Union Bank, offers a speedy and efficient service to customers and provides cash upfront up to 85% of the invoice value for credit sales, as well as manage the customers receivables, enabling customers to focus on their business operations and take advantage of market opportunities, rather than spend time managing debtors.

Business entities require cash to finance the working capital requirements as the business grows. By taking advantage of the benefits of Union factors, customers can conduct efficient debt collection, pay off loans and other debts, carry out professional sales ledger management, meet seasonal demands, purchase inventory and fill orders faster.

### Small Business Loan



Small Business loan scheme provides burgeoning entrepreneurs a platform for financial support for business start-up as well as business development. Based on the feasibility of the business, the loan scheme provides financial assistance up to a maximum of Rs. 250,000 and has become a competitive scheme due to its minimum requirement of documentation and security,

flexibility in repayments and speedy approvals. As a value addition, customers also benefit from the Bank's free advisory service.

### “පොලිය රෙඩ්” Deposits

A first in the Banking industry in Sri Lanka the Union Bank Three Month deposits offers customers the entire 3 months interest upfront with no penalty charged for premature up-liftment. The product provides customers the ability and the flexibility to take advantage of market trends in interest rates. These unique features resulted in receiving in excess of 2 billion in deposits during its launch and sees steady growth with high potential to secure business whilst maximising returns to customers.

### TV Banking



Bringing Sri Lanka closer to the global standard of services offered in the Banking sector, for the first time in Sri Lanka Union Bank together with SLT PEO TV launched TV Banking, a novel banking portal that facilitates online banking services using the TV as an interface.

## Reaching Higher – Our Brand contd.

Any of PEO TV's 50,000 plus customers who also bank with Union Bank can avail themselves of this amazing service. The advantages of TV Banking are numerous and include 24/7 accessibility, the comfort of banking from one's own home and the ability to sit back, relax and not have to think of the hassle of queuing at the bank. The services available via TV Banking are - Balance Inquiry, Utility bill payments including SLT, CEB, LECO, National Water Board and mobile phones. Other services offered are Internal Fund Transfers between a customer's own account and Third Party Fund Transfers to customers of Union Bank or any other Bank. Customers can also view their Assets and Liabilities, and Fixed Deposit details. They will also be able to change their Union Bank passwords via TV Banking.

### 'Punchi Pathum' Minors Savings Account

Children are an integral segment of the Bank's customer portfolio and its imperative to UBC to support their future and act in their best interest. Hence Union Bank Punchi Pathum is yet another step in this direction. Union Bank "Punchi Pathum", is a unique children's savings account that allows the flexibility to withdraw money in several stages for necessities of children as and when they arise before the child reaches 18 years. It is the first such account in Sri Lanka.



1-6 years	Withdraw 25% of the account balance (up to a maximum of 100,000)
7-13 years	Withdraw accrued interest for the current year (up to Rs. 15,000 yearly)
14-18 years	Withdraw 25% of the account balance (up to a maximum of 100,000)

The account is designed to provide ease and convenience to parents and guardians in meeting their children's needs such as educational expenses. The account also pays the highest interest rate of 10% per annum on the savings and in addition also offers a 10% bonus interest if funds have not been withdrawn before the child turns 18 years.

## Events and Highlights at a Glance



### 06<sup>th</sup> January 2012

Union Bank's new state of the art Head Office premises was ceremonially opened by Mr. Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka.



### 20<sup>th</sup> January 2012

Union Bank participated in the Jaffna International Trade Fair 2012, organised by the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) held in Jaffna.



### 2<sup>nd</sup> February 2012

UBC and Janashakthi Insurance PLC entered into an agreement to provide Bancassurance to UBC customers.

## Reaching Higher – Our Brand contd.

### Events and Highlights at a Glance



#### 06<sup>th</sup> May 2012

Vesak Dansala organized by the UBC sports club was held at the Head Office premises.



#### 28<sup>th</sup> May 2012

Mr. Alexis Lovell assumed duties as the new Chairman of Union Bank with a vision to make Union Bank a Power House in Banking.



#### 29<sup>th</sup> May 2012

Union Bank hosted a dinner to bid farewell to Mr. Ajita de Zoysa former Chairman of Union Bank who rendered a yeoman service to the progress of Union Bank.



#### 12<sup>th</sup> June 2012

Together with telecom giant SLT and PEO TV, Union Bank launched TV Banking creating a new dimension in consumer Banking in Sri Lanka.



#### 05<sup>th</sup> July 2012

A MOU was signed with Silverlake Malaysia for a new core banking system, placing Union Bank's information technology capabilities at the forefront of the Banking Industry in Sri Lanka.



**7<sup>th</sup> July 2012**

Union Bank participated in the "Divinaguma" exhibition inaugurated by the Ministry of Traditional Industries and Small Enterprise Development together with Ministry of Economic Development, aimed at developing small and medium sector industries, which was held in Trincomalee.



**21<sup>st</sup> July 2012**

The Bank's annual staff outing was held at Kukuleganga Resort.



**3<sup>rd</sup> August 2012**

National Asset Management Limited (NAMAL) a subsidiary of Union Bank moved in to its new premises at the 7<sup>th</sup> floor of Union Bank. The new office was ceremonial opened by Mr. Alexis Lovell, Chairman of Union Bank and NAMAL.



**19<sup>th</sup> August 2012**

National Chamber of Commerce held a media conference to unveil the 19<sup>th</sup> Annual National Exporters Awards. Union Bank confirmed its sponsorship for the 4<sup>th</sup> consecutive year as a principal sponsor.



**26<sup>th</sup> August 2012**

UBC participated in the SME Machinery and Technology Exhibition 2012 organised by the SME development arm of the Federation of Chambers of Commerce and Industry of Sri Lanka held at the BMICH.

## Reaching Higher – Our Brand contd.

### Events and Highlights at a Glance



#### **21<sup>st</sup> September 2012**

Union Bank gave away awards to the winners of Export of Professional Services category at the National Chamber of Exports (NCE) awards held at the Hilton, Colombo.



#### **26<sup>th</sup> November 2012**

The Union Bank Talent night is yet another initiative launched to strengthen comradeship amongst employees. An evening of entertainment showcasing the talents of the staff in a variety of entertainment performances was held at the Navarangahala, Royal College, Colombo 07.



#### **15<sup>th</sup> December 2012**

Union Bank held its annual staff dinner "UB Hawaiian Night" at the Ramada, with an abundance of entertainment and galore of surprises and gifts.



#### **17<sup>th</sup> December 2012**

The Union Bank Christmas carols was held at the Head Office premises with the participation of staff and their families.

## Branch Openings

### 31<sup>st</sup> Branch - Horana

Ceremonially opened by Mr. Ajita de Zoysa, former Chairman, UBC on 30<sup>th</sup> April 2012.



### 34<sup>th</sup> Branch - Amabalangoda

Ceremonially opened by Mr. Alexis Lovell, Chairman, UBC on 31<sup>st</sup> May 2012.



### 32<sup>nd</sup> Branch - Badulla

Ceremonially opened by Mr. A.N. de Silva, Chief Operating Officer of UBC on 30<sup>th</sup> April 2012.



### 35<sup>th</sup> Branch - Panadura

Ceremonially opened by Mr. Alexis Lovell, Chairman, UBC on 01<sup>st</sup> October 2012.



### 33<sup>rd</sup> Branch - Chilaw

Ceremonially opened by Mr. Asoka de Silva, Deputy Chairman, UBC on 23<sup>rd</sup> May 2012.



### 36<sup>th</sup> Branch - Marawila

Ceremonially opened by Mr. Asoka de Silva, Deputy Chairman, UBC on 19<sup>th</sup> October 2012.



## Reaching Higher – Our Brand contd.

### Branch Openings

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#### Re-locations to More Spacious Premises

Offering customers greater convenience the Kurunegala and Wellawatte branches were relocated to new premises.

**2<sup>nd</sup> April 2012, Kurunegala**



**17<sup>th</sup> October 2012, Wellawatte**



#### Union Bank Opens 1<sup>st</sup> SME Centre

The first SME centre was ceremonially opened by Mr. A.N. de Silva, Chief Operating Officer, UBC on 10<sup>th</sup> November 2012 at the Gampaha Branch.



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# Corporate Social Responsibility

## Viyaparika Saviya Free Advisory Service



As a Bank focusing on the Small and Medium Enterprises, its the Bank's vision to continuously innovate to develop this sector. As such the Bank's Corporate Social Responsibility (CSR) policy is also aligned to benefit the development

of the sector and has continued to evolve, providing greater benefits to SME stakeholders.

Bringing together expert SME banking products and advisory services under one roof, Union Bank pioneered the concept of Viyaparika Saviya, free advisory services to the Small and Medium Enterprises sector with the introduction of a series of workshops providing free advice and guidance to entrepreneurs enabling them to take their businesses to new heights. As a preferred bank for the Small and Medium Enterprises developing the skills of the sector is integral and as the Bank's key social responsibility initiative Viyaparika Saviya provides entrepreneurs an opportunity for free advice from the Banks expertise and extensive resource base on many business and management areas such Finance, Marketing, Information Technology, Process Management, Human Resource Development.

## Together Growing to New Heights – Free Workshops

Since its launch in 2011, Viyaparika Saviya has supported many new and existing entrepreneurs for better business growth. Businesses from diverse industries has benefited from the expertise and advice of the service. During 2012, the Bank organised several workshops across the island with over 650 entrepreneurs participating free of charge to avail themselves to advice on better business practices.

The table that follows on page 104 details the various workshops that were held over the year.

## Access and Guidance for Financial Support

Through the workshops, Viyaparika Saviya also provides a platform for budding entrepreneurs the access to comprehensive portfolio of financial products that are customised to the SME sector with competitive benefits. The Bank's micro loan scheme provides an ideal opportunity for new and potential entrepreneurs to turn ideas in to reality and to carve themselves a spot in the business world, and offers minimum limitations based on feasibility of projects. The Bank's experienced SME specialists provides guidance every step of the way and supports the implementation and development process of businesses to such customers.



Galle



Badulla



Anuradhapura

## Corporate Social Responsibility contd.

No.	Area	Date of Workshop
1	Wennappuwa	30 <sup>th</sup> January
2	Piliyandala	14 <sup>th</sup> February
3	Dambulla	06 <sup>th</sup> March
4	Kurunegala (TVS)	19 <sup>th</sup> March
5	Chilaw	22 <sup>nd</sup> May
6	Badulla	19 <sup>th</sup> June
7	Ratnapura	20 <sup>th</sup> June
8	Anuradhapura	26 <sup>th</sup> June
9	Negombo	09 <sup>th</sup> July
10	Kurunegala	29 <sup>th</sup> July
11	Horana	11 <sup>th</sup> August
12	Ambalangoda	28 <sup>th</sup> August
13	Gampaha	15 <sup>th</sup> September
14	Galle	20 <sup>th</sup> September
15	Bandaragama (IDB)	27 <sup>th</sup> September
16	Ja-ela	25 <sup>th</sup> October
17	Moratuwa	22 <sup>nd</sup> November
18	Marawila	27 <sup>th</sup> November
19	Panadura	29 <sup>th</sup> November

the Bank provides the required advise through the column or directly by contacting the inquirer. in addition the column is also updated on the Bank's website on a weekly basis for reference.

This initiative was launched in August 2012, and during a short period of time the Bank has responded to a large number of inquiries.

### Nurturing Relationships

Nurturing relationships with personalised attention always striving to deliver on its communique " join with us and let us lead you to success and prosperity" Union Bank believes in working together and nurturing relationships. The advisory services goes beyond just workshops and our experienced resource personnel work with customers supporting them to make their ideas successful, further broadening horizons for business growth.

### Public Awareness

As a value addition to Viyaparika Saviya the Bank also commenced a free advisory column in the media providing the opportunity for all existing and potential entrepreneurs across the island to gain from the concept. The column is published weekly in the Sunday 'Lankadeepa' newspaper and provides comprehensive insight and guidance to business issues and opportunities in the form of a Q&A. Persons with interest in receiving advise on business related matters can send in their questions by post or email and

## Review on Human Resources

The success of Union Bank relies on its ability to manage its diverse workforce, whilst successfully implementing its policies with regard to personnel, best practices and management initiatives. The Bank's Human Resources department facilitates the above process and continues to build a sense of commitment and loyalty among employees.

The year under review highlights the Bank's focus on offering greater returns and benefits to employees and its unyielding efforts for the development of the Bank's human capital in line with the Bank's vision of being a Bank of choice for the SMEs.

As one of Sri Lanka's fastest growing Bank, 2012 was yet another challenging year with greater human capital needs. In pursuance of the key strategic objectives of the Bank a total of 105 new staff were recruited during the period under review, resulting in the Bank's total staff amounting to 502.

### Recruitments

Grade	No. Recruited
Corporate Management	0
Senior Management	4
Managers	12
Executives	14
Officers	9
Trainee Officers	10
Banking Assistants	18
Trainees	38
<b>Total</b>	<b>105</b>

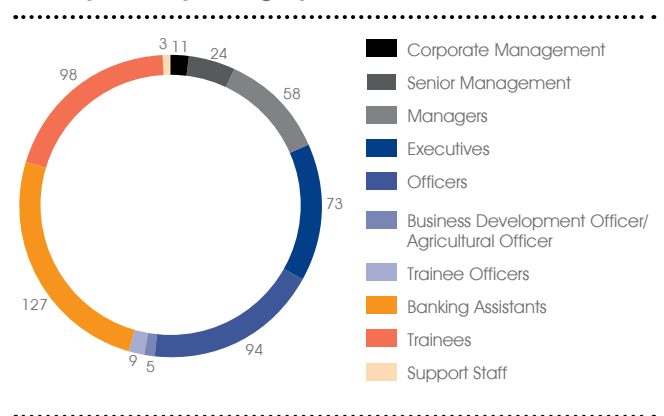
Providing employees the right knowledge and expertise in delivering the Bank's value proposition is an integral part of the Bank's HR development plan. New and existing staff received continuous training in diverse areas in order to cater to challenges and emerging developments in both internal and external environments. The Bank also launched a certification program, certifying staff on critical operational areas.

Adding value to its preferred employer status, subsequent to a salary survey the Bank implemented changes to staff remuneration, that resulted upward revisions in salaries and highlighted increased benefits for employees with regard to loans (housing and vehicle), medical schemes and other allowances.

Further strengthening the Bank's employee relation initiatives, a formal grievance policy, a promotion policy and an employee counseling service was also introduced.

Relocation to the new Head Office premises provided employees a new and improved state of the art working environment inclusive of a fully equipped gymnasium and a comprehensive library. Investment was also made to purchase a fully fledged Human Resource Information System that will enable the Bank to increase HR operational efficiencies and completion of the system is expected by April 2013.

### Employment by Category







A Walk Through  
**LEVEL 7**

• National Asset  
Management Limited

## Subsidiary Update



### Year of consolidation

NAMAL has completed its second year of operation under Union Bank of Colombo PLC while completing its twentieth year of operation in 2012. The year saw further operational consolidation as NAMAL shifted its operations to Union Bank Head Office. The company came under operational supervision of Union Bank in terms of group strategy, budgeting process, internal audit, compliance, risk management and marketing. The company also took the initiative in 2012 in launching its direct retail sales force through Union Bank branches as the first step in expanding the distribution network to existing and potential investors. As a result, NAMAL now boasts of having the largest direct sales force in the Unit trust industry covering in excess of 20 branches of Union Bank island wide.

### Performing in a challenging market environment

It was a challenging year as equity markets were depressed globally and Sri Lanka was not an exception. Despite the tough market conditions, the company's flagship equity funds, namely National Equity Fund, NAMAL Growth Fund and NAMAL Acuity Value Fund have managed to outperform All Share Price Index (ASPI), bringing much stability and superior fund performance to the Company's fund portfolio. The flagship National Equity Fund has retained its number one position as the best performing equity fund in the balanced fund category in FY2012. Fixed income Funds of NAMAL, continued to generate attractive returns, as Treasuries and fixed income products yielded high returns during the period under review.

### New funds Sales and consolidation of market share

Adding value to its product portfolio, NAMAL also launched two new Funds during 2012, namely NAMAL High Yield Fund and NAMAL Sharia Fund. As a result of increased emphasis of new fund sales, the company managed to recapture some of the lost market share, securing 21% market share (5% in FY 2012) in new fund sales and 52% market share (35% in FY2011) on client acquisitions during the year. This was commendable achievement despite increased competition from new players and weak equity market conditions.

### Further incentives to develop the industry

Unit trust industry received further incentives in FY2012/13 budget. These include relaxation of exchange controls for foreign investors, reduction in corporate income tax and VAT exception for services rendered by management companies. While these benefits will have a positive impact on the company bottom line in the near term, much effort needs to be put in to develop NAMAL's retail fund base in the long term. The company is of strong belief that the retail business has huge untapped potential, as the country moved towards middle income nation and when the reforms in the pension take place. NAMAL is very optimistic about the future growth potential of the economy and the capital markets of Sri Lanka but remains aware of the systematic risk variables in emerging markets and importance of making the right investment choices. The company remains committed to delivering long term capital appreciation and income to investors by adopting conservative, fundamental based investment management practices.



### A New Beginning

Union Bank of Colombo PLC and together with an international foreign investment fund ShoreCap II Limited, acquired over 98% of voting shares of The Finance and Guarantee Ltd, infusing in excess of Rs.1.1 Billion rupees as capital to resurrect one of Sri Lanka's oldest finance companies. This acquisition further highlights Union Bank's focused diversification plans taking positive strides in a short period of time. The Company was subsequently restructured, rebranded and launched as UB Finance Co. Ltd. in June 2012, as the first finance company to be backed by a private commercial bank in the private sector of Sri Lanka, highlighting a positive outlook for all stakeholders of the Company. The directorate of UB Finance led by Chairman, Alexis Lovell, comprises of a unique and diverse combination of local and international business professionals.

### Strategic Focus

During 2012, key focus was placed on developing and adding value to the company's product portfolio and service standards. The Company embarked on a restructuring and development initiative that included improvements to business processes and systems. In this respect, UB Finance invested in a state of the art IT system which will enable superior delivery of its products and service to the preferred target segments. As an integral part of adhering to ensure stringent controls and finance management, during the year, UB Finance also appointed M/s. Ernst & Young as the Company's External Auditors with effect from 10th September 2012. An image building initiative was also implemented to create awareness of the new brand identity of the company.

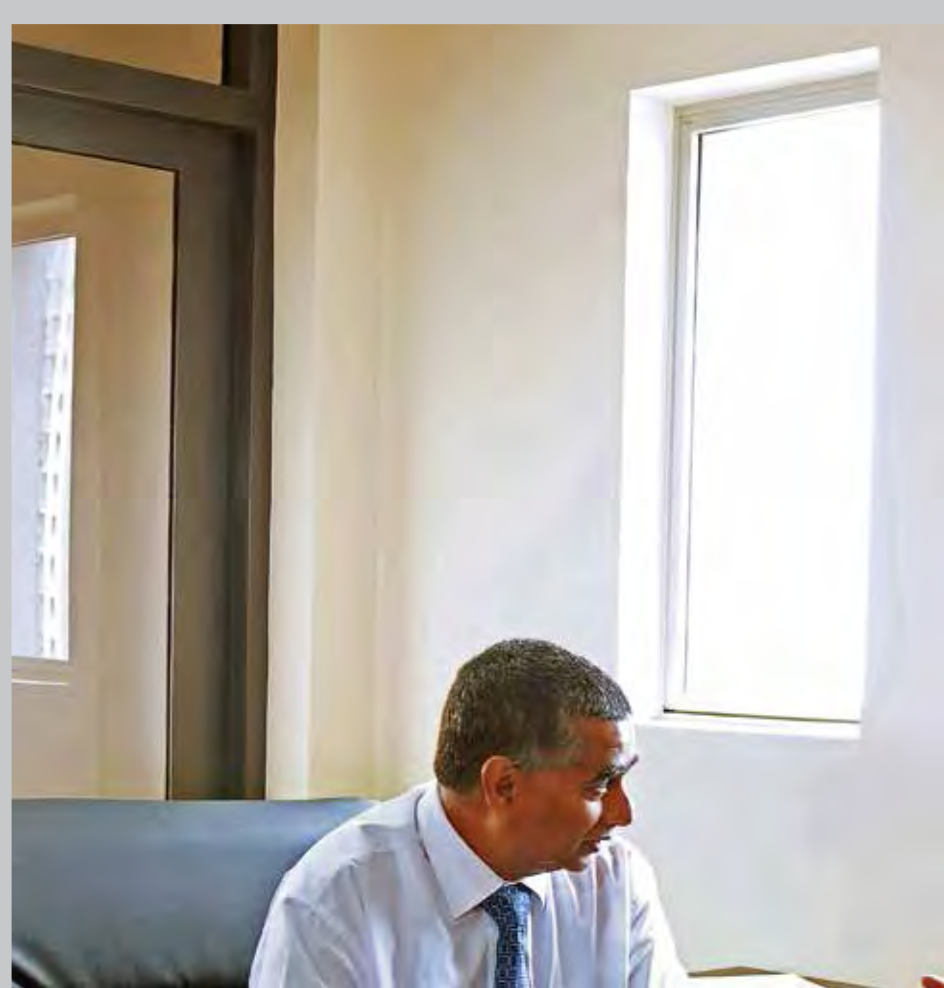
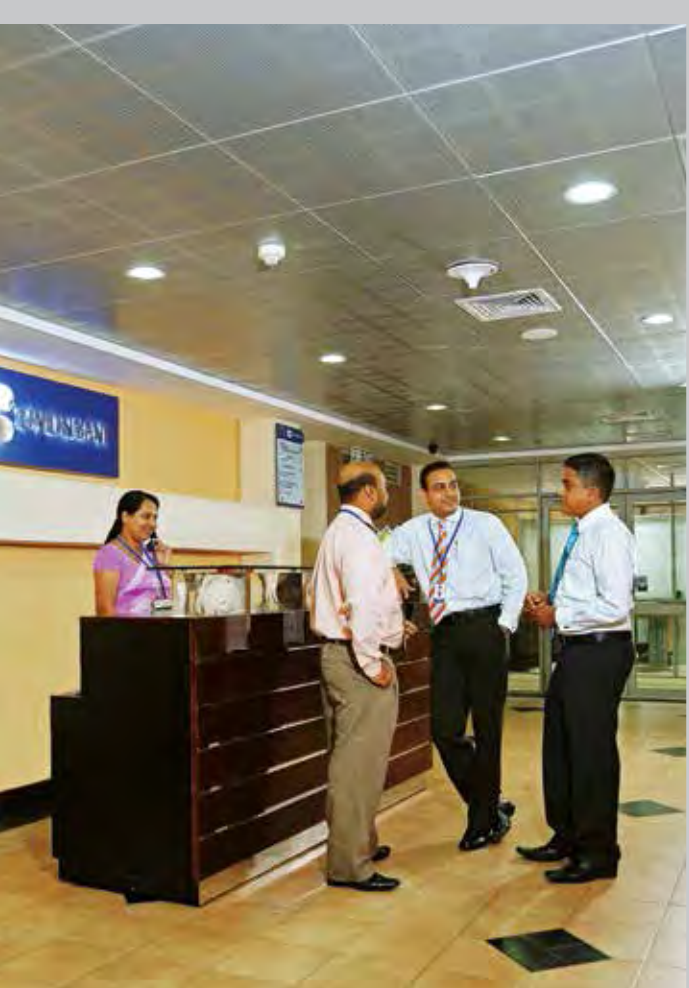
As the growth of the country's rural sector gain momentum, the way forward for UB Finance includes plans to embark on an expansion drive to increase brand awareness and presence across the country, whilst leveraging on the strengths of Union Bank. The company's Human Resource aspect will be further strengthened with the inclusion of experienced professionals from the finance services industry. Areas of risk and cost management would receive greater attention. Priority will be given to forging strategic and business alliances with local and international

partners to obtain low cost funding and increase market share. UB Finance will also explore innovative avenues to enhance their services and improve customer connectivity and convenience.

### Product Portfolio and Network

Licensed by the Monetary Board of the Central Bank of Sri Lanka, UB Finance offers its clientele an enhanced range of financial and other service including Fixed Deposits, Savings, Leasing, Hire Purchase, Loans, Factoring and Real Estate.

UB Finance's network consists of its Head Office located in the heart of Colombo's business district and three strategically located branches in Negombo, Ambalangoda and Tissamaharama.







## A Walk Through **LEVEL 8**

- Director/ Chief Executive Officer
- Chief Operating Officer • VP Int'l & Business Development • VP Credit • Chief Financial Officer • Conference Room

## Managing Risk at Union Bank

### Key Highlights during the year:

- Strengthened Risk Management function of the Bank by establishing an Integrated Risk Management Framework followed by Stress Testing policy, Market Risk policy, Loan Review policy, Disclosure policy and an extended Operational Risk Management policy.
- Established a Group wide Risk Management Framework through a coordinated risk reporting procedure.
- Improved collaboration with Business Units through a Service Level Agreement to provide timely and effective independent credit risk assessments with controlling risk mitigants.
- Established an effective post sanctioning credit facility review process (loan review) and a follow up mechanism.
- Strengthened Operational Risks function with a revised Risk and Control Self Assessment process, KRIs and risk assessment using Heat Maps
- Procured a sophisticated Risk Management System that enables computation of capital adequacy, using advanced risk management approaches as stated in BASEL II.

### Value creation through risk – return optimisation

Bank continues to strengthen its risk management foundation, building from existing capabilities to align and work more effectively with business units to inculcate a risk management culture among people.



Although, risk management has been seen as loss prevention function for an organization to minimise its potential losses, the vision of Risk Management is to proactively assist the business in delivering superior shareholder value by ensuring an optimal trade-off between risk and return. In other words, the objective is not to averse risk taking activities, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so it can be measured and mitigated.

Bank has clearly identified that it should anticipate and prepare for change rather than waiting to react. Therefore, bank takes proactive measures to manage various risks posed by the rapidly changing business environment. Bank's Integrated Risk Management Framework draws up a comprehensive structure to capture, monitor and assess all kinds of risks on various types of

activities undertaken by the Bank, and ensures excessive risks are not taken. The Integrated Risk Management Framework policy is supported by various risk related policies.

The risk organisation is structured such that there is segregation of duties and reporting lines between risk-taking and risk-controlling units. In recent years, Bank had been building its resources and capabilities in risk management so as to keep pace with business developments. Bank is continuously investing in improvement of processes, IT infrastructure and people to enhance risk management capabilities.

### Risk Governance and Integrated Risk Management Framework

A sound risk governance structure is a fundamental requirement for management of risks in an integrated manner. The Integrated Risk management framework approved by the Board of Directors (BOD) gives an oversight on all significant risks assumed by the Bank. It is segregated into the following parts:

- Group Strategic direction
- Group wide Risk Appetite
- Responsibilities of each stakeholder
- Risk integration and assessment
- Capital Allocation for Bank's risk exposures

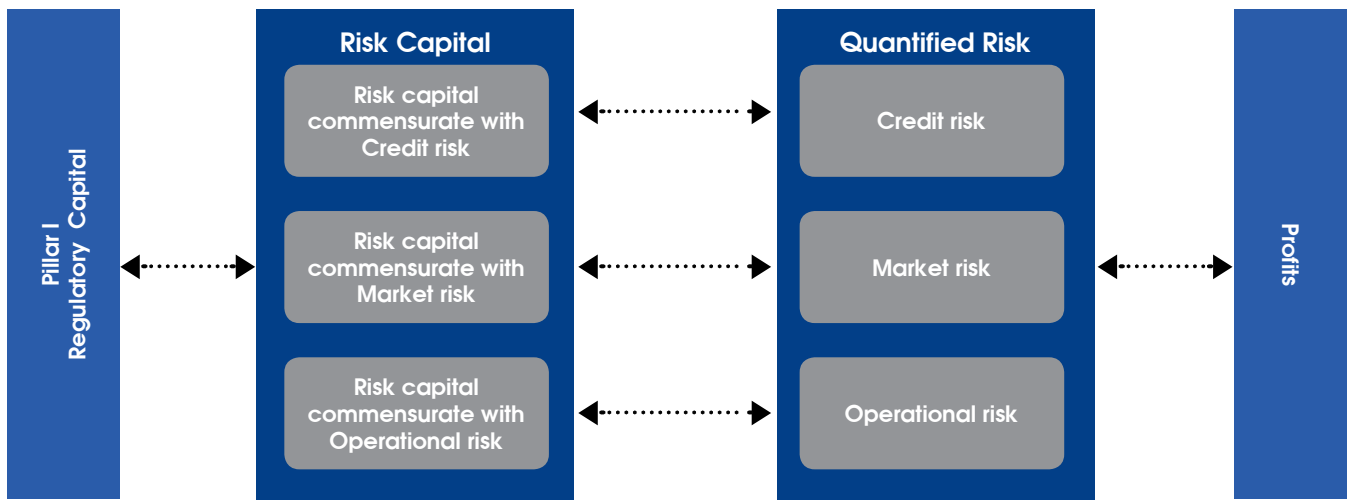
Bank has recognised that having an Integrated Risk Management Framework blending with Bank's strategic intent as an important step in maintaining its stakeholder value.

### Integrated Risk Management Framework

#### Group

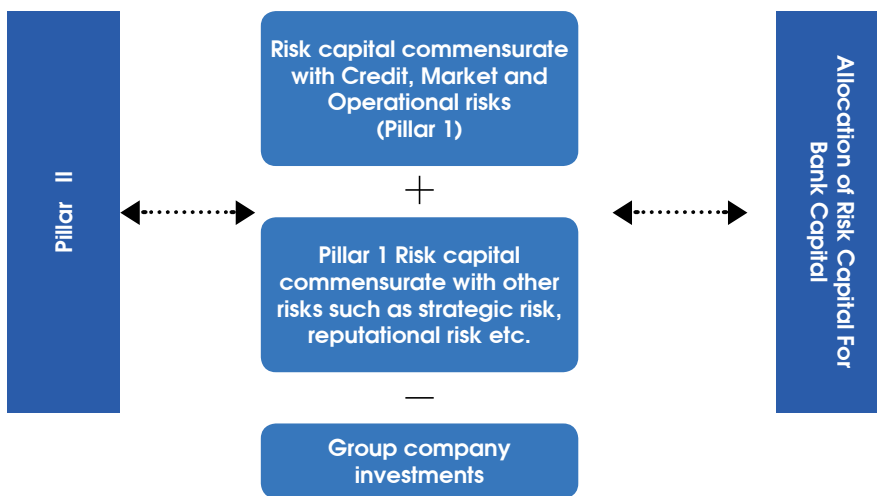
For other group companies - Assessment of Risks as per Coordinated Risk Reporting Procedure

For Bank – As per below



Securing adequate capital Relative to risk

Assessing profitability of each in terms of return against risk

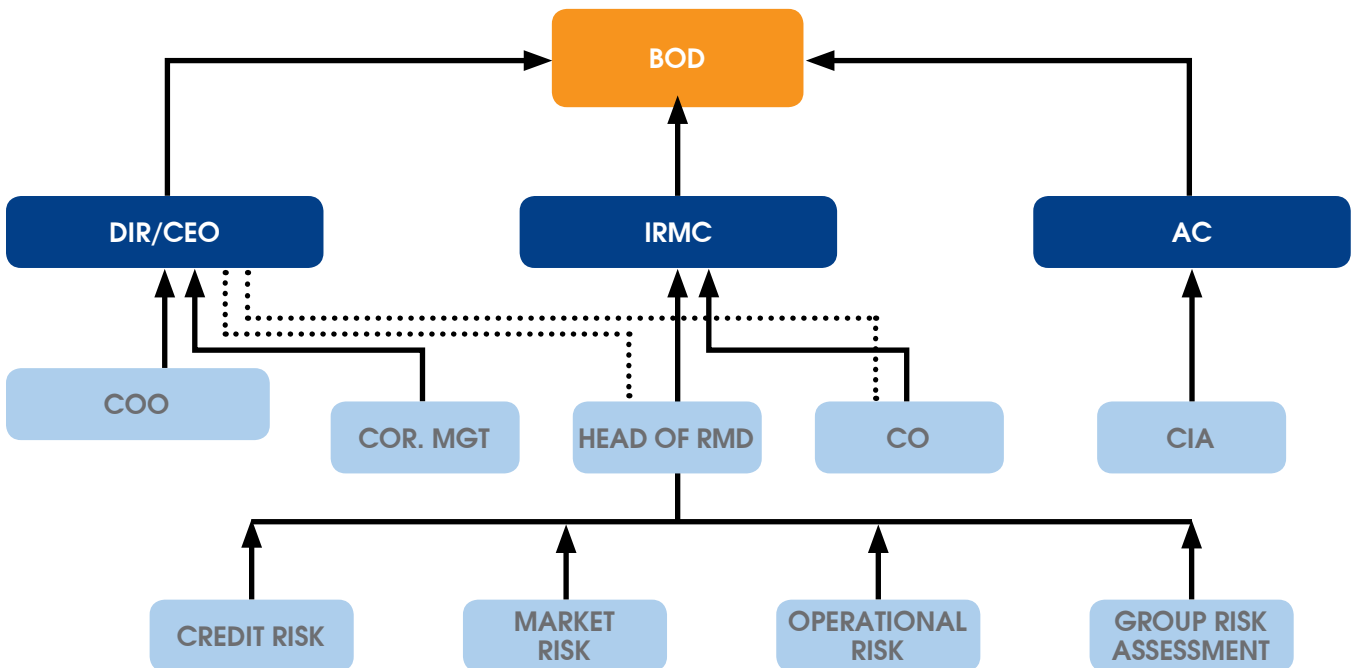


The Bank is in the process of compiling a comprehensive Internal Capital Adequacy Assessment Process (ICAPP) document which would enable the bank in assessing other types of risks such as Reputational and Strategic risks more objectively.

The Bank's overall risk/governance structure continues to be based on the concept of three lines of defense, to support effective risk management throughout the organisation.

## Managing Risk at Union Bank contd.

### Risk Governance Framework

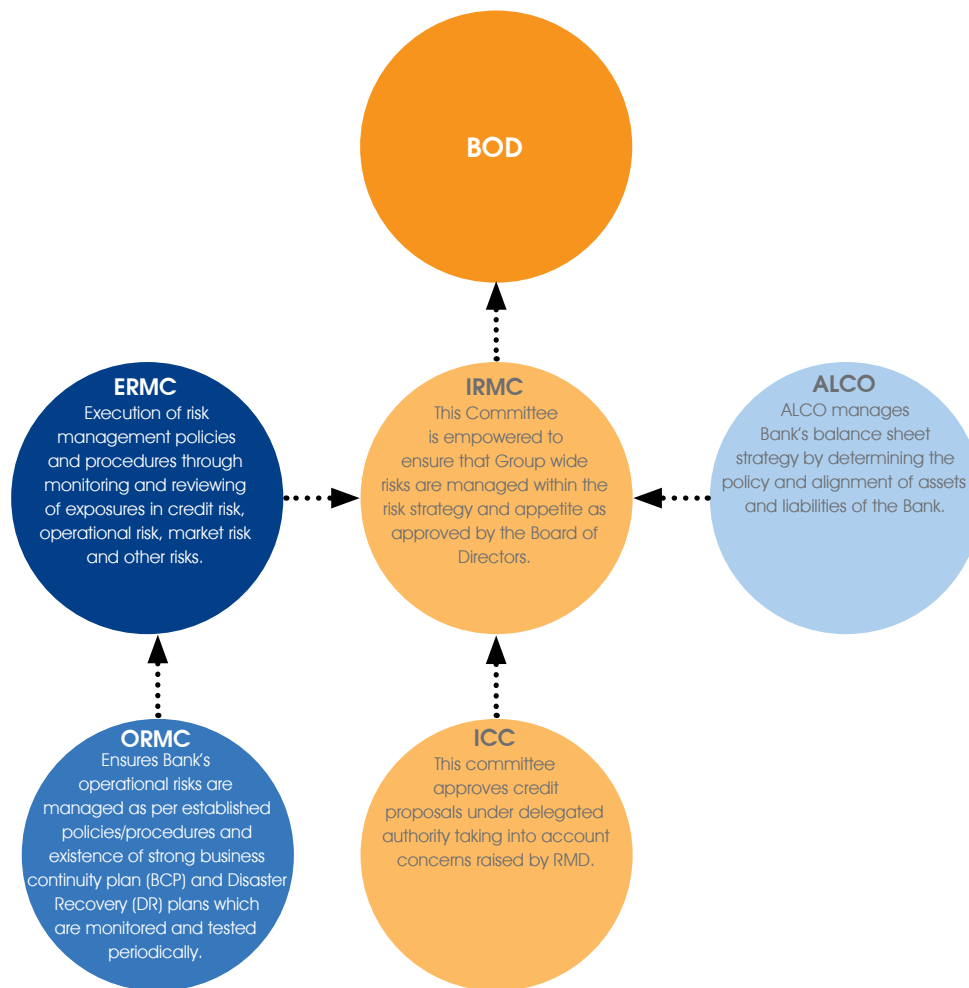


- |             |                                      |          |  |
|-------------|--------------------------------------|----------|--|
| BOD         | - Board of Directors                 | IRMC     | - Integrated Risk Management Committee |
| DIR/CEO     | - Director / Chief Executive Officer |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

Apart from the three lines of defences as stated above, the Compliance function falling under the preview of the Board Risk Committee plays a major role in ensuring that the 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.

### Risk Related Committees

The Board of Directors assumes the overall responsibility for managing risks. They are supported by the five risk assessment Committees as shown below. All committees have clear Terms of Reference for effective risk assessment, management and reporting.



### Integrated Risk Management Committee (IRMC)

The IRMC is the Board Risk Committee overseeing the matters relating to Risk Management of the Group. It comprises of five Non Executive Directors and Management personnel of the Bank. It is currently chaired by a Director of the Bank who is a retired Deputy Governor of the Central Bank of Sri Lanka. Please refer to their report on the Integrated Risk Management Committee for a complete overview of the IRMC.

### Risk Management Department (RMD)

RMD reports functionally to the Integrated Risk Management Committee (IRMC), and is independent of transaction origination to ensure an optimal trade-off between risk and return. The RMD has provided direction and leadership to the enterprise-wide risk management activities. During the year, it has introduced a Group-wide risk management framework, a behavioural analysis for assets and liabilities maturity mismatches, added new policies for Pillar III Disclosures, Stress Testing, Integrated Risk Management Framework, and have reviewed and updated the existing risk related policies. All such policies have been approved by the Board.

## Managing Risk at Union Bank contd.

RMD consists of three units viz. Credit Risk Management Unit, Market Risk Management Unit and Operational Risk Management Unit headed by three experienced personnel, reporting to the Head of RMD. Further, risk related information of the subsidiary group companies is collated, analysed and reported to IRMC and the Board.

Staff at RMD keeps a constant dialogue with the staff at all business units in order to inculcate in them the risk culture that is required to have a balance between target driven expansions and returns commensurate with risks taken.

### Group risk management

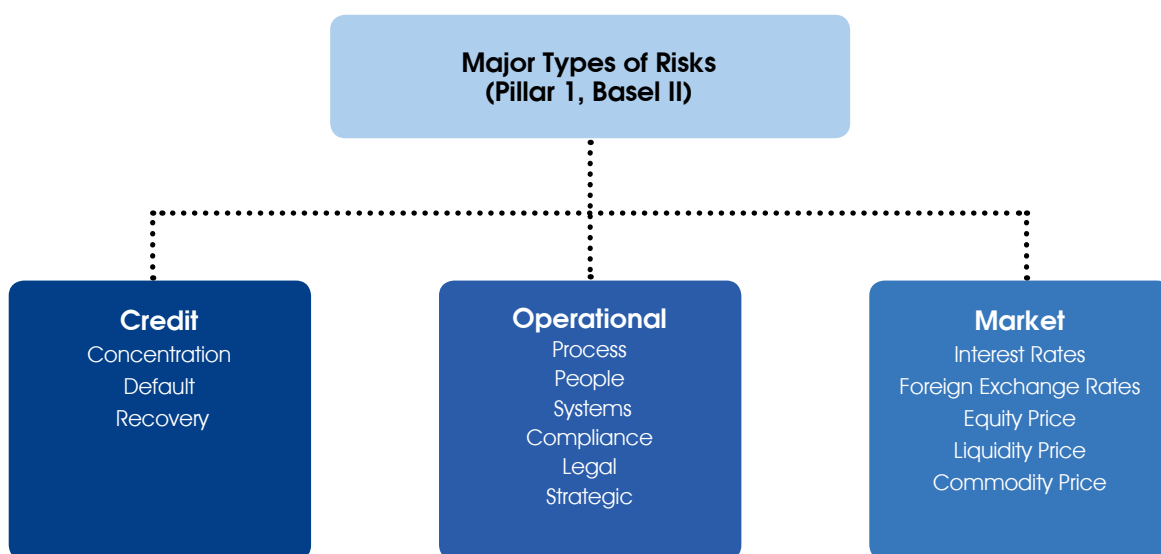
A Group wide coordinated risk reporting procedure between bank's RMD and subsidiaries has been established for monitoring Group Risks. Each subsidiary company<sup>1</sup> submits risk reports to the IRMC and to the Board of Directors (BoD) of the Bank (through RMD) for review and approval.

### Risk Assessment

Currently, risk assessments and stress tests are carried out for the main types of risks viz credit, operations and market risks as per Pillar I of Basel II, and interrelated risks e.g. an operational risk event leading in to a liquidity risk etc. Whilst the interrelated risks are currently assessed at the point of origination or reporting, these will be automated to the extent where operational risk events leading into other types of risks are monitored through the system.

New products, services and processes are evaluated using a Risk and Control Self Assessment (RCSA) process and signed off by the relevant risk sanctioning authorities approved by the Board. RCSAs are prepared by the owners of the respective product, service or the process and the residual risks are assessed independently by three officials at RMD.

An illustration of the types of risks under each main component is given below:



<sup>1</sup>Presently, National Asset Management Limited (NAMAL) and UB Finance Company Ltd

## Risk Appetite

With the currently prevailing general business outlook, the Bank's risk appetite is kept at a conservative level. The Bank has stated its risk tolerance limits in the Integrated Risk Management Frame, of which a précis is given below:

## Risk Tolerance

### Credit Risk

- Single Borrower limits
- Sector Exposure limits for Lending
- Margin Trading and exposures to share market
- Related party transaction limit
- Preferred Capital Adequacy (as a buffer)
- Product limits (e.g. factoring)

### Market Risk

- Net Open position limits
- FX loss limits
- Counterparty limits
- TBs and Bonds M to M loss limit
- A&L maturity gap limits
- Interest rate re-pricing gap limits
- Proprietary Equity portfolio limits

### Ops Risk

- Heat Map analysis - Low Risk acceptance
- Gross loss thresholds limit

## Stressed Tolerance Limits

A further level of tolerance limits are in place for Stress Testing purposes. If stress test results exceed those stress tolerance limits, appropriate remedial actions would be taken.

## Credit Risk Management

Credit Risk is the risk of loss, arising from a borrower's or counterparty's inability to meet its obligations in accordance with the agreed terms. Credit Risk exists throughout the Bank's activities, both on and off-balance sheet. Bank assesses Credit Risk at the portfolio level as well as at the exposure / counterparty level.

Credit Risk Management efforts are directed at maximizing the Bank's risk-adjusted return, by monitoring credit risk exposure within acceptable limits. All credit risk aspects are governed by the approved Credit Risk Policy, which indicates the credit culture within the Bank and the framework to balance risks and opportunities. A separate Credit Procedure Manual exists for the use of the staff engaged in credit activities. The Bank has implemented a market based pricing strategy based on individual risks linked to borrower risk profile and the available security / collateral.

## Managing Risk at Union Bank contd.

### Credit Approval Process

A structured and standardised credit approval process is in place including a procedure for credit appraisal and borrower risks rating. Credit Authority lies with the Board of Directors, Board Credit Committee, Credit Committee and members of the management as per the assigned limits on delegated credit authority. All credit facilities are required to be reviewed by the Relationship Mangers/ Branch Managers annually. Also, the Bank's borrower risk rating system forms an integral part of the evaluation of credit proposals and assists the approval authorities to assess the creditworthiness of the borrowers. Bank's systems for credit evaluation and decision making are independent from collateralisation albeit collateral helps to mitigate credit risk.

Risk Management Department reviews credit facilities before and after sanctioning of facilities. Under pre-sanction evaluation, RMD independently reviews credit facilities and adds its recommendation where risk is considered acceptable. This independent review covers all new facilities or one-off / temporary facilities for existing lines over Rs. 50 million (present limit). If a facility is not recommended by the Risk Management, such facilities cannot be approved.

In the post sanctioning review of credit facilities, the Loans Review Manager (LRM) reviews among other things, the disbursements, perfection of collaterals and repayments are in accordance with the terms of approval. A separate Loan Review Policy approved by the Board of Directors is in place.

### Credit monitoring and controls

- Single borrower limits and sectoral limits are in place to ensure better diversification of credit risk.
- All credit facilities are reviewed annually or more frequently if circumstances so warrant. At the time of such review, Credit Information Bureau (CRIB) reports are also checked to see any irregularities appearing under other Banks.
- An effective "watch listing" process is in place for close monitoring of delinquencies at very early stages and to take remedial action promptly. It is noteworthy to mention that, even the Loan Review Manager is empowered to flag a borrower under "watch list" to draw close attention of the concerned Management Staff. Once flagged, every effort is taken from the Relationship owner to the Head of Credit and Chief Operating Officer to unflag the borrower. List of such borrowers and progress on remedial action is reported

periodically to the Executive Risk Management Committee (ERMC) headed by the CEO.

- All collaterals are revalued at predetermined frequencies as per the credit policy to ensure adequacy of security cover for credit exposures.
- Individual and portfolio wise credit data (e.g. past dues, industry analysis etc.) and relevant stress tests results are presented to the ERMC on a monthly basis for their review.
- The quality of the credit portfolio analysed using Risk Indicator reports and Quality reports are discussed at length during IRMC meetings. The Board of Directors are also appraised within one week of the relevant IRMC meeting.
- In addition to post sanctioning reviews done by the Loan Review Manager, the Internal Audit department too checks credit files on a random basis and provides their recommendations for credit quality improvements.

### Concentration Risk

Concentration risk is the risk of concentrating banks credit exposure in one individual, group (of related parties), sector, region or country, the possible failure of which could adversely affect the financial health of the Bank or its ability to continue viable operations.

In order to mitigate the concentration risk, Bank's appetite for credit exposures is predefined for

- a. Single borrower
- b. Group of related borrowers,
- c. Major economic sectors

Concentration risk is monitored closely, and the relevant limits are reviewed and changed periodically to suit the changes in economic and environmental outlook, bank policies and regulatory requirements. The RMD monitors and reports Concentration Risk to the Board Risk Management Committee (IRMC), and concerns if any are escalated to the main Board on a periodic basis. The analytical tool HHI (Herfindhal-Hirshman Index ) is used to quantify the concentration risk.

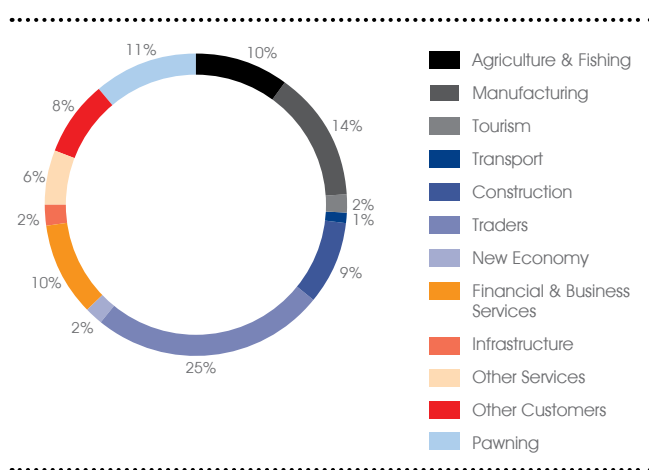
### Economic sector wise concentration

An adverse effect to a particular sector (e.g. a drought affecting Agriculture sector) would impact the bank's borrowers exposed to that sector. Hence, the Economic Sector Concentration risk is mitigated by the Bank by stipulating prudent credit risk limits for



each economic activity. Apart from maximum limits imposed by the Bank, all banks have to maintain a minimum 10% of its loan book in the Agriculture sector as required by the Central Bank of Sri Lanka.

### The Sector-wise Distribution of the Advances Portfolio as at 31.12.2012



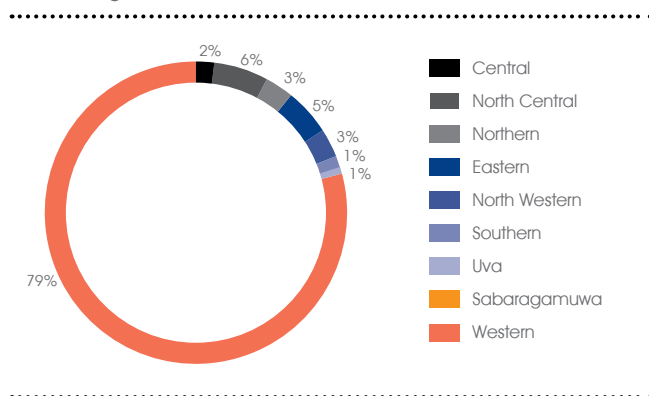
Sector	HHI
Agriculture & Fishing	0.0106
Manufacturing	0.0188
Tourism	0.0002
Transport	0.0001
Construction	0.0078
Traders	0.0607
New Economy	0.0005
Financial and Business Services	0.0105
Infrastructure	0.0004
Other Services	0.0034
Other Customers	0.0064
Pawning	0.0132
<b>Total</b>	<b>0.1326</b>

The significantly lower delinquencies in the Trading Sector, diversified nature of business activities and the growth potential indicated that there exists an opportunity for the Bank to grow in the Traders sector. Hence, consequent to a careful evaluation by the ERMC, IRMC and the Board of Directors, the Trading Sector limit was enhanced during the year under review.

### Geography wise concentration

This enables spreading the risks to different locations to benefit from a systemic effect within a geographic location. Given below is the geographical distribution of the bank's loan book:

### The Geographical Distribution as at 31.12.2012



This is a comparative improvement over the previous year where Western province accounted for 79% of the exposures compared to 83% in year 2011. Some of the exposures depicted in the Western province are utilised to finance enterprises located outside Western province, reducing the concentration risk further. E.g. large Corporates having island-wide operations have invested in plants/factories outside its main factory.

### Borrower Default Risk

#### Managing the Non – Performing Portfolio (NPL)

Bank uses a proactive approach in managing default risk starting from a careful and stringent pre sanctioning credit approval process, to monitoring performance through annual credit reviews by Relationship Managers, post sanctioning reviews by Loan Review Officer and Internal Audit Department, for effective remedial management from the first signs of delinquencies.

Further, the Risk Management Department flag potential delinquent accounts as Watch List so that they are closely monitored till regularisation. A detailed Watchlisting process including but not limited to flagging of accounts with past dues over 60 to 90 days, lapses in security documents etc. are clearly mentioned and practiced on a monthly basis. Once a facility falls into Non Performing category on reaching 90 days past due, such accounts are also monitored closely by a specialised

## Managing Risk at Union Bank contd.

recovery team and where justifiable cash flow improvements are seen, such accounts are rescheduled / restructured on need basis.

During the year, the net Non Performing Loans (NPL) have risen to 4.45% as against 4.01% in the previous year, mainly due to certain reputed construction sector borrowers experiencing cash flow deficits due to non receipt of payments from their Principals. This is more of a systemic issue and repayments are being made with an increased time lag. However, it is noteworthy to mention that the overall net exposure i.e. open loan exposure minus the eligible collateral is merely 1% of the total funded credit facilities of the Bank. The same if translated in to a percentage of shareholder funds is 3.75%.

### Stress testing under Credit Risk

Stress tests have become an integral part of the banks' risk management practices as well as for financial stability assessments by regulators. Stress test for credit risk assesses the impact of increase in the level of non-performing loans of the bank on Capital Adequacy Ratio (CAR). Bank currently conducts stress tests under two scenarios namely,

Stress Tests	Level of Shocks		Remarks
Percentage increase in NPL directly to the Loss category of the portfolio	Minor	10%	Results are within the Board approved Stress Tolerance Limits
	Moderate	20%	
	Major	30%	
Percentage increase to the total NPL combined with shift within each NPL categories.	Minor	10%	
	Moderate	20%	
	Major	30%	

The tests are carried out at negative shock levels of minor, moderate and major (10%, 20% & 30% respectively) and the ratio is well above the threshold in all shock levels given in the stress testing.

### Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the legal risk, which is the risk of a loss resulting from failure to comply with laws and regulatory requirements. Significant improvements have been done during the year to

strengthen the assessment and quantification of Operational Risk using a Heat Map (a mapping process on the basis of severity and frequency of a potential, actual or a near miss operational risk event).

Monthly meetings are held by the Operational Risk Management Committee comprising of the Heads of Risk Management, Operations, Audit, Compliance officer and representatives from IT, Administration and Premises to discuss and review all operational risks that could potentially hinder the progress of the Bank, and report to the ERM, IRMC and depending on the importance, to the Board.

Further, the Operational Risk Management Policy was enhanced during the year to add more objectivity and was renamed as the Operational Risk Management Policy and Procedural Guidelines. It lays down an item by item procedure guiding the staff from the start (e.g. introduction of a new product) to the point where controllable and uncontrollable (residual risks) are identified and such residual risks are approved according to a risk sanctioning authority matrix approved by the Board.

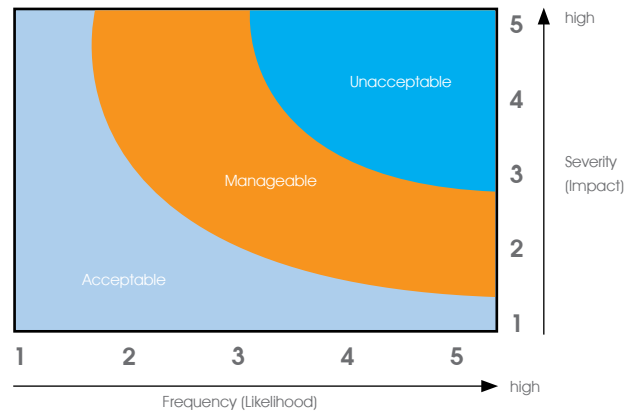
In the Operational Risk Management Policy and Procedure Guideline, there are five methods of operational risk measurement viz. Risk and Control Self Assessment (RCSA), Key Risk Indicators and Operational Risk Assessment (KRIA), Loss Incident Reporting, Ad-hoc Incident Reporting ('Whistle blowing') and Stress Testing and Scenario Analysis. The RCSA is a document that needs to be completed by a product, service or a process owner at the time of introducing a new product, service or a process or a change thereto. It synthesizes risks envisaged into all the major types of risk categories e.g. Credit, Market, Process, People, System, Legal, External and Other, and critically evaluates and identifies controls and filters out the Residual risks (i.e. the portion of risk that cannot be further controlled after applying all the risk controlling techniques). This Residual Risk will then be mapped using the Heat Map (shown below) to determine whether it poses a High, Medium or a Lower risk to the Bank. Accordingly, the risk is approved or rejected by the risk sanctioning authority. A residual risk can have risk mitigating actions such as Risk Transfers (e.g. Insurance cover) etc.

Since introducing the above during the latter part of the year, the Bank has so far finalised two RCSA and have used the Heat Map once. In both instances, the risks / residual risks were acceptable.

### Risk Sanctioning

Criteria in Heat Map	Authority to
<b>Acceptable</b>	Head of the Unit with RMD; <i>This is the Bank's risk appetite</i>
<b>Manageable,</b> may accept with Senior Management approval	On the recommendation of ORMC, ERM to approve; to be sent to IRMC for information
<b>Unacceptable;</b> and therefore avoid	IRMC; to be sent to BoD for information.

### Illustration: Operational Risk Heat Map



In addition to a sound risk management process, the Bank also has an automated customer complaint system for effective management of complaints.

### Market Risk

Market risk is defined as the risk of losses in On or Off balance sheet positions arising from movements in market price. The Market Risk comprises of Interest Rate Risk (IRR), Foreign Exchange Risk (FX), Equity Price Risk and Commodity Price Risk. At Union Bank, Market Risk is primarily monitored by the Treasury Middle Office who is independent and reporting directly to the Head of Risk Management. Whilst the Treasury Front Office is reporting to the Head of Treasury, the Treasury Back Office reports to the Head of Operations adding another layer of control.

### Managing Liquidity

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flow requirements and collateral needs without affecting either daily operations or the financial condition. It is managed mainly by the Assets and Liabilities Committee (ALCO) through close monitoring of various statistics such as Liquid Asset ratio, Maturity of Assets and Liabilities gap analysis, liquidity related ratio analysis, stress tests etc. In addition, ALCO also discussed in detail the effective strategies for Balance Sheet management. During the later part of this year, the ALCO successfully introduced a methodology for assessment of Assets and Liability maturity mismatches using a behavioral analysis as prescribed by the Central Bank of Sri Lanka.

### Managing Interest Rate Risk

Interest Rate Risk (IRR) arises mainly due to four reasons viz. timing differences in the maturity and timing of repricing of bank assets, liabilities and off-balance-sheet positions (repricing risk), shifts in market yield curves affecting the value of an instrument (yield curve risk), imperfect relationship in the changes of rates earned and paid on different instruments with similar repricing characteristics (Basis risk) and, customers exercising options such as prepayments, pre mature withdrawals etc. affecting the covered positions (optionality).

IRR is mainly measured through duration gap analysis of interest sensitive assets and liabilities, and monitored against Board approved limits and stress testings. Risks envisaged are discussed at the ALCO on a monthly basis and submitted to the IRMC and the Board at least on a quarterly basis.

### Managing foreign exchange Risk

The foreign exchange risk arises due to the volatility of exchange rates on open foreign exchange positions. Foreign exchange risk is managed through approved limits by the Board of Directors and in line with the CBSL requirements. Limits include Net Open Position, Trading Limits, Intra Day limits, Dealer Limits, Counter party Limits and Gap Limits. These limits are monitored by Treasury Middle office and reported to ALCO, IRMC and to the Board (where significant).

## Managing Risk at Union Bank contd.

### Managing Equity Portfolio

Equity Price risk arises due to adverse movements in equity prices. Bank's proprietary equity portfolio is managed by Treasury Front Office and is Marked to Market on a daily basis by the Treasury Mid Office. During the later part of the year, a strategic decision was taken by the Board to gradually exit from equity investments to better concentrate on the core business activities of the Bank.

### Market Risk Stress Testing

Stress testing results Market Risk	Level of shock	Percentage	Remarks
<b>FX Risk</b>  Assesses the impact on CAR for the changes in the exchange rate. Overall Net Open Position of the bank given different shocks (Impact on CAR)	Minor	5%	Within the Board approved Stress tolerance limits
	Moderate	10%	
	Major	15%	
<b>Interest Rate Risk</b>  Impact on banks annualised profit is assessed with the movements in the interest rate (Impact on PAT)  Impact on Banks CAR with the movements in the interest rate (Impact on CAR)	Minor	1%	Within the Board approved Stress tolerance limits
	Moderate	2%	
	Major	5%	
	Minor	1%	Within the Board approved Stress tolerance limits
	Moderate	2%	
	Major	5%	
<b>Liquidity Risk</b>  Recalculate the liquid asset ratio after shocks (Effect on liquid Asset Ratio)	Minor	5%	No Stress tolerance limits established as 20% LAR should be maintained as per CBSL. There are strategies to meet adversities such as recalling MM Loans, Inter Bank Borrowings etc.
	Moderate	15%	
	Major	20%	
<b>Equity Risk</b>  Impact on the losses calculated after shocks to current market value  (M 2 M loss as a percentage of the cost of investments if market prices move down)	Minor	10%	The present portfolio is on exit basis.
	Moderate	20%	
	Major	40%	

### Compliance Risk Management

Compliance is also an integral part of Bank's Integrated Risk Management system. The Compliance function is responsible for independently ensuring that operating and business units comply with regulatory and internal guidelines. The Compliance unit continues to play a pivotal role in ensuring implementation of compliance function in accordance with the directions issued by the regulator, Bank's Board of Directors and Bank's Compliance Policy. A separate Compliance Unit, headed by Compliance Officer (CO) reports status of Compliance to the Board monthly and the Integrated Risk Management Committee quarterly.

The functions of the compliance risk management includes,

- Ensuring conduct of sound and ethical business practices
- Strictly adhering to laws, regulations and internal rules to conduct business in a fair and trustworthy manner
- Exercise care and responsibility in handling of customers and information
- Conform to acceptable social norms and respect International standards

Compliance failure directly affects the integrity and reputation of the Bank. The Bank's strategic challenges and opportunities are governed by regulatory developments and it is important see how bank would meet them. This includes the implementation and review of specific policies, products/procedures, compliance risk assessment, and compliance testing and educating the staff. During the period under review the unit was able to successfully document policies such as Code of Corporate Governance, Selection criteria for CEO, Directors and KMPs, Remuneration Policy for KMPs and a comprehensive AML policy.

Further, Compliance Certification process has been reviewed and upgraded thus capturing maximum number of external rules and regulations governing and applicable to various banking functions. 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 the successful implementation of the technology based money laundering prevention solution during the year.

### Future road map

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. The risk management department has taken several steps to further improve and strengthen the risk management process. One of the major steps is the initiatives taken to implement a comprehensive technology based risk management system; and Bank intends to finalize the implementation process in 2013. This will be a key tool in the process of moving in to advanced risk management approaches mentioned in the Basel II. Also the Bank is working closely with external parties to develop a comprehensive ICAAP (Internal Capital Adequacy Assessment Process) document/framework to move towards pillar 2 of the Basel II by early 2013.

## Investor Relations

Dear Shareholder,

We are proud to present this section in our Annual Report in appreciation of your continued support extended to us.

We have continuously communicated with our shareholders. We have published the interim and annual financial reports on the Bank's website ([www.unionb.com](http://www.unionb.com)). Alternatively, shareholders can elect to receive a mailed copy of the accounts on request. The Company Secretary of the Bank responds to individual letters received from shareholders.

There is a continuous 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 of the major shareholders. All shareholders have the opportunity to raise questions/obtain clarifications at the Bank's Annual General Meeting.

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.

### Performance of the Union Bank's Ordinary Voting Shares in 2012.

**Index/Price Movement**



**Indexed Price Movement as a percentage**



### Compliance Report as per Rule No.7.6 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 references	Pages
7.6(i)	Names of persons who were the Directors of the Bank during the financial year.	Annual Report of the Board of Directors on the State of Affairs of the Bank.	136
7.6(ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein.	CFO to complete (Notes of the Finance Statement) and Annual Report of the Board of Directors on the State of Affairs of the Bank.	133 & 134
7.6(iii)	The names and the number of ordinary voting shares held by the 20 largest shareholders and the percentage of such shares held.	Item 02 of the Investor Relations.	126 & 127
7.6(iv)	The Public Holding percentage.	Item 02 of the Investor Relations	127
7.6(v)	Statement of each Director's and Chief Executive Officer's holding in shares of the Bank at the beginning and the end of the financial year.	Annual Report of the Board of Directors on the State of Affairs of the Bank.	137
7.6(vi)	Information pertaining to material foreseeable risk factors of the Bank.	Item 07 of the Investor Relations.	128
7.6(vii)	Details of material issues pertaining to employees and industrial relations of the Bank.	Item 08 of the Investor Relations.	128
7.6(viii)	Extents, locations, valuations and the number of buildings of the Bank's land holdings and investment properties.	Not Applicable.	
7.6(ix)	Number of shares representing the Bank's Stated Capital	Note 34 to the Financial Statements on "Stated Capital" and Annual Report of the Board of Directors on the State of Affairs of the Bank.	192 & 136
7.6(x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings.	Item 06 of the Investor Relations.	128

## Investor Relations contd.

Rule No.	Disclosure Requirement	Section references	Pages
7.6(xi)	Ratios and market price information		
	Dividend per share, Dividend payout, Net Asset Value per share, Market Value per share	Item 04 of the Investor Relations and Financial Statements.	127 & 03
	Any changes in credit rating	Item 5 of the Investor Relations.	128
7.6(xii)	Significant changes in the Bank's or its subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value	Not Applicable.	
7.6(xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placement during the year	Not Applicable.	
7.6(xiv)	Information in respect of Employee Share Option Schemes	Not Applicable.	
7.6(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5c and 7.10.6c of Section 7 of the Listing Rules	Annual Report of the Board of Directors on the State of Affairs of the Bank and Corporate Governance, Profiles of the Board of Directors, Notes to the Financial Statement, Audit Report.	133 to 145 46 to 66 84 to 87 153 to 221 147
7.6(xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Bank as per Audited Financial Statements, whichever is lower.	The Bank did not have any related party transaction exceeding this threshold as at end 2012.	

### 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 2012 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, 2012 and the Audited Balance Sheet as at December 31, 2012 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.

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, Numbers and Percentages of Ordinary Voting Shares held by the 20 largest Shareholders

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

### 20 Major Shareholders as at 31/12/2012

Sequence	Name of the Shareholder	Total No. of Shares issued as at 31/12/2012	Percentage (%)	Total No. of shares issued as at 30/12/2011	Percentage (%)
1	Vista Knowledge Pte Ltd	64,677,973	18.5	64,677,973	18.5
2	Sampath Bank PLC	26,347,027	7.5	26,347,027	7.5
3	Associated Electrical Corporation Limited	26,101,489	7.4	26,101,489	7.4
4	Select Gain Limited	23,369,409	6.6	23,369,409	6.6
5	Alexis Lovell	22,743,780	6.5	17,067,809	4.8
6	Ajith Wijeyesekera	18,508,468	5.2	17,431,659	4.9
7	Exsab International Holding Company for Trading Development	15,000,000	4.2	15,000,000	4.2
8	D A J Warnakulasuriya	11,306,709	3.2	11,306,709	3.2
9	First Gulf Asia Holdings Limited	10,000,000	2.8	10,000,000	2.8
10	Rosewood(Pvt) Limited- Account No. 2	9,493,698	2.7	9,493,698	2.7
11	S P Khattar	9,337,124	2.6	9,337,124	2.6
12	Ashyaki Holdings (Pvt)Ltd	7,792,506	2.2	7,640,000	2.1
13	Pan Asia Banking Corporation PLC/ Univogue Holdings (Pvt) Ltd	5,500,000	1.5	5,500,000	1.5
14	Commercial Agencies (Ceylon) (Pvt) Ltd	4,320,888	1.2	4,320,888	1.2
15	Ajita de Zoysa & Company (Pvt) Limited	4,320,887	1.2	4,320,887	1.2
16	M Kothari	4,131,471	1.1	4,131,471	1.1
17	Seylan Bank PLC/Malik Devapriya Samarawickrama	4,000,000	1.1	4,000,000	1.1
18	Malik Devapriya Samarawickrama	3,660,582	1.0	3,660,582	1.0
19	Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	3,655,900	1.0	3,655,900	1.0
20	Caritano Ventures INC	3,638,729	1.0	3,744,109	1.0
	<b>Sub Total</b>	<b>277,906,640</b>	<b>79.5</b>	<b>271,106,734</b>	<b>77.6</b>
	<b>Other Shareholders</b>	<b>71,343,360</b>	<b>20.4</b>	<b>78,143,266</b>	<b>22.3</b>
	<b>Total</b>	<b>349,250,000</b>	<b>100.0</b>	<b>349,250,000</b>	<b>100.0</b>

As per the Rule No. 7.6(iv) of the Colombo Stock Exchange, percentage of Public\*\* Holding as at 31st December 2012 is 59.6%.

## Investor Relations contd.

### 3. Information on Share Trading

	2012
Number of Shares Traded	19,537,317
Value of Shares Traded (Rs.)	356,386,010

### 4. Information on Market Prices

	Market Price	Date
Highest Price	Rs.20.30	31.01.2012
Lowest Price	Rs.12.20	29.05.2012
Year end Price	Rs.13.80	31.12.2012

### 5. Credit Rating

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

### 6. Shareholder Base

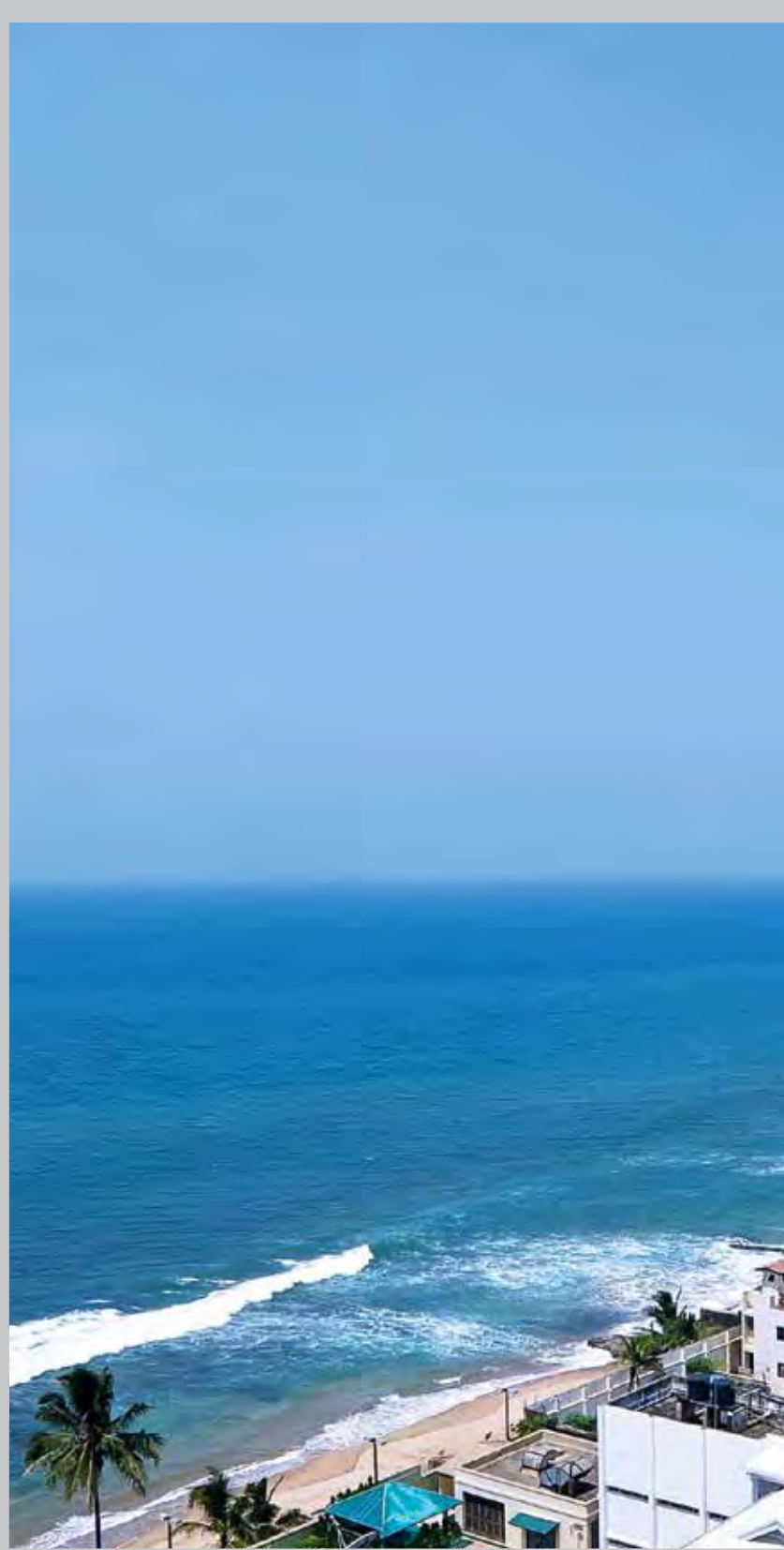
#### Ordinary Voting Shares

Share Range	No. of Shareholders	%	No. of Shares	%
1-1,000	36,674	90.5	5,247,456	1.5
1,001-10,000	3,163	07.8	9,575,968	2.7
10,001-100,000	563	1.3	12,409,251	3.5
100,001-1,000,000	67	0.1	21,039,623	6.0
1,000,001-10,000,000	25	0.0	92,922,847	26.6
10,000,001 & above	8	0.0	208,054,855	59.5
	40,500	100.0	349,250,000	100.0

7. 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 112 to 123.
8. 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





A Walk Through  
**LEVEL 9**

- Chairman's Office
- Company Secretary
- Board Room

# Financial Reports

Annual Report of the Board of Directors on the State of Affairs of the Bank	<b>133</b>
Number of Meetings held and Attendance	<b>146</b>
Independent Auditor's Report on Financial Statements	<b>147</b>
Income Statement	<b>148</b>
Statement of Comprehensive Income	<b>149</b>
Statement of Financial Position	<b>150</b>
Statement of Cash Flows	<b>151</b>
Statement of Changes in Equity	<b>152</b>
Notes to the Financial Statements	<b>153</b>
Capital Adequacy	<b>222</b>
Ten Years at a Glance	<b>226</b>
Quarterly Performance of the Bank 2012	<b>228</b>

## Financial Calendar 2012 and Proposed Financial Calendar 2013

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

	<b>2012 Submitted on</b>	<b>2013 to be submitted on or before</b>
For the 3 months ended March 31, (unaudited)	April 30, 2012	May 15, 2013
For the 3 and 6 months ended June 30, (unaudited)	July 27, 2012	August 15, 2013
For the 3 and 9 months ended September 30, (unaudited)	October 30, 2012	November 15, 2013
For the 3 months and year ended December 31, (unaudited)	March 1, 2013	February 28, 2014

# 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 Statements of the Bank including the Consolidated Financial Statement of the Group for the year ended 31st December 2012 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 28/03/2013.

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

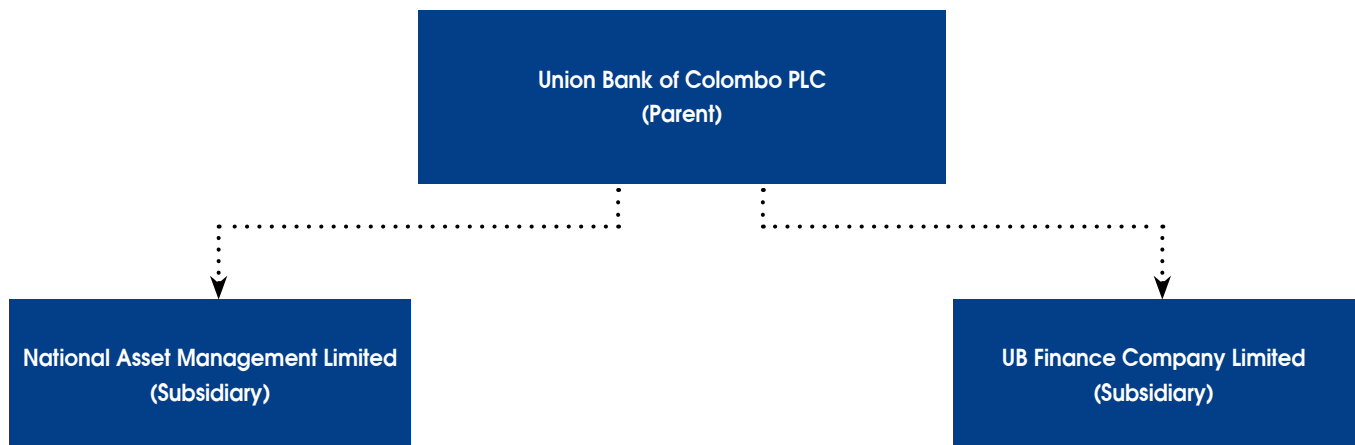
The principal activities of the Bank are Commercial Banking and related financial services namely accepting deposits, personal banking, trading financing, off-shore banking, resident and non-resident foreign currency operations, corporate and retail credit, project and micro financing, lease financing, pawning, ATM facilities, telebanking, internet banking facilities and factoring.

### 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 U B Finance Company Limited (UBF) (formerly known as The Finance and Guarantee Company Limited (TF&G)), a subsidiary of the Bank

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



## Annual Report of the Board of Directors on the State of Affairs of the Bank contd.

	<b>National Asset Management Limited (NAMAL)</b>	<b>UB Finance Company Limited</b>
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. 64, Galle Road, Colombo 03, 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
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 has a controlling shareholding of 78.30% out of the total voting shares issued by the Company. Union Bank of Colombo PLC holds 68.53% of the Stated Capital of the Company. The balance shareholding is held by 806 voting shareholders.
Board of Directors	Mr. Alexis Lovell - Chairman Mr. Ajith Wijeyesekera - Deputy Chairman Mr. Anil Amarasuriya Mr. Dishan Amrit Jitendrakumar Warnakulasuriya Mr. Tyrone Wilfred de Silva Mr. Harold Avancka Heart Ms. Khoo Siew Bee Mr. Anthony Nihal Fonseka Ms. Manohari Swarnamitta Gunawardhena Alternate Director to Mr. A.N. Fonseka	Mr. Alexis Lovell – Chairman Mr. Ananda Atukorala – Deputy Chairman Mr. Dishan Amrit Jitendrakumar Warnakulasuriya Mr. Davis Golding Mr. Ajith Wijeyesekera Mr. Malinda Samaratinga Mr. Kenneth Kusinath Upali Wijeyesekera Mr. Manisha Fernando Alternate Director to Mr. Davis Golding Mr. Daman Upul Panditaratne Mr. Rohendra Ajith Wijeyesekera
Directors and related party Shareholdings in the Company as at 31st December 2012.	Mr. Alexis Lovell, Chairman and Mr. Anil Amarasuriya, represent the Bank.	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. Ananda Atukorala and related party hold 510,010 Voting Shares in the Company.



### Changes to the Group Structure

During the year 2012 there are no impairments to the Balance Sheet of the Bank from both the subsidiaries.

However, the Bank transferred 35,051 voting shares held by Union Bank of Colombo PLC in U B Finance Company Limited (formerly known as The Finance and Guarantee Company Limited) in receipt of Rupees One Hundred and Five Thousand One Hundred and Fifty Three (Rs.105,153/=) from existing shareholders of Union Bank of Colombo PLC.

### 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 and the Leadership Forum.

### Branch Net work

As at 31st December 2012, the Bank had 36 branches.

### Vision and Mission

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

### Future Goals and Expansions

The leadership has given a review on page 20 of this Annual Report.

### Financial Reporting and Responsibility for the Accounts

The Directors are satisfied that the financial statements, presented on pages 147 to 228 give a true and fair view of the State of Affairs of the Bank as at 31st December 2012 and the Profit and Loss Account for the year ended 31st December 2012. The Directors further declare 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 pages 212 to 214.
- The Company has made all endeavours to ensure the equitable treatment of shareholders refer page 212.
- 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 and the Group was Rupees 3,942,648,925 and Rupees 4,214,387,656 respectively.

Profit before taxation and VAT on financial services for the year ended 31.12.2012 for the Bank was Rupees 559,237,254 and Rupees 551,420,402 for the Group.

Retained profit for the year ended 31.12.2012 for the Bank and the Group was Rupees 285,042,347 and Rupees (256,637,248) respectively.

Property, plant and machinery expenditure and leasehold improvements during the year amounted to Rupees 341,064,509 for Bank and Rupees 346,865,729 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 2012 which are given on pages 147 to 221 of this Annual Report.

### Accounting Policies

The significant accounting policies used by the Bank in preparation of the Financial Statements are given on pages 153 to 172 of this Annual Report.

# Annual Report of the Board of Directors on the State of Affairs of the Bank contd.

## Donations

The donations given by the Bank during the year 2012 are in total Rupees 197,500.

## Payments made to Directors

The Directors fees, remunerations and payments made to the Advisors are disclosed in page 212 of this Annual Report.

## Dividend

An interim dividend on 349,250,000 ordinary voting shares of the Bank at Rs.0.15 per share amounting to Rupees Fifty Two Million Three Hundred and Eighty Seven Thousand Five Hundred (Rs.52,387,500/=) was paid based on the financial statements for the year ended 31st December 2012 to the shareholders in the Register of Shareholders as at close of Business on 9th May 2012.

The proposed Interim cash dividend was paid utilising the liquid assets of the Bank.

## Post Balance Sheet Events

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements, other than the following;

The Bank has entered into an agreement with Silverlake Systems SDN BHD (Silverlake), appointing them as the exclusive provider for the Bank's new state-of-the-art core banking system including the trade module and treasury operations. Please refer note 41.1 for more details.

## Shareholder Register

As at 31st December 2012, the total number of Ordinary Voting Shares issued by the Bank was 349,250,000 including 40,500 Ordinary shareholders. The 20 largest shareholders list is given on pages 126 to 127 of this Annual Report.

## Director's and Officer's Liability Policy

The Board granted approval to obtain the Director's and 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. Alexis Lovell	Chairman		30/03/2007
Mr. Asoka de Silva	Senior Director / Deputy Chairman		30/05/2008
HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud	Director	Mr. Nigel Bartholomeusz	Initially appointed on 28/09/2007 and Reappointed on 04/12/2008. Alternate Director was appointed on 04/12/2008
Dr. Harsha Cabral PC	Director		30/05/2008
Mr. Anil 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

Name of the Director	Position	Alternate Director	Date of appointment
Mr. Aslam Omar (Resigned with effect from 31/12/2012)	Director		21/01/2011
Mr. Priyantha Fernando	Director		02/11/2011
Mr. Sunil Karunanayake	Director		08/05/2012
Mr. Sabry Ghouse	Director		30/08/2012
Mr. Suren Madanayake	Director		31/10/2012

### The Nature of Directorates

Mr. Alexis Lovell, Chairman of the Board, HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud, Mr. Kin Leong Chong, Mr. Gerard Ewe Keng Lim are the Non Independent Non Executive Directors of the Board. Mr. Asoka de Silva, Deputy Chairman and the Senior Director of the Bank is an independent Non-Executive Director. Dr. Harsha Cabral PC, Mr. Aslam Omar (resigned with effect from 31st December 2012), Mr. Priyantha Fernando and Mr. Sunil Karunanayake, Mr. Sabry Ghouse, Mr. Suren Madanayake are the other six Independent Non-Executive Directors of the Board. Mr. Anil Amarasuriya is the Executive Director who serves as the Chief Executive Officer of the Bank. Mr. Nigel Bartholomeusz is the Alternate Director to HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud. Ms. Sow Lin Chiew is the Alternate Director to Mr. Kin Leong Chong. Ms. Lee Sian Goh is the Alternate Director to Mr. Gerard Ewe Keng Lim.

### New Appointments

Mr. Sunil Karunanayake was appointed as an Independent Non-Executive Director to the Board of the Bank on 08th May 2012.

Mr. Sabry Ghouse, a veteran Banker was appointed as an Independent Non-Executive Director to the Board of the Bank on 30th August 2012.

Mr. Suren Madanayake, Chairman/Managing Director of ACL Group Companies was appointed as an Independent Non-Executive Director to the Board of the Bank on 31st October 2012.

### Resignation of Directors

Mr. Ajita de Zoysa retired on 30th April 2012 in line with Article 3(2)(ii)(A) completing the nine years service being the total period of service a Director could serve as per the Direction No.11 of 2007 on Corporate Governance. Mr. Ananda Atukorala and Mr. Ajith Wijeyesekera retired on 07th May 2012 under the said rule after completing 9 years of service. Mr. Ashan Suresh de Zoysa alternate director to Mr. Alexis Lovell resigned on 30th March 2012. Mr. Yiu Joe Toh and his alternate director Mr. King Tak Blondel So resigned on 20th August 2012. Mr. Aslam Omar, resigned on 31st December 2012.

### Re-appointments

In terms of Article 88(i) read together with Article 89 of the Articles of Association of the Bank Mr. Gerard Ewe Keng Lim, Mr. Alexis Lovell and Mr. Asoka de Silva 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.

In terms of Article 95 of the Articles of Association of the Bank, Mr. Sunil Karunanayake, Mr. Sabry Ghouse, Mr. Suren Madanayake and Mr. Imtiaz Muhseen retire in terms of the said articles and being eligible, are recommended by the Directors for re-election in terms of the said articles.

### Appraisal of Board Performance

The Nomination Committee approved a procedure for the Selection and Appointment of Directors, Chief Executive Officer 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.

### 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.

# Annual Report of the Board of Directors on the State of Affairs of the Bank *contd.*

## Communication

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

## Directors' Shareholdings

The Directors' shareholdings as at 31st December 2012 were as follows;

Name of the Director	No. of Ordinary Shares	
	<i>Beginning of Year 2011</i>	<i>End of Year 2012</i>
1. Mr. Alexis Lovell	17,067,809	22,743,780
2. Mr. Asoka de Silva	8,900	8,900
3. Mr. Anil Amarasuriya and related Party	63,552	63,552
4. Mr. Nigel Bartholomeusz and related Party	80,100	80,100

## Public Shareholding

The public holding of the Bank as at 31st December 2012 was approximately 59.62%

## 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. Alexis Lovell Chairman of the Bank purchased 5,675,971 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 212 on "Total Deposit made by the Key Managerial Personal" and note no 43 on "related party transaction".

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

## Annual General Meetings

The Board takes the opportunity to address the issues of shareholders at the Annual General Meeting. The Financial Statement 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 and 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 ensure the safety and soundness of the Bank.

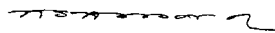
The Board of Directors have always taken decisions in accordance with the prevailing laws and regulations of the Country and specifically imposed by the regulatory bodies. The Bank is in the process of applying and incorporating the requirements of the provisions stated in Corporate Governance Direction 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 has been incorporated in the Annual Corporate Governance Report. They further confirm that there are no financial, businesses, family, or other material/relevant relationships between the Chairman Chief Executive Officer and among Directors.

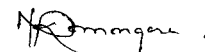
For and on behalf of the Board of Directors,



**Alexis Lovell**  
Chairman



**Anil Amarasuriya**  
Director/Chief Executive Officer



**Nirosha Kannangara**  
Company Secretary

## Annual Report of the Board of Directors on the State of Affairs of the Bank contd.

### Board Appointed Committees

The Committees were reconstituted to be in compliant with Banking Act Direction No.11 of 2007 issued by the Central Bank of Sri Lanka and revised Listing Rules of Colombo Stock Exchange. The composition of the Committees as at 01st January 2012 was as follows;

Name of Committee	Name of the Committee Members
<b>Audit Committee</b> (Date established - 26th January 2007)	Mr. Aslam Omar - Chairman Mr. Ananda Atukorala Mr. Alexis Lovell
<b>Remuneration Committee</b> (Date established - 3rd December 2007. Renamed as Human Resources and Remuneration Committee on 29th January 2009)	Mr. Asoka de Silva - Chairman Mr. Ananda Atukorala Mr. Ajith Wijeyesekera Mr. Dishan Amrit Jitendrakumar Warnakulasuriya – by Invitation
<b>Board Strategic Committee</b> (Date established - 26th September 2008)	Mr. Asoka de Silva - Chairman Mr. Ananda Atukorala Mr. Kin Leong Chong Mr. Anil Amarasuriya
<b>Nomination Committee</b> (Date established - 28th January 2009)	Dr. Harsha Cabral - Chairman Mr. Ajita de Zoysa Mr. Asoka de Silva Mr. Ananda Atukorala Mr. Alexis Lovell
<b>Board Credit Committee</b> (Date established - 27th February 2009)	Mr. Ajita de Zoysa – Chairman Mr. Asoka de Silva Mr. Ananda Atukorala Mr. Ajith Wijeyesekera Mr. Anil Amarasuriya (D/CEO) Mr. Edgar Gunatunge – by invitation
<b>Integrated Risk Management Committee</b> (Date established - 28th January 2009)	Mr. Asoka de Silva - Chairman HRH Prince Faisal Al Abdulla Al Faisal Al Saud or his alternate Mr. Nigel Bartholomeusz Dr. Harsha Cabral

The above mentioned Committees were reconstituted at the Board Meeting held on 29th May 2012. Following were the members as at 31st December 2012.

<b>Audit Committee</b>	Mr. Aslam Omar - Chairman* Mr. Sabry Ghouse (Appointed w.e.f. 30.08.2012) Mr. Sunil Karunanayake  <i>*Mr. Aslam Omar resigned on 31st December 2012 from the Board of the Bank. At the Board Meeting held on 30th November 2012, the Board of Directors appointed Mr. Sunil Karunanayake as an interim Chairman of the Audit Committee with effect from 01st January 2013. Mr. Suren Madanayake was appointed as an interim member to the Audit Committee with effect from 01st January 2013.</i>
<b>Human Resources and Remuneration Committee</b>	Mr. Asoka de Silva - Chairman Dr. Harsha Cabral Mr. Suren Madanayake Mr. Priyantha Fernando

<b>Strategic Planning Committee</b>	Mr. Alexis Lovell - Chairman Mr. Asoka de Silva Mr. Priyantha Fernando Mr. Kin Leong Chong or his Alternate Ms. Sow Lin Chiew Mr. Anil Amarasuriya
<b>Nomination Committee</b>	Dr. Harsha Cabral PC - Chairman Mr. Asoka de Silva Mr. Alexis Lovell
<b>Credit Committee</b>	Mr. Alexis Lovell - Chairman Mr. Asoka de Silva Mr. Sabry Ghouse HRH Prince Faisal Al Abdulla Al Faisal Al Saud - Alternate Mr. Nigel Bartholomeusz Mr. Anil Amarasuriya
<b>Integrated Risk Management Committee</b>	Mr. Priyantha Fernando - Chairman Mr. Asoka de Silva Dr. Harsha Cabral PC Mr. Sunil Karunanayake Mr. Suren Madanayake (Appointed w.e.f. 31.10.2012)

### Other Board Committees Appointed for Special Tasks

The following Sub Committee was appointed at the Board Meeting held on 30th March 2012 to study and report to the Board, a suitable Core Banking System.

Mr. Priyantha Fernando - Chairman  
Mr. Alexis Lovell  
Mr. Ananda Atukorala \*  
Mr. Asoka de Silva  
Mr. Ajith Wijeyesekera \*

In addition Special Committee was appointed by the Board of Directors to revisit the entire selection process of selecting a suitable core banking system to the Bank at the Special Board Meeting held on 07th September 2012.

Mr. Alexis Lovell - Chairman  
Dr. Harsha Cabral  
Mr. Suren Madanayake  
Mr. Nigel Bartholomeusz Alternate Director to H R H Prince Faisal Al Abdullah Al Faisal Al Saud

\* Mr. Ananda Atukoara and Mr. Ajith Wijeyesekera completed the 9 years experience being the total period of service a Director could serve as per Direction No. 11 of 2007 on Corporate Governance.

## Annual Report of the Board of Directors on the State of Affairs of the Bank *contd.*

### Other Directorships Held by the Board

Set out below are the directorships held by the Directors in other Institutions as at 31st December 2012;

<b>Table 81: Other Directorships</b>	
<i>Name of Director</i>	<i>Other Directorships Held</i>
Mr. Alexis Lovell	<p><b>Chairman</b> National Asset Management Limited UB Finance Company Limited</p> <p><b>Director</b> Associated Electrical Corporation Limited Access Engineering PLC Sathosa Motors PLC Real Investment Holdings Pte Ltd</p> <p><b>Principal</b> JI Capital Limited</p>
Mr. Asoka de Silva	None
Mr. Anil Amarasuriya	National Asset Management Limited Sri Lanka Bank's Association (Guarantee) Ltd Financial Ombudsman Sri Lanka (Guarantee) Ltd
H R H Prince Faisal Al Abdullah Al Faisal Al Saud	<p><b>Chairman</b> SAFOOD International Catering LLC Advanced Steel Works Company Al-Faisaliah Travel &amp; Tourism Company Hajeej for Umrah and Transport Services TeleServe Gulf Towers Exsab International Holdings Company for Trading Development King Faisal Foundation</p> <p><b>Director</b> Al Faisaliah Group, Riyadh</p>
Dr. Harsha Cabral	<p><b>Director</b> DIMO PLC Tokyo Cement PLC Fuji Lanka Cement (Pvt) Ltd Tokyo Super (Pvt) Ltd Richard Peiris Distributors (Pvt) Ltd Hayleys PLC Lanka Orix Finance PLC Tokyo Power (Lanka) Ltd Commercial Leasing and Finance PLC Hambana Petrochemicals Ltd</p>



**Table 81: Other Directorships**

<p>Mr. Kin Leong Chong</p>	<p><b>Director</b>  Genting Hotel &amp; Resorts Management Sdn Bhd  Genting Oil &amp; Gas Sdn Bhd  Phoenix Spectrum Sdn Bhd  GB Services Berhad  Prime Holdings (Labuan) Limited  Dragasac Limited  Edlith Grove Limited  Genting Intellectual Property Pte Ltd  Vista Knowledge Pte Ltd  DNA Electronics Limited (Alternate Director to Tan Sri Lim Kok Thay)  GP Wind (Jangi) Private Limited  Genting Power (India) Limited  Sanyen Oil and 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)  CIMB (Private) Limited  Genting Capital Berhad</p>
<p>Mr. Gerard Ewe Keng Lim</p>	<p><b>Director</b>  Woodvale Sdn Bhd  Eco Vector Sdn Bhd  Golden Hope Limited  Kien Huat Realty III Limited  Pandarus Limited  Kirup Limited  Great Advice Holdings Limited  Adelon Limited  Tileska Pty Ltd  Ambadell Pty Ltd  3rd Valley International Resort Corporation  Starlet Investments Pte Ltd  KHRV Limited  Exa Limited  Edgbaston Limited  Kien Huat International Limited  Gold Ocen Enterprises Limited  Genting Alderney Limited  Resorts World Inc Pte Ltd  Wider Srl</p>

## Annual Report of the Board of Directors on the State of Affairs of the Bank *contd.*

<b>Table 81: Other Directorships</b>	
Mr. Aslam Omar	<p><b>Director</b></p> <p>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&amp;S Buttons Lanka (Pvt) Ltd  Textured Jersey Lanka (Pvt) Ltd</p>
Mr. Nigel Bartholomeusz <i>(Alternate Director to H R H Prince Faisal Al Abdullah Al Faisal Al Saud)</i>	<p><b>Director</b></p> <p>Associated Electrical Corporation Limited  AEC Properties (Pvt) Limited</p>
Ms. Lee Sian Goh <i>(Alternate Director to Mr. Gerard Ewe Keng Lim)</i>	<p><b>Director</b></p> <p>DNA Electronics Limited  (Alternate Director To Mr. Tan Kong Han)  Genting Capital Limited  Genting Oil Morocco Limited  Swallow Creek Limited  Lestari Listrik Pte Ltd  Lacustrine Limited  Genting Capital Berhad</p>

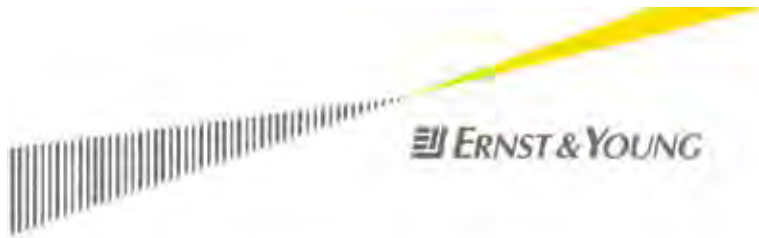
**Table 81: Other Directorships**

Ms. Sow Lin Chiew <i>(Alternate Director to Mr. Kin Leong Chong)</i>	<b>Director</b> Genting Management and Consultancy Services Sdn Bhd Sri Highlands Express Sdn Bhd Genting Risk Solutions Sdn Bhd Genting International Industries (Singapore) Pte Ltd Genting Bhd (Hong Kong) Limited Resorts World Limited Resorts World Bhd (Hong Kong) Limited Genting Power Holdings Limited Genting (Singapore) Pte Limited Oxalis Limited WEB Energy Limited Genting Power International Limited Awana Hotels & Resorts Management Sdn Bhd Genting Management (Singapore) Pte Limited Vista Knowledge Pte Limited Capax Trading Sdn Berhad CIMB (Private) Limited
Mr. Priyantha Fernando	<b>Director</b> Hambana Petrochemicals Ltd Commercial Leasing & Finance PLC Taprobane Holdings Securities and Exchange Commission Commercial Insurance Brokers
Mr. Sunil Karunanayake	<b>Director</b> Three Acre Farms PLC Grain Elevators PLC Alliance Finance PLC
Mr. Sabry Ghouse	None
Mr. Suren Madanayake	<b>Director</b> ACL Cables PLC ACL Plastics PLC Kelani Cables PLC ACL -Kelani Magnet Wire (Pvt)Ltd ACI Metals & Alloys (Pvt) Ltd ACL Polymers (Pvt) Ltd Ceylon Copper (Pvt) Ltd Lanka Olex Cables (Pvt)Ltd SM Lighting (Pvt)Ltd Ceylon Bulbs & Electricals (Pvt) Ltd Fab Food (Pvt) Ltd Ceylon Tapioca (Pvt) Ltd E-Commerce Technologies (Pvt) Ltd Destination Ceylon (Pvt) Ltd

## Number of Meetings held and Attendance

Names 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) Retired on 30th April 2012	05	05					02	02					03	01
Mr. Alexis Lovell (appointed as the Chairman from 2nd May 2012)	14	12	06	03			05	02			01	01	08	06
Mr. Asoka de Silva (Senior Director)	14	14			06	06	05	05	08	07	01	01	08	08
Mr. Ananda Atukorala (Retired on 7/5/2012)	05	05	06	06			02	02	02	02	01	01	01	01
Mr. Ajith Wijeyesekera (Retired on 7/5/2012)	05	04							02	02			01	01
HRH Prince Faisal Al Abdulla Al Faisal Al Saud or his alternate Mr. Nigel Bartholomeusz	14	13			03	03							07	02
Dr. Harsha Cabral	14	12			06	03	05	04	06	05				
Mr. Anil Amarasuriya (D/CEO)	14	14			06	06	03	03	08	07	01	01	08	07
Mr. Gerard Keng Lim or his alternate Ms. Lee Sian Goh	14	07												
Mr. Kin Leong Chong or his alternate Ms. Sow Lin Chiew	14	09									01	01		
Mr. Yiu Joe Toh or his alternate Mr. King Tak Blondel So	08	04												
Mr. Aslam Omar Resigned on 31/12/2012	14	09	14	14										
Mr. Priyantha Fernando	14	14			03	03			06	05				
Mr. Sunil Karunanayake	09	08	08	07	03	03								
Mr. Sabry Ghouse	06	06	06	06									04	04
Mr. Suren Madanayake	02	02			01	00			01	01				

# Independent Auditor's Report on Financial Statements



**Chartered Accountants**

201 De Saaram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka  
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ey@lanka.lk

APAG/APSM/AD

**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 statements of financial position as at 31 December 2012, the income statements, statements of comprehensive income, 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 2012 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2012 and its financial performance 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 financial position as at 31 December 2012 and its financial performance 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 shareholders of the Bank.

**Report on Other Legal and Regulatory Requirements**

These financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

28 March 2013  
Colombo

**Partners:** A D B. Thilwatta FCA FCMA M P D Cooray FFA FICMA R N de Saaram ACA FCMA M J B de Silva ACA M, Y A de Silva FCA W P H Fernando FCA FICMA W K B P Fernando FCA FCMA A P A Gunaratne FCA FCMA A Herath FCA D A Hulsangumwa FCA FCMA LLB (Sri Lanka) M A Jayasinghe FCA FICMA M, A Suddowala FCA FCMA M. G G S Manjuringal ACA N M Sulaiman ACA ACMA B E Wijesuriya ACS ACMA

# Income Statement

Year ended 31 December 2012

	Note	BANK		GROUP	
		31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
Interest income	4	3,444,113,712	2,083,742,198	3,644,536,803	2,129,152,275
Interest expenses	4	2,211,052,866	1,102,214,847	2,234,110,170	1,105,815,222
<b>Net interest income</b>	4	1,233,060,846	981,527,351	1,410,426,633	1,023,337,053
Fee and commission income	5	134,315,536	139,792,397	201,289,813	201,066,684
Fee and commission expenses	5	(34,452,668)	(34,626,519)	(36,180,861)	(36,372,890)
<b>Net fee and commission income</b>	5	99,862,868	105,165,877	165,108,952	164,693,794
Net trading income/(expenses)	6	10,162,500	(25,798,797)	3,698,546	(25,798,797)
Negative Goodwill		-	-	-	2,865,948
Other operating income (net)	7	335,576,747	299,070,531	339,918,111	297,901,683
<b>Total operating income</b>		1,678,662,961	1,359,964,963	1,919,152,242	1,462,999,681
Credit loss expense	8	8,154,538	35,818,281	(71,927,471)	37,943,019
<b>Net operating income</b>		1,686,817,499	1,395,783,244	1,847,224,771	1,500,942,700
Staff costs	9	450,699,992	365,656,030	515,989,159	403,170,272
Depreciation of Property, Plant & Equipment	26	132,794,681	72,199,254	142,572,122	75,398,005
Amortisation and impairment of intangible assets	25	2,485,659	378,975	18,827,349	10,237,033
Other expenses	10	541,599,913	423,520,673	618,415,739	455,667,132
<b>Operating profit/(loss) before value added tax (VAT)</b>		559,237,254	534,028,312	551,420,402	556,470,258
Value added tax (VAT) on financial services		96,262,603	82,784,786	98,793,941	82,784,786
<b>Profit/(loss) before tax</b>		462,974,651	451,243,526	452,626,461	473,685,472
Tax expense	11	149,330,531	143,550,243	(35,076,055)	158,654,092
<b>Profit/(loss) for the year</b>		313,644,120	307,693,283	487,702,516	315,031,380
<b>Attributable to:</b>					
Equity holders of the parent		313,644,120	307,693,283	432,053,230	310,085,020
Non controlling interest		-	-	55,649,286	4,946,360
		313,644,120	307,693,283	487,702,516	315,031,380
<b>Basic Earnings per share</b>	12	0.90	0.89	1.24	0.90

The notes to the Financial Statements from pages 153 to 221 form an integral part of these Financial Statements.

## Statement of Comprehensive Income

Year ended 31 December 2012

	Note	Bank		Group	
		31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
<b>Profit for the year</b>		313,644,120	307,693,283	487,702,516	315,031,380
<b>Other comprehensive income/(expenses)</b>					
Gains and losses on re-measuring available-for-sale financial assets	38	2,802,851	(3,043,495)	17,208,127	(2,109,109)
		-	-	-	-
<b>Other comprehensive income for the year, net of taxes</b>		2,802,851	(3,043,495)	17,208,127	(2,109,109)
<b>Total comprehensive income for the year</b>		316,446,971	304,649,788	504,910,643	312,922,270
<b>Attributable to:</b>					
Equity holders of the parent		316,446,971	304,649,788	442,038,968	310,255,407
Non-controlling interest		-	-	62,871,675	2,666,864
		316,446,971	304,649,788	504,910,643	312,922,270

# Statement of Financial Position

As at 31 December 2012

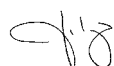
	Note	Bank			Group		
		31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	01.01.2011 Rs.	
<b>Assets</b>							
Cash and balances with Central Bank	14	2,325,986,601	1,781,297,602	1,092,431,525	2,326,433,124	1,781,607,106	1,092,431,525
Sri Lanka government securities	15	1,632,053,657	1,006,065,002	2,434,526,632	1,632,053,657	1,125,225,768	2,434,526,632
Cash collateral on securities borrowed & reverse repurchased agreements	16	601,312,663	245,126,821	1,852,604,648	616,317,592	245,126,821	1,852,604,648
Balances with banks	17	1,601,622,423	2,058,251,113	943,348,776	2,995,130,691	3,332,381,395	2,187,890,065
Derivatives	18	-	148,409	1,275,208	-	148,409	1,275,208
Financial assets held-for-trading	19	431,054,402	149,622,004	161,205,900	433,044,850	158,076,406	161,205,900
Loans and receivables to other customers	20	20,024,729,288	17,292,929,045	9,919,464,662	20,907,215,277	17,834,959,587	9,919,464,662
Financial investments – Available-for-sale	21	2,285,290,340	2,197,453,404	2,112,994,811	140,188,723	39,663,363	1,530,000
Investments in subsidiaries	22	912,364,489	912,382,009	-	-	-	-
Investment in Real Estate	24	-	-	-	352,066,765	348,020,737	-
Goodwill and intangible assets	25	39,995,579	10,670,522	4,024,643	405,865,804	387,771,381	4,024,643
Property, plant and equipment	26	614,440,620	465,108,037	235,669,824	687,212,641	524,967,072	235,669,824
Deferred tax assets	27	-	-	-	525,668,427	328,867,001	333,407,699
Other assets	28	354,025,008	272,268,915	212,906,870	610,633,882	511,710,652	212,906,870
<b>Total assets</b>		<b>30,822,875,070</b>	<b>26,391,322,883</b>	<b>18,970,453,499</b>	<b>31,631,831,433</b>	<b>26,618,525,698</b>	<b>18,436,937,676</b>
<b>Liabilities</b>							
Due to banks	29	911,898,460	380,999,451	320,824,567	924,093,226	424,206,362	320,824,567
Derivatives	18	2,057,759	1,912,522	1,130,820	2,057,759	1,912,522	1,130,820
Cash collateral on securities lent & repurchased agreements	31	499,494,690	128,288,554	81,785,390	394,164,303	63,746,072	81,785,390
Due to other customers	30	23,142,801,872	19,754,596,560	13,442,439,001	23,725,595,501	19,845,291,770	13,442,439,001
Other Borrowed Funds	32	-	-	-	323,603,729	338,078,671	-
Current tax liabilities		36,134,098	21,534,610	23,632,161	190,551,625	168,777,314	162,173,519
Deferred tax liabilities	27	37,155,236	19,661,352	5,884,454	37,805,619	19,702,350	5,884,454
Other liabilities	33	730,329,174	885,385,524	538,351,472	825,191,833	1,027,106,533	538,351,472
<b>Total liabilities</b>		<b>25,359,871,289</b>	<b>21,192,378,573</b>	<b>14,414,047,865</b>	<b>26,423,063,595</b>	<b>21,888,821,594</b>	<b>14,552,589,223</b>
<b>Equity</b>							
Stated Capital	34	4,979,791,113	4,979,791,113	4,573,820,996	4,979,791,113	4,979,791,113	4,573,820,996
Pending Allotment		-	-	30,970,117	-	-	30,970,117
Statutory reserve fund	35	53,298,847	37,616,641	22,231,977	53,298,847	37,616,641	22,231,977
Investment fund reserve	36	146,322,124	53,371,307	-	147,494,112	53,371,307	-
Available-for-sale-reserve	38	(1,450,650)	(4,253,501)	(1,210,006)	10,600,522	(3,319,115)	(1,210,006)
Retained earnings	37	285,042,347	132,418,750	(69,407,450)	(256,637,248)	(537,246,694)	(741,464,631)
Total shareholders' equity		5,463,003,781	5,198,944,310	4,556,405,634	4,934,547,346	4,530,213,252	3,884,348,453
Non-controlling interests		-	-	-	274,220,492	199,490,852	-
<b>Total equity</b>		<b>5,463,003,781</b>	<b>5,198,944,310</b>	<b>4,556,405,634</b>	<b>5,208,767,838</b>	<b>4,729,704,104</b>	<b>3,884,348,453</b>
<b>Total equity and liabilities</b>		<b>30,822,875,070</b>	<b>26,391,322,883</b>	<b>18,970,453,499</b>	<b>31,631,831,433</b>	<b>26,618,525,698</b>	<b>18,436,937,676</b>
<b>Net asset value per share</b>		<b>15.64</b>	<b>14.89</b>	<b>13.05</b>	<b>14.13</b>	<b>12.97</b>	<b>11.12</b>
<b>Commitment &amp; Contingencies</b>	41	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>7,512,675,491</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>7,512,675,491</b>

The notes to the Financial Statements from pages 153 to 221 form an integral part of these Financial Statements.

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



**Kusal Perera**  
Assistant Vice President - Finance

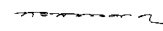


**Malinda Samarantunga**  
Chief Financial Officer

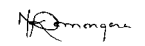
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.  
Signed for and on behalf of the Board:



**Alexis Lovell**  
Chairman



**Anil Amarasuriya**  
Director/Chief Executive Officer



**Nirosha Kannangara**  
Company Secretary



# Statement of Cash Flows

Year ended 31 December 2012

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Cash Flow from Operating Activities</b>				
Interest Received	3,081,938,112	1,923,043,093	3,069,811,204	1,923,252,766
Fees and Commission Receipts	134,315,536	139,792,398	201,919,745	198,275,685
Interest Paid	(1,991,826,546)	(941,908,892)	(2,192,026,291)	(975,210,731)
Net Foreign Exchange gain	124,749,956	57,512,981	124,749,956	57,512,981
Receipts from Other Operating Activities	193,369,191	253,714,233	328,558,082	263,027,844
Payments on Other Operating Activities	(1,092,925,936)	(872,281,469)	(1,242,160,592)	(927,585,524)
<b>Operating Profit before changes in Operating Assets &amp; Liabilities</b>	<b>449,620,313</b>	<b>559,872,344</b>	<b>290,852,104</b>	<b>539,273,020</b>
<b>(Increase)/Decrease in Operating Assets:</b>				
Funds Advanced to Customers	(2,478,920,006)	(7,396,595,944)	(2,802,840,387)	(7,407,754,850)
Others	(61,475,686)	33,505,244	441,474,153	(395,811,477)
	(2,540,395,692)	(7,363,090,699)	(2,361,366,234)	(7,803,566,327)
<b>Increase / (Decrease) in Operating Liabilities:</b>				
Due to banks & other customers	3,171,164,086	6,146,966,378	3,517,712,000	6,156,234,804
Cash collateral on securities lent & repurchased agreements	370,018,554	46,227,940	370,018,554	46,227,940
Others	(160,202,211)	340,951,643	(298,552,320)	345,637,480
	3,380,980,428	6,534,145,961	3,589,178,234	6,548,100,224
<b>Net Cash from Operating Activities before Income Tax</b>	<b>1,290,205,050</b>	<b>(269,072,395)</b>	<b>1,518,664,104</b>	<b>(716,193,082)</b>
Retiring Gratuity paid	(4,344,166)	(2,568,694)	(6,761,801)	(6,735,109)
Income Tax (Paid) / Refunds	(98,189,028)	(108,062,576)	(112,251,295)	(121,883,630)
<b>Net Cash from Operating Activities</b>	<b>1,187,671,856</b>	<b>(379,703,665)</b>	<b>1,399,651,007</b>	<b>(844,811,821)</b>
<b>Cash Flow from Investing Activities</b>				
Dividends Received	13,071,974	9,566,572	(2,177,676)	3,933,531
Net increase in investments - Sri Lanka Government Securities	(1,022,717,382)	(1,036,573,574)	(903,556,617)	(1,155,734,340)
Sale of shares	105,124	-	105,124	-
Net increase in investment in Financial Assets held-for-trading	(267,576,367)	(33,871,447)	(351,789,983)	(33,871,447)
Purchase of Property & Equipment	(282,291,293)	(301,879,728)	(309,253,793)	(309,435,246)
Purchase of Intangible Assets	(31,810,716)	(7,024,854)	(34,007,746)	(7,973,298)
Proceeds from Sale of Property & Equipment	254,466	2,148,393	3,422,466	4,559,107
<b>Net Cash from Investing Activities</b>	<b>(1,590,964,193)</b>	<b>(1,367,634,638)</b>	<b>(1,716,418,990)</b>	<b>(1,498,521,693)</b>
<b>Cash Flow from Financing Activities</b>				
Proceeds from shares	-	337,888,888	-	887,888,888
Increase/Decrease in Borrowings	529,901,150	56,183,383	507,494,676	56,183,383
Dividend Paid	(52,387,500)	-	(63,104,636)	(7,650,000)
	477,513,650	394,072,271	444,390,040	936,422,271
Net Increase/(Decrease) in Cash and Cash Equivalents	74,221,313	(1,353,266,031)	127,622,058	(1,406,611,243)
Cash and Cash Equivalents at Beginning of the year	4,488,536,882	5,841,802,913	4,465,503,380	5,872,114,623
<b>Cash and Cash Equivalents at end of the year</b>	<b>4,562,758,195</b>	<b>4,488,536,882</b>	<b>4,593,125,438</b>	<b>4,465,503,380</b>
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand	698,075,945	439,558,548	698,522,467	439,868,052
Balances with banks	1,597,823,824	2,057,363,436	1,624,934,383	2,077,227,341
Due to Banks	-	-	(12,194,766)	(43,206,911)
Balances with Central Bank	1,627,910,656	1,341,739,054	1,627,910,656	1,341,739,054
Sri Lanka Government Securities held for trading	37,945,889	404,875,843	37,945,889	404,875,843
Cash collateral on securities borrowed & reverse repurchased agreements	601,001,880	245,000,001	616,006,809	245,000,001
	4,562,758,195	4,488,536,882	4,593,125,438	4,465,503,380

## Statement of Changes in Equity

Year ended 31 December 2012

Bank	Stated Capital	Pending Allotment	Statutory Reserve Fund	Investment Fund Reserve	Available-for-sale reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 1 January 2011</b>	4,573,820,996	30,970,117	22,231,977	-	(1,210,006)	(69,407,450)	4,556,405,634
Shares issued for cash	375,000,000	-	-	-	-	-	375,000,000
Allotment during the year	30,970,117	(30,970,117)	-	-	-	-	-
Share issue expense	-	-	-	-	-	(37,111,112)	(37,111,112)
Net Profit for the year	-	-	-	-	-	307,693,283	307,693,283
Transfers during the year	-	-	15,384,664	53,371,307	-	(68,755,971)	-
Other Comprehensive Income	-	-	-	-	(3,043,495)	-	(3,043,495)
<b>Balance as at 31 December 2011</b>	4,979,791,113	-	37,616,641	53,371,307	(4,253,501)	132,418,750	5,198,944,310
Net Profit for the year	-	-	-	-	-	313,644,120	313,644,120
Transfers during the year	-	-	15,682,206	92,950,817	-	(108,633,023)	-
Dividend	-	-	-	-	-	(52,387,500)	(52,387,500)
Other Comprehensive Income	-	-	-	-	2,802,851	-	2,802,851
<b>Balance as at 31 December 2012</b>	4,979,791,113	-	53,298,847	146,322,124	(1,450,650)	285,042,347	5,463,003,781

Group	Stated Capital	Pending Allotment	Statutory Reserve Fund	Investment Fund Reserve	Available-for-sale Reserve	Retained Earnings	Total Equity	Non Controlling Interest	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 1 January 2011</b>	4,573,820,996	30,970,117	22,231,977	-	(1,210,006)	(741,464,631)	3,884,348,453	-	3,884,348,453
Shares issued for cash	375,000,000	-	-	-	-	-	375,000,000	-	375,000,000
Allotment during the year	30,970,117	(30,970,117)	-	-	-	-	-	-	-
Share issue expense	-	-	-	-	-	(37,111,112)	(37,111,112)	-	(37,111,112)
Addition to Minority through acquisition of subsidiaries	-	-	-	-	-	-	-	197,796,438	197,796,438
Net Profit for the year	-	-	-	-	-	310,085,020	310,085,020	4,946,360	315,031,380
Dividend	-	-	-	-	-	-	-	(7,350,000)	(7,350,000)
Transition day adjustment	-	-	-	-	-	-	-	4,098,054	4,098,054
Transfers during the year	-	-	15,384,664	53,371,307	-	(68,755,971)	-	-	-
Other Comprehensive Income	-	-	-	-	(2,109,109)	-	(2,109,109)	-	(2,109,109)
<b>Balance as at 31 December 2011</b>	4,979,791,113	-	37,616,641	53,371,307	(3,319,115)	(537,246,694)	4,530,213,252	199,490,852	4,729,704,104
Net Profit for the year	-	-	-	-	-	432,053,230	432,053,230	55,649,286	487,702,516
Net Profit from Special Purpose Entity	-	-	-	-	-	-	-	-	-
Additions through new share issue	-	-	-	-	-	10,748,727	10,748,727	22,393,290	33,142,017
Loss of control	-	-	-	-	-	-	-	5,605,894	5,605,894
Transfers during the year	-	-	15,682,206	94,122,805	-	(109,805,011)	-	-	-
Dividend	-	-	-	-	-	(52,387,500)	(52,387,500)	(8,918,830)	(61,306,330)
Other Comprehensive Income	-	-	-	-	13,919,637	-	13,919,637	-	13,919,637
<b>Balance as at 31 December 2012</b>	4,979,791,113	-	53,298,847	147,494,112	10,600,522	(256,637,248)	4,934,547,346	274,220,492	5,208,767,838

# Notes to the Financial Statements

## 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 2012 comprise the Bank (parent company), two subsidiaries National Assets Management Limited and UB Finance Company Limited and the Special Purpose Entity Serendib Capital (Pvt) Ltd. (Together referred to as the "Group")

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

UB Finance 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.

Serendib Capital (Pvt) Ltd is a private investment Company formed in 2003. The Bank considers this as a Special Purpose Entity and due to the combination of activities and arrangements mentioned in Note 2.1.6, management determined that, in substance, the bank controls this entity. Consequently, Serendib Capital (Pvt) Ltd is included in the bank's consolidated financial statements.

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 UB Finance Company Ltd, are launching, operating and administering unit trusts and accepting deposits from public, providing loans, land sales, leasing and hire purchase respectively.

#### **Special Purpose Entity (SPE)**

Serendib Capital (Pvt) Ltd is a private investment company.

### 1.3 Date of Authorisation for Issue

The Financial Statements of Union Bank of Colombo Ltd. for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 28 March 2013.

### 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 (LKAS/SLFRS).

Group Financial Statements include the following;

- Statement of Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review
- Statement of Financial Position 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

## Notes to the Financial Statements contd.

- 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

### 2.0 Summary of Significant Accounting Policies

#### 2.1.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards effective as at 31 December 2011 laid down by The Institute of Chartered Accountants of Sri Lanka.

For all periods up to and including the year ended 31 December 2011, the Union Bank prepared its financial statements in accordance with Sri Lanka Accounting Standards effective as at 31 December 2011. These financial statements for the year ended 31 December 2012 are the first time adoption of Sri Lanka Accounting Standards comprising SLFRS/LKAS effective as at 1 January 2012. Accordingly, Union Bank has prepared the Financial Statements, which comply SLFRS/LKAS applicable period ending on or after 1 January 2012 together with comparative period data as at and for the period ended 31 December 2011 as describing in accounting policies. In preparing these financial statements the group's opening statement of financial position was prepared as of 1 January 2011. Refer to Note 2.5 for information on how the Group adopted SLFRS/LKAS.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets held for trading, derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

#### 2.1.2 Functional and presentation currency

The financial statements presented in Sri Lankan rupees, except otherwise stated.

#### 2.1.3 Statement of compliance

The Income Statement, Statement of Comprehensive Income, Statement of financial position, Statements of changes in equity and statements of cash flows together with the significant Accounting Policies and notes (Financial Statements) have been

prepared in accordance with Sri Lanka Accounting Standards comprising SLFRSs and LKASs issued by The Institute of Chartered Accountants of Sri Lanka.

The Preparation and presentation of these financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007 and the presentation of the financial statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

#### 2.1.4 Presentation of financial statements

The bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 48.

#### 2.1.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the bank and its subsidiaries for the year ended 31 December 2012. The financial statements of the bank's subsidiaries (including special purpose entities that the bank consolidates) are prepared for the same reporting year as Union Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

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.

Non controlling Interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by Union Bank.

Non controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Any losses applicable to the non controlling Interests are allocated against the interests of the non controlling interest even if this results in a deficit balance. Acquisitions of non controlling Interests are accounted for using the parent entity extension method, whereby the difference

between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

### 2.1.6 Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

## 2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Statements: Further management is also required to consider key assumptions

concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below. The respective carrying amounts of assets and liabilities are given in related notes to the Financial Statements.

### Going Concern

The bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data.

### Impairment losses on loans and receivables

The bank reviews its individually significant loans and receivables at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the

## Notes to the Financial Statements contd.

performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in Note 08 and Note 20.4.

### Impairment of available for sale investments

The bank reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. The impairment loss on available for sale investments is disclosed in more detail in Note 21.

### Taxation

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgments was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Group recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

### Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (See Note 27).

### Consolidation of Special Purpose Entities (SPEs)

The Group consolidates those SPEs it controls. In assessing and determining if the Group controls SPEs, judgments are exercised to determine the following; whether the activities of the SPE are being conducted on behalf of the Group to obtain benefits from the SPE's operation; whether the Group has rights to obtain the majority of the benefits of the SPE's activities; and whether the Group retains the majority of the risks related to the SPE or its assets in order to obtain benefits from its activities. The Group's involvement with consolidated SPEs is detailed in Note 2.1.6.

### Define Benefit Plan

The cost of the defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 33.1 for the assumptions used.

### Useful lives of Property, Plant and Equipment and 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.

## 2.3 Summary of significant accounting policies

### 2.3.1 Financial instruments – initial recognition and subsequent measurement

#### (i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### (ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

**(iii) Derivatives recorded at fair value through profit or loss**

The bank uses derivatives such as forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Other operating income'.

**(iv) Financial assets or financial liabilities held for trading**

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

**(v) 'Day 1' profit or loss**

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'.

**(vi) Available for sale financial investments**

Available for sale investments include equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The bank has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative

gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.

**(vii) Held to maturity financial investments**

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. If the bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

**(viii) Due from banks and loans and receivable to customers**

'Due from banks' and 'Loans and receivables to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the bank intends to sell immediately or in the near term and those that the bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the bank, upon initial recognition, designates as available for sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration

## Notes to the Financial Statements contd.

After initial measurement, amounts 'Due from banks' and 'Loans and receivables to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Credit loss expense'. The bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held for trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

### **(ix) Reclassification of financial assets**

The bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'available for sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The bank may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of

those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

### **2.3.2 Derecognition of financial assets and financial liabilities**

#### **(i) Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - The bank has transferred substantially all the risks and rewards of the asset
  - The bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

#### **(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification



is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### **2.3.3 Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Cash collateral on securities lent and repurchase agreements', reflecting the transaction's economic substance as a loan to the bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the bank reclassifies those securities in its statement of financial position to 'Financial assets held for trading pledged as collateral' or to 'Financial investments available for sale pledged as collateral', as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in 'Net trading income'.

### **2.3.4 Securities lending and borrowing**

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counter parties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is

recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

### **2.3.5 Determination of fair value**

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument (see Note 2.3 above). An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 47.

### **2.3.6 Impairment of financial assets**

The bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a

## Notes to the Financial Statements contd.

measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### **(i) Financial assets carried at amortised cost**

For financial assets carried at amortised cost (such as amounts due from banks, loans and receivables to customers as well as held to maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the

current EIR. If the bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 08 for details of impairment losses on financial assets carried at amortised cost, Note 20 for an analysis of the impairment allowance on loans and receivables.

### **(ii) Available for sale financial investments**

For available for sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the bank assesses individually whether there is objective evidence of

impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income. See Note 21 for details of impairment losses on financial investments – available for sale.

#### **(iii) Rescheduled loans**

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

#### **(iv) Collateral**

The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms

such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements.

#### **2.3.7 Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of financial position.

#### **2.3.8 Leasing**

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### **Bank as a lessee**

Leases that do not transfer to the bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

#### **Bank as a lessor**

Leases where the bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### **2.3.9 Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

## Notes to the Financial Statements contd.

### **(i) Interest and similar income and expense**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### **(ii) Fee and commission income**

The bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### **Fee income earned from services that are provided over a certain period of time**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an

adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

#### **Fee income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### **(iii) Dividend income**

Dividend income is recognised when the bank's right to receive the payment is established.

### **(iv) Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'.

### **2.3.10 Cash and balances with Central Bank**

Cash and balances with Central Bank include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

### **2.3.11 Property, plant and equipment**

#### **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses for plant and equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to

the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

#### Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised 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 derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

#### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. 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 derecognised.

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

Building	40 Years
Leasehold Improvements	5-15 Years
Computer and Equipment	6-15 Years
Furniture and Fittings	5- 8 Years
Motor Vehicles	4-10 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.

#### 2.3.12 Intangible assets

##### Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. See note 25 for further details.

##### Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

##### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

##### Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

## Notes to the Financial Statements contd.

### Other intangible assets

Other intangible assets consist of Brand, Asset Management and Advisory Intangible, Licences and Other Related Infrastructure. Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method. See note 25 for further details.

Other intangible assets are stated at cost less amortisation and provisions for impairment or reversals if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows.

### Estimated useful life of intangible assets

Intangible	Amortisation Period
Computer Software	Over 10 years from the date of Available to use
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

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### 2.3.13 Impairment of non-financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of

money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses relating to goodwill are not reversed in future periods.

### 2.3.14 Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### 2.3.15 Employee benefits

#### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit

or loss when they are due in respect of service rendered before the end of the reporting period.

#### Retirement Benefits- Defined Benefit Plan- Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, and then deducting the fair value of any plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

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 using the Projected Unit Credit method (PUC) as required by Sri Lanka Accounting Standards.

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	2012	2011
Discount Rate	11 %	10 %
Rate of salary increase	09 %	09 %

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

An actuarial valuation is carried out once in every three years to ascertain the full liability under the Fund.

#### 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 recognised immediately.

#### Funding Arrangements

The Gratuity liability is not externally funded.

#### Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

#### Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

#### 2.3.16 Taxes

##### (i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or

## Notes to the Financial Statements contd.

paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

### **(ii) Deferred tax**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

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

### **2.3.17 Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

### **2.3.18 Equity reserves**

The reserves recorded in equity (Other comprehensive income) on the bank's statement of financial position include: 'Available for sale' reserve, which comprises changes in fair value of available for sale investments.

### **2.3.19 Segment reporting**

The bank's segmental reporting is based on the following operating segments: Corporate banking, Treasury, SME and other Group Companies.

### **2.3.20 Earnings per share**

The Group presents basic (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.



## 2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are set out below along with details of SLFRS which will have a future effect on the accounting policies adopted by the group.

### (i) *SLFRS 09 – Financial instruments: Classifications and measurement*

SLFRS 09, as issued reflect the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

### (ii) *SLFRS 13 - Fair value measurement*

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurement under SLFRS.

SLFRS 9n and SLFRS 13 will be effective for financial period beginning on or after 1 January 2015 and 2014n respectively. In addition to that the above, following standards have also been issued and will be effective for financial period beginning on or after 1 January 2014.

### **SLFRS 10 - Consolidation financial Statements**

### **SLFRS 11 - Joint Arrangement**

### **SLFRS 12 – Disclosure interest in other entities**

The group will adopted these standards when they become effective. Pending detail review, the financial impact is not reasonably estimable as at the date of publication of these financial statements.

## 2.5 First-time adoption of SLFRSs and LKASs

These financial statements, for the year ended 31 December 2012, are the first the UB Group has prepared in accordance with SLFRSs and LKASs. For periods up to and including the year ended 31 December 2011, the UB Group prepared its financial statements in accordance with Previous Sri Lanka Accounting standards. Accordingly, the UB Group has prepared financial statements which comply with SLFRSs and LKASs applicable for periods ending on or after 31 December 2011, together with the comparative period data as at and for the year ended 31 December 2011, as described in the accounting policies. In preparing these financial statements, the UB Group's opening statement of financial position was prepared as at 1 January 2011, the Group's date of transition to SLFRS and LKAS. This note

explains the principal adjustments made by the UB Group in restating its Previous Accounting Standards statement of financial position as at 1 January 2011 and its previously published Previous Accounting Standards financial statements as at and for the year ended 31 December 2011.

In preparing this consolidation financial statements, the UB Group has applied the requirement of SLFRS 01 First time adoption of Sri Lanka Accounting Standards, including retrospective application of SLFRS effective for the UB group on adoption, unless otherwise indicated. The resulting adjustments are described below.

## Notes to the Financial Statements contd.

### First Time Adoption of SLFRS Reconciliation of Equity as at 1 January 2011

	Bank			Group		
	SLAS Rs.	Reclassification Rs.	SLFRS Rs.	SLAS Rs.	Reclassification Rs.	SLFRS Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	-	-	1,092,431,525	-	-	1,092,431,525
Cash & Short term funds	1,285,529,573	(1,285,529,573)	-	1,285,529,573	(1,285,529,573)	-
Balances with Central Bank	750,520,909	(750,520,909)	-	750,520,909	(750,520,909)	-
Sri Lanka government securities	-	2,435,736,637	2,434,526,632	-	(1,210,006)	2,434,526,632
Government Treasury Bills, Bonds & Other Securities	4,253,338,543	(4,253,338,543)	-	4,253,338,543	(4,253,338,543)	-
Cash collateral on securities borrowed & reverse repurchased agreements	-	1,852,604,648	1,852,604,648	-	1,852,604,648	1,852,604,648
Balances with banks	-	943,348,776	943,348,776	-	943,348,773	2,187,890,065
Derivatives	-	-	1,275,208	-	1,275,208	1,275,208
Financial assets held-for-trading	-	161,205,900	161,205,900	-	-	161,205,900
Dealing Securities	161,205,900	(161,205,900)	-	161,205,900	(161,205,900)	-
Loans and receivables to other customers	-	9,946,805,010	9,946,805,010	-	9,946,805,010	9,919,464,662
Loans & Advances	8,939,389,295	(8,939,389,295)	-	8,939,389,295	(8,939,389,295)	-
Investment Securities	2,220,464,027	(2,220,464,027)	-	2,220,464,027	(2,220,464,027)	-
Bills of Exchange	354,488,715	(354,488,715)	-	354,488,715	(354,488,715)	-
Lease Receivables	268,551,461	(268,551,461)	-	268,551,461	(268,551,461)	-
Financial Investments – Available-for-sale	-	2,112,994,811	2,112,994,811	-	(2,111,464,811)	1,530,000
Deferred tax assets	-	-	-	-	333,407,699	333,407,699
Goodwill and intangible assets	1,854,677	-	4,024,643	1,854,677	-	4,024,643
Property, plant and equipment	225,994,639	-	235,669,824	225,994,639	-	235,669,824
Other assets	403,062,967	(190,011,709)	212,906,870	403,062,967	(144,388)	212,906,870
<b>Total Assets</b>	18,864,400,707	121,627,176	18,970,453,499	18,864,400,707	(649,090,202)	18,436,937,676

First Time Adoption of SLFRS Contd.  
 Reconciliation of Equity as at 1 January 2011

	Bank		SLFRS		Group		
	SLAS Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS Rs.
<b>Liabilities</b>							
Due to banks	-	320,824,567	-	320,824,567	-	320,824,567	320,824,567
Derivatives	-	-	1,130,820	1,130,820	-	1,130,820	1,130,820
Deposits	13,193,558,524	(13,193,558,524)	-	-	(13,193,558,524)	-	-
Borrowings	401,126,524	(401,126,524)	-	-	401,126,524	-	-
Other borrowed funds	-	-	-	-	-	-	-
Cash collateral on securities lent & reverse repurchased agreements	-	81,785,390	-	81,785,390	-	81,785,390	81,785,390
Due to other customers	-	13,451,462,323	(9,023,322)	13,442,439,001	-	13,451,462,323	13,442,439,001
Current tax liabilities	-	39,622,003	(15,989,842)	23,632,161	-	39,622,003	162,173,519
Deferred tax liabilities	13,789,728	-	(7,905,274)	5,884,454	13,789,728	(7,905,274)	5,884,454
Other liabilities	715,733,533	(177,382,061)	-	538,351,472	715,733,533	(177,382,061)	538,351,472
<b>Total Liabilities</b>	14,324,208,309	121,627,176	(31,787,619)	14,414,047,865	14,324,208,309	121,627,174	14,552,589,223
<b>Equity</b>							
Stated capital/Assigned capital	4,573,820,996	-	-	4,573,820,996	4,573,820,996	-	4,573,820,996
Pending Allotment	30,970,117	-	-	30,970,117	30,970,117	-	30,970,117
Statutory reserve fund	22,231,977	-	-	22,231,977	22,231,977	-	22,231,977
Retained earnings	(86,830,693)	-	17,423,243	(69,407,450)	(86,830,693)	-	(741,464,631)
Available-for-sale reserve	-	-	(1,210,006)	(1,210,006)	-	(1,210,006)	(1,210,006)
Total shareholders' equity	4,540,192,397	-	16,213,237	4,556,405,634	4,540,192,397	-	3,884,348,453
Non-controlling interests	-	-	-	-	-	(655,843,944)	-
<b>Total Liabilities and Shareholders' funds</b>	18,864,400,707	121,627,176	(15,574,382)	18,970,453,499	18,864,400,707	121,627,174	18,436,937,676



First Time Adoption of SLFRS  
 Reconciliation of Income for the year ended 31 December 2011

	Bank		Group	
	SLAS	SLFRS	SLAS	SLFRS
	Rs.	Rs.	Rs.	Rs.
<b>Interest income</b>				
Interest expenses	2,103,584,968	(19,842,771)	2,083,742,198	2,129,152,275
	1,106,816,608	(4,601,761)	1,102,214,847	1,105,815,222
<b>Net interest income</b>	996,768,360	-	981,527,351	1,023,337,053
Other income	447,830,733	(447,830,733)	-	-
Fee and commission income	-	139,792,398	139,792,397	201,066,684
Fee and commission expenses	-	(34,626,519)	(34,626,519)	(36,372,890)
<b>Net fee and commission income</b>	-	(25,798,797)	105,165,877	164,693,794
Net trading income/(expenses)	-	-	(25,798,797)	(25,798,797)
Negative Goodwill	-	-	-	2,865,948
Other operating income (net)	-	299,070,531	299,070,531	297,901,663
<b>Total operating income</b>	-	1,395,783,244	1,509,572,230	1,462,999,681
Credit loss expense	-	(44,863)	39,372,715	37,943,019
<b>Net operating income</b>	1,444,599,093	-	1,395,783,244	1,500,942,700
Staff costs	-	340,206,959	25,449,071	25,449,071
Operating Expenses	317,585,940	(317,585,940)	365,655,080	403,170,272
Personal Expenses	333,749,492	(333,749,492)	-	-
Premises, Equipment & Establishment Expenses	209,125,010	(209,125,010)	336,482,274	-
Loan Losses & Provisions	(44,863)	44,863	371,233,651	-
Provision for fall in value of dealing securities	45,455,340	(45,455,340)	227,182,856	-
Provision for staff retirement benefit	8,857,467	(8,857,467)	(3,542,761)	-
Depreciation of Property, Plant & Equipment	-	77,859,548	45,455,340	-
Amortisation and impairment of intangible assets	-	313,274	10,091,210	-
Other expenses	-	423,537,133	72,199,254	75,398,005
<b>Operating profit/(loss) before value added tax (VAT)</b>	529,870,707	(16,460)	423,520,673	10,237,033
Negative Goodwill	-	-	534,028,312	455,667,132
Value added tax (VAT) on financial services	82,784,786	-	2,207,254	556,470,258
<b>Profit/(loss) before tax</b>	447,085,921	-	82,784,786	82,784,786
Tax expense	138,691,438	(701,200)	451,243,526	473,685,472
<b>Profit/(loss) for the year</b>	308,394,483	4,858,805	143,550,243	158,654,092
		(701,200)	307,693,283	315,031,380
			298,947,484	16,083,896

## Notes to the Financial Statements contd.

### Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011 and total comprehensive income for the year ended 31 December 2011

#### A. Available-for-sale financial assets

On the First time adoption, the UB Group has designated such investments as available-for-sale investments.

IFRS requires available-for-sale investments to be measured at fair value. At the date of transition to SLFRS.

#### B. Loan and Advance to Customer

Under Previous SLAS, the provision for impairment of Loan and Advances consists of both a specific amount for incurred losses and general amount for expected future losses. SLFRS does not permit recognition of impairment for expected future losses and this amount has been eliminated against retained earnings at 1 January 2011. The effect on earnings for the year ended 31 December 2011 is also recognized in profit for the year under SLFRS and instead assessed on collectively as well as individual basis based on objective evidence that there have been an impairment.

Based on SLFRS, all the loan granted to staff of the group at concessionary rate are recognized at fair value, and subsequent recognition are based on EIR. Day 1 difference are treated as pre paid staff cost and amortized on remaining life time.

#### C. Other financial assets and liabilities

The fair value of forward foreign exchange contracts is recognised under SLFRS, and was not recognised under Previous SLAS. The contracts, which were designated as hedging instruments under Previous SLAS, have been designated as at the date of transition to SLFRS as hedging instrument in cash flow hedges of either expected future sales for which the group has firm commitments or expected purchases from suppliers that are highly probable. The corresponding adjustment has been recognised as a separate component of equity, in the cash flow hedge reserve.

#### D. Amount due to Customer

On first time adoption, interest expenses of amount due to customer (Deposit) are recognised based on EIR method.

#### E. Intangible assets

These intangible assets have been reclassified as part of goodwill on transition to SLFRS. Goodwill has been presented within Intangible Assets on the Statement of Financial Position.

#### F. Deferred tax

The various transitional adjustments lead to different temporary differences. According to the accounting policies in Note 2.3, the Group has to account for such differences. Deferred tax adjustments are recognized in correlation to the underlying transaction either in retained earnings or a separate component of equity.

#### G. SLFRS Tax

The impact of tax adjustments is pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

#### H. Reserve

The net effect of Adoption of SLFRS as of the transition date of 1st January 2011 is recorded through retained earning.

#### I. Repurchase Agreement

On the adoption of SLFRS, Interest expenses on repurchased contract are recognised based on EIR method.

#### J. Reverse repurchase agreement

On the adoption of SLFRS, Interest expenses on repurchased contract are recognised based on EIR method.

#### K. Statement of cash flows

The transition from Previous SLAS to SLFRS has not had a material impact on the statement of cash flows.

#### 4. Net Interest Income

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Interest income</b>				
Sri Lanka government securities	198,081,265	188,951,756	198,807,925	197,374,465
Balances with banks	226,938,960	116,429,814	250,977,728	143,590,784
Loans and receivables to other customers	2,924,118,037	1,690,860,962	3,099,775,700	1,700,687,360
Financial investments - Available-for-sale	94,975,450	87,499,666	94,975,450	87,499,666
<b>Total interest income</b>	<b>3,444,113,712</b>	<b>2,083,742,198</b>	<b>3,644,536,803</b>	<b>2,129,152,275</b>
<b>Interest expense</b>				
Due to banks	167,728,307	27,315,759	181,288,300	27,332,755
Due to other customers	2,038,451,036	1,070,256,275	2,047,948,347	1,073,839,654
Others	4,873,523	4,642,813	4,873,523	4,642,813
<b>Total interest expenses</b>	<b>2,211,052,866</b>	<b>1,102,214,847</b>	<b>2,234,110,170</b>	<b>1,105,815,222</b>
<b>Net interest income</b>	<b>1,233,060,846</b>	<b>981,527,351</b>	<b>1,410,426,633</b>	<b>1,023,337,053</b>

#### “Notional Tax Credit on Secondary Market Transactions

As per the Section 137 of the Inland Revenue Act no 10 of 2006 and the amendments thereto, a company which derives interest income from the secondary market transactions on Government Securities ( on or after 1 st April 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest 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 1 January 2012 to 31 December 2012, has been grossed up by Rs.35.6Mn ( 2011 - Rs.22.24Mn) and Rs.18.6Mn ( 2011- Rs 21.4) respectively.

#### 5. Net Fee and Commission Income

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Fee and commission income	134,315,536	139,792,397	201,289,813	201,066,684
Fee and commission expenses	(34,452,668)	(34,626,519)	(36,180,861)	(36,372,890)
<b>Net fee and commission income</b>	<b>99,862,868</b>	<b>105,165,877</b>	<b>165,108,952</b>	<b>164,693,794</b>
<b>Comprising</b>				
Loans	5,704,398	5,154,477	7,854,451	5,154,477
Cards	1,851,713	1,632,387	1,851,713	1,632,387
Trade and remittances	67,728,269	72,373,003	67,728,269	72,373,003
Guarantees	48,094,736	44,366,858	48,094,736	44,366,858
Fund Management	-	-	64,824,224	61,274,287
Others	10,936,419	16,265,672	10,936,419	16,265,672
<b>Net fee and commission income</b>	<b>134,315,536</b>	<b>139,792,397</b>	<b>201,289,813</b>	<b>201,066,684</b>

## Notes to the Financial Statements contd.

### 6. Net Trading Income/(Expense)

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
From others customers	7,739,956	533,537	7,739,956	533,537
Equities	(18,480,430)	(26,332,335)	(24,944,383)	(26,332,335)
Investment in Units	20,902,973	-	20,902,973	-
<b>Total</b>	<b>10,162,500</b>	<b>(25,798,797)</b>	<b>3,698,546</b>	<b>(25,798,797)</b>

### 7. Other Operating Income (Net)

Dividend Income	9,404,365	7,209,447	2,093,116	1,576,406
Gains/(Losses) on sale of available-for-sale financial investments	512,514	95,770,971	5,707,472	95,770,971
Gain on sale of property, plant and equipment	90,428	1,906,132	(2,188,981)	4,316,846
Trading Foreign exchange gain	124,749,956	57,512,982	124,749,956	57,512,981
Non trading Foreign exchange gain	44,951,496	23,862,324	44,951,496	23,862,324
Others	155,867,988	112,808,675	164,605,051	114,862,155
<b>Other Operating Income (net)</b>	<b>335,576,747</b>	<b>299,070,531</b>	<b>339,918,111</b>	<b>297,901,683</b>

### 8. Credit Loss Expense

	Bank		Group	
	31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
<b>Loans &amp; Receivables to customers</b>				
Overdrafts	160,469	10,796,927	160,469	10,796,927
Trade finance	(252)	(66)	(252)	(66)
Pawning	(1,583,654)	(508,696)	(1,583,654)	(508,696)
Staff loans	(311,027)	35,447	(311,027)	35,447
Term loans	13,445,880	48,854,770	(66,636,130)	50,979,508
Lease/HP	(3,556,878)	(23,360,100)	(3,556,878)	(23,360,100)
<b>Total</b>	<b>8,154,538</b>	<b>35,818,281</b>	<b>(71,927,471)</b>	<b>37,943,019</b>

### 9. Staff Costs

Salary and bonus	314,440,319	253,726,149	371,392,449	286,104,810
Contributions to defined contribution plans	39,547,361	31,714,042	43,317,564	33,973,353
Contributions to defined benefit plans	9,490,026	8,857,467	13,434,605	9,394,580
Social Security cost	9,718,637	6,071,885	9,718,637	6,071,885
Others	77,503,650	65,286,488	78,125,905	67,625,644
<b>Total</b>	<b>450,699,992</b>	<b>365,656,030</b>	<b>515,989,159</b>	<b>403,170,272</b>

Provision for the retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2012. Please refer note 33.1 for detailed disclosure and assumptions on the retirement benefit liability.



**10. Other Expenses**

	Bank		Group	
	31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
Directors' emoluments	8,635,713	2,400,000	12,332,856	2,780,000
Auditors' remunerations	2,820,000	1,350,000	4,104,781	1,527,950
Non-audit fees to auditors	2,620,000	1,560,776	2,620,000	1,560,776
Professional and legal expenses	18,722,936	18,172,518	19,339,338	18,725,785
Advertising & Marketing expenses	82,595,067	70,891,702	83,845,415	73,164,193
Office administration and establishment expenses	405,634,648	291,580,030	410,715,387	291,580,030
Others	20,571,548	37,565,647	85,457,962	66,328,398
<b>Total</b>	<b>541,599,913</b>	<b>423,520,673</b>	<b>618,415,739</b>	<b>455,667,132</b>

**11. Taxation**

The components of income tax expense for the years ended 31 December 2012 and 2011 are;

	Bank		Group	
	31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
Current tax expense	135,239,189	128,812,348	144,366,997	137,652,944
Deemed dividend tax	-	2,778,213	-	2,778,213
Adjustments in respect of current income tax of prior years	(3,402,542)	(1,817,217)	(744,894)	(1,817,217)
Deferred tax expense	17,493,884	13,776,898	(178,698,158)	20,040,153
<b>Total</b>	<b>149,330,531</b>	<b>143,550,243</b>	<b>(35,076,055)</b>	<b>158,654,092</b>
<b>a. Reconciliation of tax expenses</b>				
Profit Before Tax	462,974,651	451,243,526	452,626,462	473,685,473
Add: Disallowable Expenses	285,783,880	310,487,328	286,576,928	325,877,407
Less: Tax Deductible Expenses	(265,761,429)	(251,862,185)	(223,606,972)	(240,351,856)
Statutory Income	482,997,102	509,868,669	515,596,418	559,211,024
: Tax Losses claimed	-	(49,824,567)	-	(49,824,567)
<b>Taxable Income</b>	<b>482,997,102</b>	<b>460,044,102</b>	<b>515,596,418</b>	<b>509,386,457</b>
Income Tax on Current Year Profit @28%	135,239,189	128,812,348	144,366,997	134,888,908
Income Tax on Current Year Profit @10% (NAMAL 2011)	-	-	-	2,764,036
(Over)/ under provision in respect of previous year	(3,402,542)	(1,817,217)	(744,894)	(1,817,217)
Deem Dividend Tax	-	2,778,213	-	2,778,213
Deferred Tax charge/(credit) ( Note No 27)	17,493,884	13,776,898	(178,698,158)	20,040,153
<b>Tax expense for the year</b>	<b>149,330,531</b>	<b>143,550,243</b>	<b>(35,076,055)</b>	<b>158,654,092</b>
Effective Tax Rate (%)	32%	32%	-	33%
<b>b. The deferred tax (credit)/charge in the income statement comprise of the following</b>				
Deferred tax assets	7,228,986	7,599,303	204,071,411	1,377,047
Deferred tax liabilities	(24,722,870)	(21,376,201)	(25,373,253)	(21,417,199)
<b>Deferred tax (credit)/charge to income statement</b>	<b>(17,493,884)</b>	<b>(13,776,898)</b>	<b>178,698,158</b>	<b>(20,040,153)</b>

## Notes to the Financial Statements contd.

### 12. Earnings Per Share

The basic earnings per share have been calculated by dividing the profits attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share'.

	Bank		Group	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
<b>Amount used as the numerator</b>				
Net profit attributable to ordinary shareholders (Rs.)	313,644,120	307,693,283	432,053,230	310,085,020
<b>Amount used as the denominator</b>				
Weighted average number of ordinary shares for basic earnings per share calculation	349,250,000	346,199,872	349,250,000	346,199,872
<b>Basic earnings per ordinary share (Rs.)</b>	0.90	0.89	1.24	0.90

### 13. Dividend Paid and Proposed

	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Declared and paid during the year				
Dividend on ordinary shares, 0.15 cents per share	52,387,500	NIL	52,387,500	NIL

### 14. Cash and Balances With Central Bank

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Cash in hand	698,075,945	439,558,548	341,910,616	698,522,467	439,868,052	341,910,616
Statutory balances with Central Bank of Sri Lanka	1,627,910,656	1,341,739,054	750,520,909	1,627,910,656	1,341,739,054	750,520,909
<b>Total</b>	<b>2,325,986,601</b>	<b>1,781,297,602</b>	<b>1,092,431,525</b>	<b>2,326,433,124</b>	<b>1,781,607,106</b>	<b>1,092,431,525</b>

Balances with Central Bank include the cash balance that is required as per the provisions of section 93 of the Monetary Law act. The minimum cash reserve requirement was 8% of the rupee deposit liabilities as at 31 December 2012 (8% as at 31 December 2011). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking unit and the deposit liabilities of the Foreign Currency Banking Unit.

**15. Sri Lanka Government Securities**

	2012 Rs.	Bank 2011 Rs.	2010 Rs.	2012 Rs.	Group 2011 Rs.	2010 Rs.
<b>Held for trading</b>						
Treasury bills	38,132,921	200,714,665	1,367,002,126	38,132,921	200,714,665	1,367,002,126
Treasury bonds	-	213,744,769	588,962,276	-	213,744,769	588,962,276
<b>Sub total</b>	38,132,921	414,459,435	1,955,964,402	38,132,921	414,459,435	1,955,964,402
<b>Available-for-sale</b>						
Treasury bills	1,463,828,125	198,813,800	396,478,900	1,463,828,125	198,813,800	396,478,900
Treasury bonds	100,314,597	363,092,846	82,083,330	100,314,597	363,092,846	82,083,330
<b>Sub total</b>	1,564,142,722	561,906,646	478,562,230	1,564,142,722	561,906,646	478,562,230
<b>Held-to-maturity</b>						
Treasury bills	-	-	-	-	119,160,766	-
Treasury bonds	29,778,014	29,698,921	-	29,778,014	29,698,921	-
<b>Sub total</b>	29,778,014	29,698,921	-	29,778,014	148,859,687	-
<b>Total</b>	1,632,053,657	1,006,065,002	2,434,526,632	1,632,053,657	1,125,225,768	2,434,526,632
<b>16. Cash Collateral on Securities Borrowed and Repurchased Agreements</b>						
Due to banks	100,185,508	125,056,662	1,000,201,511	115,190,437	125,056,662	1,000,201,511
Due to other customers	501,127,155	120,070,159	852,403,137	501,127,155	120,070,159	852,403,137
	601,312,663	245,126,821	1,852,604,648	616,317,592	245,126,821	1,852,604,648

**17. Balances With Banks**

	31.12.2012 Rs.	Bank 31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	Group 31.12.2011 Rs.	01.01.2011 Rs.
Placements	1,601,622,423	2,058,251,113	943,348,776	2,995,130,691	3,332,381,395	2,187,890,065
<b>Total</b>	1,601,622,423	2,058,251,113	943,348,776	2,995,130,691	3,332,381,395	2,187,890,065

**18. Derivative Financial Instruments**

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross is the amount of derivative's underlying asset, reference rate is the basis upon which changes in the fair value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end are indicative of neither the market risk nor the credit risk.

Bank & Group	31.12.2012			31.12.2011			01.01.2011		
	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.	Assets Rs.	Liabilities Rs.	Notional Amount Rs.
Forward foreign exchange contracts	-	2,057,759	542,098,729	148,409	1,912,522	659,175,694	1,275,208	1,130,820	1,053,827,328
<b>Total</b>	-	2,057,759	542,098,729	148,409	1,912,522	659,175,694	1,275,208	1,130,820	1,053,827,328

## Notes to the Financial Statements contd.

### 19. Financial Assets Held for Trading (Excluding Sri Lanka Government Securities)

Bank	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
<b>Held for trading</b>						
Equity securities (Note 19.1)	110,151,429	149,622,004	161,205,900	112,141,877	158,076,406	161,205,900
Investment in Namal High Yield Fund	320,902,973	-	-	320,902,973	-	-
	<b>431,054,402</b>	<b>149,622,004</b>	<b>161,205,900</b>	<b>433,044,850</b>	<b>158,076,406</b>	<b>161,205,900</b>

#### 19.1 Equity Securities

Bank	No. of Shares	2012 Cost (Rs.)	Market Value (Rs.)	No. of Shares	2011 Cost (Rs.)	Market Value (Rs.)	No. of Shares	2010 Cost (Rs.)	Market Value (Rs.)
<b>Quoted Investments</b>									
Abans Electricals PLC	-	-	-	1,500	359,921	285,150	-	-	-
Access Engineering Limited	905,300	22,632,500	16,295,400	-	-	-	-	-	-
Aitken Spence Hotel Holdings PLC	-	-	-	10,800	773,907	750,600	-	-	-
Asian Hotels & Properties PLC	36,398	2,499,861	2,762,608	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	82,080	3,600	113,024	99,720	-	-	-
Chemical Industries (Cey) Ltd.	35,000	3,513,913	1,932,000	35,000	3,513,913	2,695,000	-	-	-
Colombo Dockyard PLC	21,000	5,134,974	4,704,000	20,000	5,134,974	4,776,000	-	-	-
Colombo Fort Land & Building	-	-	-	75,000	5,159,587	3,675,000	-	-	-
Dialog Telekom PLC	758,898	8,312,075	6,298,853	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	796,800	4,800	794,918	706,080	-	-	-
Expolanka Holdings Ltd	-	-	-	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	102,860	12,949,115	11,571,750	100,000	12,949,115	8,320,000	51,200	10,224,537	10,880,000
Hemas Holdings PLC	25,000	976,740	675,000	25,000	976,740	825,000	-	-	-
Hemas Power PLC	7,000	225,237	153,300	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	17,100,000	1,000,000	27,117,874	20,300,000	1,000,000	27,117,874	25,600,000
Hunters & Co. Ltd	782	584,773	265,802	1,200	897,349	708,000	-	-	-
John Keells Holdings	16,000	3,185,313	3,518,400	16,000	3,185,313	2,723,200	-	-	-
John Keells Hotels PLC	349,600	7,333,588	4,824,480	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	153,600	6,000	251,586	228,000	-	-	-
Merchant Bank of Sri Lanka PLC	-	-	-	6,000	222,472	237,600	-	-	-
National Development Bank	47,400	8,763,605	6,536,460	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	54,900	5,279,390	5,435,100	111,000	10,674,176	15,706,500	55,500	10,674,176	16,650,000
Sampath Bank PLC	45,870	11,755,191	9,196,935	44,829	11,755,191	8,741,655	36,000	9,764,138	9,684,000
Sathosa Motors PLC	1,700	581,515	377,910	1,700	581,515	442,000	-	-	-
Seylan Bank PLC-Non Voting	440,100	19,935,834	15,447,510	440,100	19,935,834	13,555,080	440,100	19,935,834	21,388,860
Singer Finance (Lanka) Ltd	-	-	-	-	-	-	77,600	1,164,000	1,164,000
Singer Sri Lanka	2,800	329,341	286,440	2,800	329,341	371,560	-	-	-
Sofflogic Holdings Limited	-	-	-	136,000	3,944,000	2,448,000	-	-	-
Tokyo Cement (Lanka) PLC- Non Voting	90,000	2,355,186	1,737,000	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 Limited	-	-	-	7,800	195,000	185,640	-	-	-
Vanik Incorporation Ltd	51,375	1,755,277	-	51,375	1,755,277	-	51,375	1,755,277	-
		146,380,832	110,151,429		178,804,464	149,622,004		144,933,017	161,205,900
Mark to Market Adjustment		(36,229,403)	-		(29,182,460)	-		16,272,883	-
		<b>110,151,429</b>	<b>110,151,429</b>		<b>149,622,004</b>	<b>149,622,004</b>		<b>161,205,900</b>	<b>161,205,900</b>

## Equity Securities

Group	No. of Shares	2012 Cost Rs.	Market Value Rs.	No. of Shares	2011 Cost Rs.	Market Value Rs.	No. of Shares	2010 Cost Rs.	Market Value Rs.
<b>Quoted Investments</b>									
Abans Electricals PLC	-	-	-	1,500	359,921	285,150	-	-	-
Access Engineering Limited	905,300	22,632,500	16,295,400	-	-	-	-	-	-
Aitken Spence Hotel Holdings PLC	-	-	-	10,800	773,907	750,600	-	-	-
Asian Hotels & Properties PLC	36,398	2,499,861	2,762,608	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	-	-	-
Blue Diamond Jewellery Worldwide Ltd	1,040,000	2,606,750	1,977,248	1,040,657	2,606,750	8,429,322	-	-	-
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	82,080	3,600	113,024	99,720	-	-	-
Chemical Industries (Cey) Ltd.	35,000	3,513,913	1,932,000	35,000	3,513,913	2,695,000	-	-	-
Colombo Dockyard PLC	21,000	5,134,974	4,704,000	20,000	5,134,974	4,776,000	-	-	-
Colombo Fort Land & Building	-	-	-	75,000	5,159,587	3,675,000	-	-	-
Dialog Telekom PLC	758,898	8,312,075	6,298,853	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	796,800	4,800	794,918	706,080	-	-	-
Expolanka Holdings Ltd	-	-	-	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	102,860	12,949,115	11,571,750	100,000	12,949,115	8,320,000	51,200	10,224,537	10,880,000
Hemas Holdings PLC	25,000	976,740	675,000	25,000	976,740	825,000	-	-	-
Hemas Power PLC	7,000	225,237	153,300	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	17,100,000	1,000,000	27,117,874	20,300,000	1,000,000	27,117,874	25,600,000
Hunters & Co. Ltd	782	584,773	265,802	1,200	897,349	708,000	-	-	-
John Keells Holdings	16,000	3,185,313	3,518,400	16,000	3,185,313	2,723,200	-	-	-
John Keells Hotels PLC	349,600	7,333,588	4,824,480	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	-	-	-
Laugis Gas PLC	6,000	251,586	153,600	6,000	251,586	228,000	-	-	-
Merchant Bank of Sri Lanka PLC	-	-	-	6,000	222,472	237,600	-	-	-
National Development Bank	47,400	8,763,605	6,536,460	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	54,900	5,279,390	5,435,100	111,000	10,674,176	15,706,500	55,500	10,674,176	16,650,000
Sampath Bank PLC	45,870	11,755,191	9,196,935	44,829	11,755,191	8,741,655	36,000	9,764,138	9,684,000
Sathosa Motors PLC	1,700	581,515	377,910	1,700	581,515	442,000	-	-	-
Seylan Bank PLC-Non Voting	440,100	19,935,834	15,447,510	440,100	19,935,834	13,555,080	440,100	19,935,834	21,388,860
Seylan Merchant Leasing Co. Ltd	13,200	132,000	13,200	13,200	132,000	25,080	-	-	-
Singer Finance (Lanka) Ltd	-	-	-	-	-	-	77,600	1,164,000	1,164,000
Singer Sri Lanka	2,800	329,341	286,440	2,800	329,341	371,560	-	-	-
Sofflogic Holdings Limited	-	-	-	136,000	3,944,000	2,448,000	-	-	-
Tokyo Cement (Lanka) PLC- Non Voting	90,000	2,355,186	1,737,000	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 Limited	-	-	-	7,800	195,000	185,640	-	-	-
Vanik Incorporation Ltd	51,375	1,755,277	-	51,375	1,755,277	-	51,375	1,755,277	-
		149,119,582	112,141,877		181,543,214	158,076,406		144,933,017	161,205,900
Mark to Market Adjustment		(36,977,705)	-		(23,466,808)	-		16,272,883	-
		112,141,877	112,141,877		158,076,406	158,076,406		161,205,900	161,205,900

## Notes to the Financial Statements contd.

### 20. Loans and Receivables to Other Customers

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Gross loans and receivables (Note 20.1)	20,442,842,571	17,720,001,722	10,385,865,192	21,937,485,386	18,794,107,081	10,385,865,192
(Less): Individual impairment charges (Note 20.4)	(330,457,436)	(372,271,860)	(401,727,957)	(330,457,436)	(372,271,860)	(401,727,957)
Collective impairment charges (Note 20.4)	(87,655,847)	(54,800,817)	(64,672,573)	(699,812,673)	(586,875,634)	(64,672,573)
<b>Net loans and receivables</b>	<b>20,024,729,288</b>	<b>17,292,929,045</b>	<b>9,919,464,662</b>	<b>20,907,215,277</b>	<b>17,834,959,587</b>	<b>9,919,464,662</b>
<b>20.1 Loans and Receivables to other customers - by product</b>						
Overdrafts	6,265,444,248	5,523,013,838	3,656,993,651	6,265,444,248	5,523,013,838	3,656,993,651
Trade finance	3,709,013,638	3,581,589,798	2,571,031,903	3,709,013,638	3,581,589,798	2,571,031,903
Pawning	2,449,978,408	1,578,999,709	714,483,664	2,449,978,408	1,578,999,709	714,483,664
Staff loans	141,987,783	114,730,713	94,547,321	145,848,490	118,712,739	94,547,321
Term loans	6,902,357,004	6,365,792,342	2,994,159,953	7,957,506,301	7,290,432,891	2,994,159,953
Lease and Hire Purchase	974,061,490	496,087,234	247,179,484	1,409,694,301	641,570,018	247,179,484
Trust certificates	-	59,788,088	107,469,216	-	59,788,088	107,469,216
<b>Gross Loans and Advances</b>	<b>20,442,842,571</b>	<b>17,720,001,722</b>	<b>10,385,865,192</b>	<b>21,937,485,386</b>	<b>18,794,107,081</b>	<b>10,385,865,192</b>
<b>20.2 Loans and Receivables to other customers - by currency</b>						
LKR	18,024,800,881	16,189,533,781	9,197,900,973	19,519,443,696	17,263,639,140	9,197,900,973
USD	2,314,748,791	1,452,041,355	1,185,539,579	2,314,748,791	1,452,041,355	1,185,539,579
EUR	100,259,622	78,426,586	-	100,259,622	78,426,586	-
Others	3,033,277	-	2,424,640	3,033,277	-	2,424,640
	<b>20,442,842,571</b>	<b>17,720,001,722</b>	<b>10,385,865,192</b>	<b>21,937,485,386</b>	<b>18,794,107,081</b>	<b>10,385,865,192</b>
<b>20.3 Loans and Receivables to other customers - by industry</b>						
Agriculture and fishing	2,070,130,583	1,781,189,400	1,460,810,891	2,070,130,583	1,781,189,400	1,460,810,891
Manufacturing	2,879,346,562	3,519,995,147	2,158,427,699	2,879,346,562	3,519,995,147	2,158,427,699
Tourism	311,042,676	430,623,343	56,142,865	311,042,676	430,623,343	56,142,865
Transport	198,783,019	86,816,695	159,642,464	630,444,589	397,024,592	159,642,464
Construction	1,789,730,562	1,646,057,176	867,976,895	2,634,786,218	2,253,345,284	867,976,895
Traders	4,937,887,118	3,064,694,809	1,853,977,830	5,036,143,426	3,135,305,409	1,853,977,830
New economy	467,505,662	475,225,371	330,468,997	467,505,662	475,225,371	330,468,997
Financial & Business Services	2,091,639,246	1,600,130,193	444,850,638	2,091,639,246	1,600,130,193	444,850,638
Infrastructure	441,197,611	438,571,315	398,380,300	441,197,611	438,571,315	398,380,300
Other Services	1,165,998,997	1,079,361,441	719,613,171	1,222,024,263	1,119,623,260	719,613,171
Other Customers Including Pawning	4,089,580,535	3,597,336,832	1,935,573,442	4,153,224,550	3,643,073,767	1,935,573,442
<b>Gross total</b>	<b>20,442,842,571</b>	<b>17,720,001,722</b>	<b>10,385,865,192</b>	<b>21,937,485,386</b>	<b>18,794,107,081</b>	<b>10,385,865,192</b>
<b>20.4 Movements in Individual and Collective Impairment Charges during the Year</b>						
Individual impairment charges						
<b>Opening balance</b>	<b>372,271,860</b>	<b>401,727,957</b>		<b>372,271,860</b>	<b>401,727,957</b>	
Charge/(Write back) to income statement	(41,814,424)	(29,456,097)		(41,814,424)	(29,456,097)	
<b>Closing balance</b>	<b>330,457,436</b>	<b>372,271,860</b>		<b>330,457,436</b>	<b>372,271,860</b>	
Collective impairment charges						
<b>Opening balance</b>	<b>54,800,817</b>	<b>64,672,573</b>		<b>586,875,634</b>	<b>64,672,573</b>	
Additions through acquisition	-	-		-	534,199,555	
Charge/(Write back) to income statement	33,659,886	(6,362,184)		113,741,895	(8,486,922)	
Net write-off during the year	(804,856)	(3,509,571)		(804,856)	(3,509,571)	
<b>Closing balance</b>	<b>87,655,847</b>	<b>54,800,817</b>		<b>699,812,674</b>	<b>586,875,634</b>	
<b>Total</b>	<b>418,113,283</b>	<b>427,072,677</b>		<b>1,030,270,110</b>	<b>959,147,494</b>	



## Notes to the Financial Statements contd.

Group Unquoted Investments	31.12.2012			31.12.2011			01.01.2011		
	No of Shares Rs.	Cost s.	Directors' Valuation R Rs.	No of Shares Rs.	Cost Rs.	Directors' Valuation Rs.	No of Shares Rs.	Cost Rs.	Directors' Valuation Rs.
Cey Bank Unit Trust	9,569	100,000	100,000	9,569	100,000	100,000	-	-	-
Cey. Seylan Housing & Com. Properties	48,540	485,400	-	48,540	485,400	-	-	-	-
Ceyenergy Electronic Co. (Pvt) Ltd	30,000	300,000	-	30,000	300,000	-	-	-	-
Ceylinco Aruna Accessories Ltd	25,000	250,000	-	25,000	250,000	-	-	-	-
Ceylinco Capital Ltd	12,500	125,000	-	12,500	125,000	-	-	-	-
Ceylinco CISCO Ranaviru Ser. (Pvt) Ltd	50,000	500,000	-	50,000	500,000	-	-	-	-
Ceylinco Coloured Stones (Pvt) Ltd	60,000	600,000	-	60,000	600,000	-	-	-	-
Ceylinco Foliage Exports (Pvt) Ltd	25,000	250,000	-	25,000	250,000	-	-	-	-
Ceylinco Grameen Credit Co. Ltd	25,000	250,000	-	25,000	250,000	-	-	-	-
Ceylinco International Trading Co.	25,000	250,000	-	25,000	250,000	-	-	-	-
Ceylinco Investment & Reality Ltd	630,000	6,300,000	-	630,000	6,300,000	-	-	-	-
Ceylinco Islamic Corporation Ltd	10,000	100,000	-	10,000	100,000	-	-	-	-
Ceylinco Netassist (Pvt) Ltd	12,500	125,000	-	12,500	125,000	-	-	-	-
Ceylinco Niranjan Invention (Pvt) Ltd	9,500	95,000	-	9,500	95,000	-	-	-	-
Ceylinco Packaging Ltd	166,667	1,666,667	-	166,667	1,666,667	-	-	-	-
Ceylinco Tax & Financial Consultants	50,000	500,000	-	50,000	500,000	-	-	-	-
Ceylinco Venture Capital Ltd	73,000	730,000	-	73,000	730,000	-	-	-	-
Credit Information Bureau	309	30,900	30,900	309	30,900	30,900	300	30,000	30,000
F & G Real Estate Co. Ltd	18,000	180,000	-	18,000	180,000	-	-	-	-
F & G Realtors Share Capital Co.	34,000	340,000	-	34,000	340,000	-	-	-	-
Finance House Consortium (Pvt) Ltd	20,000	200,000	200,000	20,000	200,000	200,000	-	-	-
Fingara International Cricket Acedamy	879,906	8,799,060	-	879,906	8,799,060	-	-	-	-
Fingara International Cricket Acedamy	25,000	2,500,000	-	25,000	2,500,000	-	-	-	-
Golden Key Credit Card Co Ltd	10,000	100,000	-	10,000	100,000	-	-	-	-
IC & CS Software Solutions (Pvt) Ltd	12,500	125,000	-	12,500	125,000	-	-	-	-
Interna. College of Business Tech. Ltd	10,000	100,000	-	10,000	100,000	-	-	-	-
Interna. Consult. & Corp. Ser. (Pvt) Ltd	100,000	1,000,000	-	100,000	1,000,000	-	-	-	-
Lanka Clear (Private) Limited	5,000	500,000	500,000	5,000	500,000	500,000	5,000	500,000	500,000
Lanka Financial Service Bureau Limited	10,000	1,000,000	1,000,000	10,000	1,000,000	1,000,000	10,000	1,000,000	1,000,000
Pyramid Unit Trust	7,500	75,000	75,000	7,500	75,000	75,000	-	-	-
Samson Reclaim Rubbers Limited	100,000	2,500,000	12,314,418	100,000	2,500,000	7,100,241	-	-	-
San Michel Ltd	50	5,000	-	50	5,000	-	-	-	-
Seraka Investment Ltd	70,000	700,000	-	70,000	700,000	-	-	-	-
TFC Homes (Pvt) Ltd	200,000	2,000,000	-	200,000	2,000,000	-	-	-	-
		32,782,027	14,220,318		32,782,027	9,006,141		1,530,000	1,530,000
<b>Less: Impairment Charges</b>		(18,561,709)			(23,775,885)				
		14,220,318	14,220,318		9,006,141	9,006,141		1,530,000	1,530,000

### 21.2 Equity securities

Group Quoted Investments	31.12.2012		
	No of Shares	Cost Rs.	Market Value Rs.
Tokyo Cement- Non Voting	200,000	3,943,680	3,860,000
Renuka Holding PLC	26,633	1,184,926	961,451
Sampath Bank PLC	100,000	21,235,200	20,050,000
Commercial Bank- Voting	25,000	2,578,560	2,575,000
		28,942,366	27,446,451



**21.3 Debt Securities**

Bank	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Vanik Debentures (50,000@ Rs. 100)	500,000	500,000	500,000
Less: Impairment Charges	(500,000)	(500,000)	(500,000)
Balance as at 31 December	-	-	-
Movements in Impairment Charges during the Year			
Opening balance	500,000	500,000	500,000
<b>Closing balance</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>

Group	31.12.2012		31.12.2011		01.01.2011	
	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.
Ceylinco Sec. & Fin. Services Co Ltd (2,000@Rs.100)	200,000	200,000	200,000	200,000	-	-
Ceylinco Institute of Mgt Ltd (2,000 @Rs. 100)	200,000	-	200,000	-	-	-
Seylan Merchant Leasing Ltd (300 @Rs. 100)	30,000	30,000	30,000	30,000	-	-
Seylan Bank Ltd (16,600 @Rs 1000)	1,660,000	1,660,000	1,660,000	1,660,000	-	-
Seylan Debenture Issue A/c 2007/2012 (2,500 @Rs. 100)	250,000	250,000	250,000	250,000	-	-
Vanik Debentures (50,000@Rs. 100)	500,000	-	500,000	-	500,000	-
	2,840,000	2,140,000	2,840,000	2,140,000	500,000	-
Less: Impairment Charges	(700,000)		(700,000)		(500,000)	
Balance as at 31 December	2,140,000		2,140,000		-	

**Movements in Impairment Charges during the Year**

	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Opening balance	700,000	500,000	500,000
Additions through acquisition	-	200,000	-
<b>Closing balance</b>	<b>700,000</b>	<b>700,000</b>	<b>500,000</b>

**21.4 Investment in Serendib Bond**

Deep Discounted Bond - Serendib Capital (Pvt) Ltd	2,283,760,340	2,195,923,404	2,111,464,811
	2,283,760,340	2,195,923,404	2,111,464,811

The Bank purchased a Deep Discounted Bond guaranteed by a Commercial Bank from Serendib Capital (Pvt) Ltd on 1 August 2003. The purchase cost was Rs.1,578Mn settled by transferring part of the Bank's portfolio at its book value of Rs. 978Mn and balance in cash. The face value of the Bond amounts to Rs.3,458Mn and will mature on 1 August 2023.

**Group**

21.5 Investment in Units	No of Shares	Cost	Market Value	No of Shares	Cost	Market Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
NAMAL Money Market Fund	47,622	694,940	703,882	1,222,129	12,728,732	12,587,928
NAMAL Gilt Edge Fund 1	-	-	-	1,250,337	12,500,000	15,929,293
NAMAL High Yield Fund	8,491,509	85,000,000	95,678,072			
		85,694,940	96,381,954		25,228,732	28,517,221

## Notes to the Financial Statements contd.

### 22. Investment in Subsidiaries

	31.12.2012			31.12.2011		
	Percentage Holding %	Cost Rs.	Directors' Valuation Rs.	Percentage Holding %	Cost Rs.	Directors' Valuation Rs.
Unquoted equity share						
National Asset Management LTD	51.00	331,500,000	331,500,000	51.00	331,500,000	331,500,000
UB Finance Company Ltd	68.53	580,882,010	580,864,489	68.82	600,000,000	580,882,009
(Less): Disposals		17,521	-		19,117,991	-
<b>Net total</b>		<b>912,364,489</b>	<b>912,364,489</b>		<b>912,382,009</b>	<b>912,382,009</b>

22.1 The Directors' valuation of investments in subsidiary companies has been carried out on a net asset basis.

### 23. Business Combination and Acquisition of Non Controlling Interest

#### Acquisitions in 2011

#### 23.1 Acquisition of National Asset Management Company Limited (NAMAL)

On 28 February 2011, the group acquired 51% of the voting shares of NAMAL, an unlisted company, specialising in the launching, operating and administrating unit trusts.

#### Assets acquired and Liabilities assumed

The fair value of the identifiable assets and liabilities of the NAMAL as at the date of acquisition were;

	Fair Value recognised on acquisition Rs.
<b>Assets</b>	
Brand	19,939,000
AM & AI	233,230,000
Property, plant and equipment	9,485,370
Investments	27,404,609
Intangibles	956,554
Deferred tax	1,539,400
Current assets	145,356,975
Transition day adjustment	8,363,376
<b>Total Assets</b>	<b>446,275,284</b>
<b>Liabilities</b>	
Non current liabilities	7,178,057
Current liabilities	10,726,859
<b>Total Liabilities</b>	<b>17,904,916</b>
<b>Net assets at fair value</b>	<b>428,370,368</b>
% of equity purchased	51.00%
Purchase consideration	331,500,000
<b>Value of equity purchased</b>	<b>218,468,888</b>
<b>Goodwill</b>	<b>113,031,112</b>

### 23.2 Acquisition of UB Finance Company Limited (Formerly known as The Finance & Guarantee Company Limited)

On 01 November 2011, the group acquired 71% of the voting shares of UB Finance Company Limited, an unlisted company, specialising in Finance business (accepting deposits, providing loan facilities, land sales, leasing and hire purchase).

#### Assets acquired and Liabilities assumed

The fair value of the identifiable assets and liabilities of the NAMAL as at the date of acquisition were:

	Fair Value recognised on acquisition Rs.
<b>Assets</b>	
Licence & other Infrastructure	205,543,000
Cash and cash equivalents	1,178,995,488
Fixed deposits	-
Trade and other receivables	17,697,130
Stock out on hire, lease and easy payment	223,542,284
Loans and advances	278,820,186
Investment in real estate	390,922,000
Amount due from hire purchase, lease and loans	36,930,887
Other Assets	171,686,000
Investments	4,000,754
Deferred tax	-
Property plant and equipment	46,434,680
Intangible assets	87,466
Transition day adjustment	926,564
<b>Total Assets</b>	<b>2,555,586,438</b>
<b>Liabilities</b>	
Bank balance overdrawn	42,429,087
Fixed deposits	1,264,713,685
FD interest payable - Promissory notes	15,732,542
Savings deposits	4,532,771
Amount due to related parties	462,390
Lease creditors	96,404
Accruals and other payables	216,633,377
Borrowings	146,809,417
Retirement benefit obligation - Gratuity	16,144,767
<b>Total Liabilities</b>	<b>1,707,554,439</b>
<b>Net Assets at fair value</b>	<b>848,031,999</b>
% of equity purchased	71.09%
Purchase consideration	600,000,000
<b>Value of equity purchased</b>	<b>602,865,948</b>
<b>Goodwill / (Negative Goodwill)</b>	<b>(2,865,948)</b>

## Notes to the Financial Statements contd.

### 24. Investment in Real Estate

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Land	-	-	-	276,045,254	300,881,531	-
Housing Projects	-	-	-	31,138,438	33,382,753	-
Other Projects	-	-	-	701,838,072	701,838,073	-
less Provision	-	-	-	(656,954,999)	(688,081,620)	-
<b>Total Investment in Real Estate</b>	-	-	-	<b>352,066,765</b>	<b>348,020,737</b>	-

### 25. Goodwill and Intangible Assets

Bank	31.12.2012 Rs.	31.12.2011 Rs.
<b>Computer Software</b>		
Opening balance	11,307,845	4,282,991
Additions	31,810,716	7,024,854
Closing balance	43,118,561	11,307,845
<b>(Less): Amortisation</b>	-	-
Opening balance	637,323	258,348
Charge for the year	2,485,659	378,975
Closing balance	3,122,982	637,323
<b>Net book value at 31 December</b>	<b>39,995,579</b>	<b>10,670,522</b>

25. Goodwill and Intangible Assets (contd.)

Group	Goodwill		Computer Software		Brand Value		Asset Management and Advisory Intangible		License and Related Infrastructure		Group	
	Rs.	31.12.2011	Rs.	31.12.2011	Rs.	31.12.2011	Rs.	31.12.2011	Rs.	31.12.2011	Rs.	31.12.2011
Opening balance	113,031,112	-	31,173,158	22,884,467	10,168,890	-	118,947,300	-	141,458,804	-	414,779,264	22,884,467
Additions	-	113,031,112	36,916,941	8,288,691	-	10,168,890	-	118,947,300	-	146,120,519	36,916,941	396,556,512
Disposals	-	-	-	-	-	-	-	-	-	(4,661,715)	-	(4,661,715)
Closing balance	113,031,112	113,031,112	68,090,099	31,173,158	10,168,890	10,168,890	118,947,300	118,947,300	141,458,804	141,458,804	451,696,205	414,779,264
<b>(Less): Amortisation</b>												
Opening balance	-	-	18,758,359	16,770,850	423,704	-	6,608,183	-	1,217,637	-	27,007,883	16,770,850
Charge for the year	-	-	3,346,153	1,987,509	508,445	423,704	7,929,820	6,608,183	7,042,931	1,217,637	18,827,349	10,237,033
Closing balance	-	-	22,104,512	18,758,359	932,149	423,704	14,538,003	6,608,183	8,255,738	1,217,637	45,830,401	27,007,883
Net book value at 31 December	113,031,112	113,031,112	45,985,587	12,414,799	9,236,742	9,745,186	104,409,297	112,339,117	132,203,066	140,241,167	405,865,804	387,771,381

Impairment testing of intangible assets

Key assumptions used in value in use calculations

The recoverable amount of the Intangible Assets have been determined based on the following methods

Intangible Assets	Method Used
Brand Valuation	Relief from Royalty
Asset Management and Advisory Intangible (AM & AI)	Earning Method
Goodwill	Free Cashflow to Equity (FCFE)
Licensing and Other Infrastructure	Greenfield method

The rates used by the Bank:

	Brand	AM & AI Valuation	Goodwill	License
Discount Rate	17.64%	17.64%	17.64%	22.00%
Royalty Fees	2.74%	-	-	-
Terminal Growth Rate	2.50%	2.50%	2.50%	0%

The calculation of the above are sensitive to discount rates, budgeted income/cashflows, terminal growth rates used to extrapolate cash flows beyond the budgeted period, market growth rates and market C/I Ratios.

## Notes to the Financial Statements contd.

### 26. Property, Plant And Equipment

#### Property, Plant and Equipment

##### Bank

	Land and Buildings Rs.	Leasehold Improvements Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicle Rs.	Work-in- progress Rs.	Total Rs.
<b>2012</b>							
<b>Cost/fair value</b>							
Opening balance	-	273,028,855	422,807,226	130,975,722	30,312,180	-	857,123,983
Additions	-	118,341,905	126,518,595	25,915,608	8,701,794	2,813,391	282,291,293
Disposals	-	(19,025,888)	(3,528,014)	(20,370,574)	-	-	(42,924,476)
Closing balance	-	372,344,872	545,797,807	136,520,756	39,013,974	2,813,391	1,096,490,800
<b>(Less): Accumulated depreciation</b>							
Opening balance	-	55,725,269	258,047,444	69,129,205	9,114,029	-	392,015,947
Charge for the year	-	64,342,892	52,834,720	12,215,491	3,401,578	-	132,794,681
Additions	-	-	-	-	-	-	-
Disposals	-	(18,904,030)	(3,528,014)	(20,328,404)	-	-	(42,760,448)
Adjustments	-	-	-	-	-	-	-
Closing balance	-	101,164,131	307,354,150	61,016,292	12,515,607	-	482,050,180
Net book value at 31 December	-	271,180,741	238,443,657	75,504,464	26,498,367	2,813,391	614,440,620
<b>2011</b>							
<b>Cost/fair value</b>							
Opening balance	-	75,924,136	354,195,682	97,307,821	26,794,260	3,224,716	557,446,615
Additions through acquisitions	-	-	-	-	-	-	-
Additions	-	193,880,003	68,923,904	33,667,901	5,407,920	-	301,879,728
Disposals	-	-	(312,360)	-	(1,889,999)	-	(2,202,359)
Adjustments	-	3,224,716	-	-	-	(3,224,716)	-
Closing balance	-	273,028,855	422,807,226	130,975,722	30,312,181	-	857,123,983
<b>(Less): Accumulated depreciation</b>							
Opening balance	-	41,327,602	210,499,013	62,033,822	7,916,354	-	321,776,791
Additions through acquisitions	-	-	-	-	-	-	-
Charge for the year	-	14,397,667	47,618,530	7,095,383	3,087,674	-	72,199,254
Disposals	-	-	(70,099)	-	(1,889,999)	-	(1,960,098)
Adjustments	-	-	-	-	-	-	-
Closing balance	-	55,725,269	258,047,444	69,129,205	9,114,029	-	392,015,947
Net book value at 31 December	-	217,303,586	164,759,782	61,846,517	21,198,152	-	465,108,037

Land and Buildings Rs.	Leasehold properties Rs.	Computer & Equipments Rs.	Group Furniture & Fittings Rs.	Motor Vehicle Rs.	Work-in-progress Rs.	Total Rs.
36,190,215	273,632,115	422,807,226	186,953,708	45,061,698	-	964,644,963
-	118,341,905	126,518,595	48,378,108	13,201,794	2,813,391	309,253,793
-	(19,025,888)	(3,528,014)	(26,227,714)	(2,271,199)	-	(51,052,815)
36,190,215	372,948,132	545,797,807	209,104,103	55,992,293	2,813,391	1,222,845,941
3,163,864	56,120,657	258,047,444	106,603,493	15,742,434	-	439,677,891
569,119	64,433,381	52,834,720	18,192,649	6,542,253	-	142,572,122
-	-	-	(2,409,361)	-	-	(2,409,361)
-	(18,904,030)	(3,528,014)	(20,328,404)	-	-	(42,760,448)
-	-	-	(1,446,904)	-	-	(1,446,904)
3,732,983	101,650,008	307,354,150	100,611,473	22,284,686	-	535,633,300
32,457,232	271,298,125	238,443,657	108,492,630	33,707,607	2,813,391	687,212,641
-	75,924,136	354,195,682	97,307,821	26,794,260	3,224,716	557,446,615
36,190,215	603,260	-	51,147,468	14,235,976	-	102,176,920
-	193,880,003	68,923,904	41,223,419	5,921,462	-	309,948,788
-	-	(312,360)	(2,725,000)	(1,890,000)	-	(4,927,360)
-	3,224,716	-	-	-	(3,224,716)	-
36,190,215	273,632,115	422,807,226	186,953,708	45,061,698	-	964,644,963
-	41,327,602	210,499,013	62,033,822	7,916,354	-	321,776,791
3,052,272	722,314	-	38,372,561	5,041,046	-	47,188,193
111,592	14,412,749	47,618,530	8,922,109	4,333,025	-	75,398,005
-	-	(70,099)	(2,725,000)	(1,890,000)	-	(4,685,099)
-	(342,008)	-	-	342,008	-	-
3,163,864	56,120,657	258,047,444	106,603,493	15,742,434	-	439,677,891
33,026,351	217,511,459	164,759,782	80,350,216	29,319,264	-	524,967,072

## Notes to the Financial Statements contd.

### 27. Deferred Taxation 27.1 Deferred Tax Liabilities

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Balance as at beginning of the year	(19,661,352)	(5,884,454)	39,182,113	(19,702,350)	(5,884,454)	39,182,113
Additions through acquisitions	-	-	-	-	1,681,558	-
Deferred Tax charged to the Income Statement	(17,493,884)	(13,776,898)	(45,066,567)	(18,103,269)	(15,499,454)	(45,066,567)
Balance as at the year end	(37,155,236)	(19,661,352)	(5,884,454)	(37,805,619)	(19,702,350)	(5,884,454)
<b>Deferred Tax Assets</b>						
Carry Forward Losses	36,857,308	31,051,421	25,230,722	36,206,925	31,010,423	25,230,722
Defined Benefit Plan Liability	9,651,982	8,228,884	6,450,280	9,651,982	8,228,884	6,450,280
	46,509,290	39,280,305	31,681,002	45,858,907	39,239,307	31,681,002
<b>Deferred Tax liability</b>						
Accelerated Depreciation allowance for tax purposes (Property and Equipment)	(60,551,399)	(37,448,517)	(23,213,068)	(60,551,399)	(37,448,517)	(23,213,068)
Accelerated Depreciation allowance for tax purposes (Lease Rental Receivable)	(23,113,127)	(21,493,140)	(14,352,388)	(23,113,127)	(21,493,140)	(14,352,388)
	(83,664,527)	(58,941,657)	(37,565,456)	(83,664,527)	(58,941,657)	(37,565,456)
	(37,155,236)	(19,661,352)	(5,884,454)	(37,805,619)	(19,702,350)	(5,884,454)
<b>27.2 Deferred Tax Assets</b>						
Balance as at beginning of the year	-	-	-	328,867,001	333,407,699	336,331,096
Deferred Tax charged to the Income Statement	-	-	-	196,801,426	(4,540,698)	(2,923,397)
Balance as at the year end	-	-	-	525,668,427	328,867,001	333,407,699
<b>Deferred Tax Assets</b>						
Carry Forward Losses	-	-	-	525,668,427	328,867,001	333,407,699
	-	-	-	525,668,427	328,867,001	333,407,699

### 28. Other Assets

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
<b>Cost</b>						
Advances	79,937,937	39,127,144	9,341,117	90,122,942	48,323,198	9,341,117
Deposits and prepayments	152,219,061	134,019,566	76,229,796	325,208,087	307,665,274	76,229,796
Sundry debtors	-	-	-	60,021	632,875	-
Prepaid staff cost	85,995,317	63,325,327	52,468,247	86,581,137	64,395,302	52,468,247
Others	35,872,693	35,796,878	74,867,710	108,661,695	90,694,003	74,867,710
<b>Total</b>	354,025,008	272,268,915	212,906,870	610,633,882	511,710,652	212,906,870

### 29. Due to Banks

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Borrowings	911,891,348	380,992,686	320,818,129	911,891,348	380,992,686	320,818,129
Deposits	7,112	6,765	6,438	12,201,878	43,213,676	6,438
<b>Total</b>	911,898,460	380,999,451	320,824,567	924,093,226	424,206,362	320,824,567



**30. Due to Other Customers**

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
At amortised cost	23,142,801,872	19,754,596,560	13,442,439,001	23,725,595,501	19,845,291,770	13,442,439,001
<b>Total</b>	<b>23,142,801,872</b>	<b>19,754,596,560</b>	<b>13,442,439,001</b>	<b>23,725,595,501</b>	<b>19,845,291,770</b>	<b>13,442,439,001</b>
<b>30.1 Due to other Customers - by product</b>						
Demand deposits (current accounts)	1,754,725,389	1,547,957,941	1,716,187,510	1,743,862,562	1,547,651,872	1,716,187,510
Savings deposits	2,896,498,873	3,818,387,361	3,014,312,948	2,901,162,393	3,822,517,889	3,014,312,948
Fixed deposits	15,828,860,765	11,936,584,506	6,754,336,372	16,417,853,701	12,023,455,257	6,754,336,372
Other deposits - CDs	2,662,716,845	2,451,666,752	1,957,602,171	2,662,716,845	2,451,666,752	1,957,602,171
<b>Total</b>	<b>23,142,801,872</b>	<b>19,754,596,560</b>	<b>13,442,439,001</b>	<b>23,725,595,501</b>	<b>19,845,291,770</b>	<b>13,442,439,001</b>
<b>30.2 Due to other Customers - by currency</b>						
LKR	21,179,513,762	18,362,189,193	12,333,956,171	21,762,307,391	18,452,884,403	12,333,956,171
USD	1,602,924,397	1,088,352,691	784,481,794	1,602,924,397	1,088,352,691	784,481,794
GBP	173,749,255	121,457,032	116,480,011	173,749,255	121,457,032	116,480,011
EURO	123,461,236	67,466,765	108,538,555	123,461,236	67,466,765	108,538,555
AUD	60,403,070	114,184,942	97,536,306	60,403,070	114,184,942	97,536,306
Others	2,750,152	945,937	1,446,164	2,750,152	945,937	1,446,164
<b>Total</b>	<b>23,142,801,872</b>	<b>19,754,596,560</b>	<b>13,442,439,001</b>	<b>23,725,595,501</b>	<b>19,845,291,770</b>	<b>13,442,439,001</b>

**31. Cash Collateral on Securities Lent and Repurchased Agreements**

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Due to other customers	499,494,690	128,288,554	81,785,390	394,164,303	63,746,072	81,785,390
<b>Total</b>	<b>499,494,690</b>	<b>128,288,554</b>	<b>81,785,390</b>	<b>394,164,303</b>	<b>63,746,072</b>	<b>81,785,390</b>

**32. Other Borrowed Funds**

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Borrowings from Financial Institutions	-	-	-	323,603,729	338,078,671	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>323,603,729</b>	<b>338,078,671</b>	<b>-</b>

**33. Other Liabilities**

Year ended 31 December 2012	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Accrued Expenses	29,531,308	25,305,167	21,562,720	31,924,911	30,698,618	21,562,720
Payable on Usance Bills	424,410,082	655,892,041	329,306,251	424,410,082	655,892,041	329,306,251
Retirement benefit Obligation (Note 33.1)	34,471,346	29,325,486	23,036,713	47,362,893	43,960,011	23,036,713
Other payables	241,916,438	174,862,830	164,445,788	321,493,947	296,555,863	164,445,788
<b>Total</b>	<b>730,329,174</b>	<b>885,385,524</b>	<b>538,351,472</b>	<b>825,191,833</b>	<b>1,027,106,533</b>	<b>538,351,472</b>

## Notes to the Financial Statements contd.

### 33.1 The movement of the Retirement Benefit Obligation of the Bank and the Group is given below;

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
<b>a.</b> Defined benefit obligation (included in other liabilities)						
Opening defined benefit obligation	29,325,486	23,036,713	17,876,170	43,960,011	39,345,808	17,876,170
Expense on defined benefit plan	9,490,026	8,857,467	6,661,756	7,747,048	8,857,467	6,661,756
Payments made during the year	(4,344,166)	(2,568,694)	(1,501,213)	(4,344,166)	(4,243,264)	(1,501,213)
Closing defined benefit obligation	34,471,346	29,325,486	23,036,713	47,362,893	43,960,011	23,036,713
<b>b.</b> Net benefit expense (recognised under the personal expense)						
Current Service cost	6,112,508	5,905,598	4,162,683	6,112,508	5,905,598	4,162,683
Interest cost on benefit obligation	3,377,518	2,951,869	2,499,073	1,634,540	2,951,869	2,499,073
Net benefit expense	9,490,026	8,857,467	6,661,756	7,747,048	8,857,467	6,661,756

### c. The principal assumptions used in determining defined benefit obligation are shown below;

Discount rate	11%	10%
Future salary increment rate	9%	9%
Retirement age	55 Years	55 Years

### d. Messers Piyal S. Goonathilleke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the defined benefit plan and accordingly compatible assumptions have been used in determining the cost of retirement benefits.

### 34. Stated Capital

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Balance as at 1 January	4,979,791,113	4,573,820,996	4,573,820,996	4,979,791,113	4,573,820,996	4,573,820,996
Shares issued for cash	-	375,000,000	-	-	375,000,000	-
Allotment during the year	-	30,970,117	-	-	30,970,117	-
Balance as at 31 December	4,979,791,113	4,979,791,113	4,573,820,996	4,979,791,113	4,979,791,113	4,573,820,996
<b>34.1 Pending Allotment</b>						
Balance as at 1 January	-	30,970,117	-	-	30,970,117	-
Pending Allotment	-	-	30,970,117	-	-	30,970,117
Transfer in to Stated Capital	-	(30,970,117)	-	-	(30,970,117)	-
Balance as at 31 December	-	-	30,970,117	-	-	30,970,117

### 35. Statutory Reserve Fund

35.1 Five percent of the profits after tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No.30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No. 30 of 1988.

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Balance as at 1 January	37,616,641	22,231,977	14,742,127	37,616,641	22,231,977	14,742,127
Transfer during the year	15,682,206	15,384,664	7,489,850	15,682,206	15,384,664	7,489,850
Balance as at 31 December	53,298,847	37,616,641	22,231,977	53,298,847	37,616,641	22,231,977

### 36. Investment Fund Account

36.1 Investment Fund Account is established and operated based on the Guidelines on the operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner General of Inland Revenue.

36.2 As per the guideline;

- (i) 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT act for payment of VAT.
- (ii) 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self assessment payment of tax, should be transferred to the Investment Fund Account to build up a permanent fund within the Bank.

	Bank		Group	
	31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
Balance as at 1 January	53,371,307	-	53,371,307	-
Transfer during the year	92,950,817	53,371,307	94,122,805	53,371,307
Balance as at 31 December	146,322,124	53,371,307	147,494,112	53,371,307
<b>37. Retained Earnings</b>				
Balance as at 1 January	132,418,750	(69,407,450)	(537,246,694)	(741,464,631)
Profit for the year	313,644,120	307,693,283	432,053,230	310,085,020
Transfers to Statutory Reserve Fund (Note 33.1)	(15,682,206)	(15,384,664)	(15,682,206)	(15,384,664)
Transfers to Investment Fund Account (Note 34.2)	(92,950,817)	(53,371,307)	(94,122,805)	(53,371,307)
Share issue expense	-	(37,111,112)	-	(37,111,112)
Additions through new share issue	-	-	10,748,727	-
Dividend	(52,387,500)	-	(52,387,500)	-
Balance as at 31 December	285,042,347	132,418,750	(256,637,248)	(537,246,694)

### 38. Available for Sale Reserve

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Balance as at 1 January	(4,253,501)	(1,210,006)	-	(3,319,115)	(1,210,006)	-
Transfer during the year	2,802,851	(3,043,495)	(1,210,006)	17,208,127	(2,109,109)	(1,210,006)
Transfer to Income Statement on disposal	-	-	-	(3,288,490)	-	-
Balance as at 31 December	(1,450,650)	(4,253,501)	(1,210,006)	10,600,522	(3,319,115)	(1,210,006)

## Notes to the Financial Statements contd.

### 39. Measurement of Financial Instruments

a.	Bank - 2012	HFT Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Others Rs.	Total Rs.
<b>Assets</b>							
	Cash and balances with Central Bank of Sri Lanka	-	-	2,325,986,601	-	-	2,325,986,601
	Sri Lanka government securities	38,132,921	29,778,014	-	1,564,142,722	-	1,632,053,657
	Cash collateral on securities borrowed & reverse repurchase agreements	-	-	601,312,663	-	-	601,312,663
	Balances with banks	-	-	1,601,622,423	-	-	1,601,622,423
	Derivatives	-	-	-	-	-	-
	Financial assets held-for-trading	431,054,402	-	-	-	-	431,054,402
	Loans and receivables to other customers	-	-	20,024,729,288	-	-	20,024,729,288
	Financial investments – Available-for-sale	-	-	-	2,285,290,340	-	2,285,290,340
	Other assets	-	-	-	-	-	-
	<b>Total financial assets</b>	469,187,323	29,778,014	24,553,650,975	3,849,433,062	-	28,902,049,374
	Investment in Subsidiaries	-	-	-	-	912,364,489	912,364,489
	Goodwill and Intangible Assets	-	-	-	-	39,995,579	39,995,579
	Property, Plant & Equipment	-	-	-	-	614,440,620	614,440,620
	Deferred Tax Asset	-	-	-	-	-	-
	Other assets	-	-	-	-	354,025,008	354,025,008
	<b>Total non financial assets</b>	-	-	-	-	1,920,825,696	1,920,825,696
	<b>Total assets</b>	469,187,323	29,778,014	24,553,650,975	3,849,433,062	1,920,825,696	30,822,875,070
<b>Liabilities</b>							
	Due to banks	-	911,898,460	-	911,898,460	-	911,898,460
	Derivatives	2,057,759	-	-	-	2,057,759	2,057,759
	Cash collateral on securities lent & reverse repurchased agreements	-	499,494,690	-	499,494,690	-	499,494,690
	Due to other customers	-	23,142,801,872	-	23,142,801,872	-	23,142,801,872
	<b>Total financial liabilities</b>	2,057,759	24,554,195,022	-	24,556,252,781	-	24,556,252,781
	Current Tax Liability	-	-	36,134,098	36,134,098	-	36,134,098
	Deferred tax Liabilities	-	-	37,155,236	37,155,236	-	37,155,236
	Other liabilities	-	-	730,329,174	730,329,174	-	730,329,174
	<b>Total non financial liabilities</b>	-	-	803,618,508	803,618,508	-	803,618,508
	<b>Total Liabilities</b>	2,057,759	24,554,195,022	803,618,508	25,359,871,289	-	25,359,871,289

b. Bank - 2011	HFT Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Others Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	-	-	1,781,297,602	-	-	1,781,297,602
Sri Lanka government securities	414,459,435	29,698,921	-	561,906,646	-	1,006,065,002
Cash collateral on securities borrowed & reverse repurchased agreements	-	-	245,126,821	-	-	245,126,821
Balances with banks	-	-	2,058,251,113	-	-	2,058,251,113
Derivatives	148,409	-	-	-	-	148,409
Financial assets held-for-trading	149,622,004	-	-	-	-	149,622,004
Loans and receivables to other customers	-	-	17,292,929,045	-	-	17,292,929,045
Financial investments – Available-for-sale	-	-	-	2,197,453,404	-	2,197,453,404
<b>Total financial assets</b>	<b>564,229,848</b>	<b>29,698,921</b>	<b>21,377,604,581</b>	<b>2,759,360,050</b>	<b>-</b>	<b>24,730,893,400</b>
Investment in Subsidiaries	-	-	-	-	912,382,009	912,382,009
Goodwill and Intangible Assets	-	-	-	-	10,670,522	10,670,522
Property, Plant & Equipment	-	-	-	-	465,108,037	465,108,037
Deferred Tax Asset	-	-	-	-	-	-
Other assets	-	-	-	-	272,268,915	272,268,915
<b>Total non financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,660,429,483</b>	<b>1,660,429,483</b>
<b>Total assets</b>	<b>564,229,848</b>	<b>29,698,921</b>	<b>21,377,604,581</b>	<b>2,759,360,050</b>	<b>1,660,429,483</b>	<b>26,391,322,883</b>
<b>Liabilities</b>						
Due to banks	-	380,999,451	-	380,999,451	-	380,999,451
Derivatives	1,912,522	-	-	-	-	1,912,522
Cash collateral on securities lent & reverse repurchased agreements	-	128,288,554	-	128,288,554	-	128,288,554
Due to other customers	-	19,754,596,560	-	19,754,596,560	-	19,754,596,560
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>1,912,522</b>	<b>20,263,884,565</b>	<b>-</b>	<b>20,265,797,087</b>	<b>-</b>	<b>22,176,386,652</b>
Current Tax Liability	-	-	21,534,610	21,534,610	-	43,069,220
Deferred tax Liabilities	-	-	19,661,352	19,661,352	-	39,322,704
Other liabilities	-	-	885,385,524	885,385,524	-	1,770,771,048
<b>Total non financial liabilities</b>	<b>-</b>	<b>-</b>	<b>926,581,487</b>	<b>926,581,487</b>	<b>-</b>	<b>1,926,642,459</b>
<b>Total Liabilities</b>	<b>1,912,522</b>	<b>20,263,884,565</b>	<b>926,581,487</b>	<b>21,192,378,573</b>	<b>-</b>	<b>23,103,747,147</b>

## Notes to the Financial Statements contd.

### 39.1 Measurement of Financial Instruments

a.	Group - 2012	HFT Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Others Rs.	Total Rs.
<b>Assets</b>							
	Cash and balances with Central Bank of Sri Lanka	-	-	2,326,433,124	-	-	2,326,433,124
	Sri Lanka government securities	38,132,921	29,778,014	-	1,564,142,722	-	1,632,053,657
	Cash collateral on securities borrowed & reverse repurchase agreements	-	-	616,317,592	-	-	616,317,592
	Balances with banks	-	-	2,995,130,691	-	-	2,995,130,691
	Derivatives	-	-	-	-	-	-
	Financial assets held-for-trading	433,044,850	-	-	-	-	433,044,850
	Loans and receivables to other customers	-	-	20,907,215,277	-	-	20,907,215,277
	Financial investments – Available-for-sale	-	-	140,188,723	-	-	140,188,723
	<b>Total financial assets</b>	471,177,771	29,778,014	26,985,285,407	1,564,142,722	-	29,050,383,914
	Investment in Real Estate	-	-	-	-	352,066,765	352,066,765
	Goodwill and Intangible Assets	-	-	-	-	405,865,804	405,865,804
	Property, Plant & Equipment	-	-	-	-	687,212,641	687,212,641
	Deferred Tax Asset	-	-	-	-	525,668,427	525,668,427
	Other assets	-	-	-	-	610,633,882	610,633,882
	<b>Total non financial assets</b>	-	-	-	-	2,581,447,519	2,581,447,519
	<b>Total assets</b>	471,177,771	29,778,014	26,985,285,407	1,564,142,721	2,581,447,519	31,631,831,433
<b>Liabilities</b>							
	Due to banks	-	924,093,226	-	-	-	924,093,226
	Derivatives	2,057,759	-	-	-	-	2,057,759
	Cash collateral on securities lent & reverse repurchased agreements	-	394,164,303	-	-	-	394,164,303
	Due to other customers	-	23,725,595,501	-	-	-	23,725,595,501
	Debt securities issued	-	323,603,729	-	-	-	323,603,729
	<b>Total financial liabilities</b>	2,057,759	25,367,456,759	-	-	-	25,369,514,518
	Current Tax Liability	-	-	190,551,625	-	-	190,551,625
	Deferred tax Liabilities	-	-	37,805,619	-	-	37,805,619
	Other liabilities	-	-	825,191,833	-	-	825,191,833
	<b>Total non financial liabilities</b>	-	-	1,053,549,078	-	-	1,053,549,077
	<b>Total liabilities</b>	2,057,759	25,367,456,759	1,053,549,078	-	-	26,423,063,595

**b. Group - 2011**

	HFT Rs.	HTM Rs.	L & R Rs.	AFS Rs.	Others Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	-	-	1,781,607,106	-	-	1,781,607,106
Sri Lanka government securities	414,459,435	148,859,687	-	-	-	1,125,225,768
Cash collateral on securities borrowed & reverse repurchased agreements	-	-	245,126,821	-	-	245,126,821
Balances with banks	-	-	3,332,381,395	-	-	3,332,381,395
Derivatives	148,409	-	-	-	-	148,409
Financial assets held-for-trading	158,076,406	-	-	-	-	158,076,406
Loans and receivables to banks	-	-	-	-	-	-
Loans and receivables to other customers	-	-	17,834,959,587	-	-	17,834,959,587
Financial investments – Available-for-sale	-	-	-	39,663,363	-	39,663,363
<b>Total financial assets</b>	572,684,250	148,859,687	23,194,074,909	39,663,363	-	24,517,188,855
Investment in Real Estate	-	-	-	-	348,020,737	348,020,737
Goodwill and Intangible Assets	-	-	-	-	387,771,381	387,771,381
Property, Plant & Equipment	-	-	-	-	524,967,072	524,967,072
Deferred Tax Asset	-	-	-	-	328,867,001	328,867,001
Other assets	-	-	-	-	511,710,652	511,710,652
<b>Total non financial assets</b>	-	-	-	-	2,101,336,843	2,101,336,843
<b>Total assets</b>	572,684,250	148,859,687	23,194,074,909	39,663,363	2,101,336,843	26,618,525,698
<b>Liabilities</b>						
	HFT Rs.	Amortised cost Rs.	Others Rs.	Total Rs.		
Due to banks	-	424,206,362	-	424,206,362		
Derivatives	1,912,522	-	-	1,912,522		
Cash collateral on securities lent & reverse repurchased agreements	-	63,746,072	-	63,746,072		
Due to other customers	-	19,845,291,770	-	19,845,291,770		
Other borrowed funds	-	338,078,671	-	338,078,671		
<b>Total financial liabilities</b>	1,912,522	20,671,322,875	-	20,673,235,397		
Current Tax Liability	-	-	168,777,314	168,777,314		
Deferred tax Liabilities	-	-	19,702,350	19,702,350		
Other liabilities	-	-	1,027,106,533	1,027,106,533		
<b>Total non financial liabilities</b>	-	-	1,215,586,197	1,215,586,197		
<b>Total liabilities</b>	1,912,522	20,671,322,875	1,215,586,197	21,888,821,594		

## Notes to the Financial Statements contd.

### 40. Risk Management

#### 40.1 Introduction

Risk is inherent in the bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the bank's continuing profitability and each individual within the bank is accountable for the risk exposures relating to his or her responsibilities. The bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating risks.

The business risks such as changes in the environment, technology and industry are primarily addressed through the bank's strategic planning process. Industry specific changes are also reviewed and presented on a need basis by the Credit Risk Management Unit and are tabled at the Executive Risk Management Committee.

#### Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed a Supervisory Board called "Integrated Risk Management Committee (IRMC)" which has the responsibility to monitor the overall risk process within the bank.

The IRMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. IRMC is also responsible for managing risks and monitoring risk levels and reports on monthly/quarterly basis to the Board.

The Risk Management Department (RMD) is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the IRMC to ensure that procedures are compliant with the overall framework.

The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the bank. This unit ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on daily/ monthly/ quarterly basis, where necessary, to the IRMC or its sub committees, and the relevant actions are taken to address exceptions and any areas of weakness.

Bank Treasury and the ALCO are responsible for managing the bank's assets and liabilities and the overall financial structure. The Treasury Middle Office, which reports to the Head of Risk Management (is independent from treasury) further monitors positions and transactions. The Treasury and ALCO are also primarily responsible for the funding and liquidity risks of the bank.

The bank's policy is that risk management processes throughout the bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

#### Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the bank. These limits reflect the business strategy and market environment of the bank as well as the level of risk that the bank is willing to accept, with additional emphasis on selected industries. In addition, the bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and Risk Committees. These reports include aggregate credit exposures, credit concentration, operational risk, market risk, liquidity ratios and stress tests. On a quarterly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the bank.

All risk related policies including a well documented Integrated Risk Management Framework are uploaded in the Bank's Intranet which are being viewed by all staff at all levels for a comprehensive understanding of the Bank's risk appetite and the overall risk management of the Bank. Frequent workshops are held to share knowledge of potential risk events and keep the staff abreast with the latest changes.

Briefings are also given to other relevant members of the bank on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.



**Risk mitigation**

As part of its overall risk management, the bank uses various instruments to manage exposures resulting from credit risks, changes in interest rates, foreign currencies, equity risks, and exposures arising from transactions.

The bank actively uses collateral to reduce its credit risks.

**Excessive risk concentration**

In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific guidelines, including concentration limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

**40.2 Credit risk**

The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of borrowers, including regular collateral revisions. Bank uses a risk rating process to rate the borrowers according to its risk profile. The credit quality review process aims to allow the bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

A structured and standardised credit approval process is in place including a procedure for credit appraisal and borrower risks rating. Credit Authority lies with the Board of Directors, Board Credit Committee, Credit Committee and members of the management as per the assigned limits on delegated credit authority. All credit facilities are required to be reviewed by the Relationship Mangers/ Branch Managers annually. Also bank's borrower risk rating system forms an integral part of the evaluation of credit proposals and assists the approval authorities to assess the creditworthiness of the borrowers. Bank's systems for credit evaluation and decision making are independent from collateralisation albeit collateral helps to mitigate credit risk.

Risk Management Department reviews credit facilities before and after sanctioning of facilities. Under pre-sanction evaluation, RMD independently reviews credit facilities and adds its recommendation where risk is considered acceptable. This independent review covers all new facilities or one-off / temporary facilities for existing lines over Rs. 50 million (present limit). If a facility is not recommended by the Risk Management, such facilities cannot be approved.

In the post sanctioning review of credit facilities, the Loans Review Manager (LRM) reviews among other things, the disbursements, perfection of collaterals and repayments are in accordance with the terms of approval. A separate Loan Review Policy approved by the Board of Directors is in place.

**Impairment assessment**

For accounting purposes, the bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

**Specific Impairment**

The bank determines the provisions appropriate for each individually significant loan or advance on an individual basis by Credit Administration, Credit Department, Finance Department, including any overdue payments of interests, or infringement of the original terms of the contract. Items considered when determining provisioning amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

**Collective Impairment**

Allowances are assessed collectively for losses on loans and advances and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

## Notes to the Financial Statements contd.

The bank generally bases its analyses on historical experience. However, when there are significant market developments, the bank would include macroeconomic factors within its assessments.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data.

In Rupees	Note	Neither Past Due Nor Impaired *	Past Due But not Impaired					Individually Impaired	Total
			Less than 3 months	3-6 months	6-12 months	12-18 months	Over 18 Months		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
<b>Assets</b>									
Cash and balances with Central Bank of Sri Lanka	14	2,325,986,601							2,325,986,601
Sri Lanka government securities	15	1,632,053,657							1,632,053,657
Cash collateral on securities borrowed & reverse repurchased agreements	16	601,312,663							601,312,663
Balances with banks	17	1,601,622,423							1,601,622,423
Financial assets held-for-trading	19	431,054,402							431,054,402
Loans and receivables to other customers	20	13,863,220,220	5,329,847,343	105,056,180	55,869,253	23,628,209	76,129,515	989,091,852	20,442,842,571
Financial investments – Available-for-sale	21	2,285,290,340							2,285,290,340
Investments in subsidiaries	22	912,364,489							912,364,489
Goodwill and intangible assets	25	39,995,579							39,995,579
Property, plant and equipment	26	614,440,620							614,440,620
Other assets	28	354,025,008							354,025,008
<b>Total assets</b>		<b>24,661,366,002</b>	<b>5,329,847,343</b>	<b>105,056,180</b>	<b>55,869,253</b>	<b>23,628,209</b>	<b>76,129,515</b>	<b>989,091,852</b>	<b>31,240,988,352</b>

### Credit-related commitments risks

The bank makes available to its customers guarantees that may require that the bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods or contract financing. Such commitments risks are mitigated by regular review of unfunded limits and exposures similar to review of funded limits and exposures.

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables etc
- For retail lending, mortgages over residential properties etc

The bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

The bank also makes use of netting agreements with borrowers with whom a significant volume of transactions are undertaken.

Although on balance sheet netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same borrower will be settled after the assets are realized
- that the documentation are legally enforceable

#### Credit quality by class of financial assets

The bank manages the credit quality of financial assets using internal credit ratings. It is the bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions. All internal ratings are rechecked at several Approver levels within the bank viz Business heads, Zonal units, Risk Management Unit, Credit Department; and also reviewed post facto by the Loan Review Manager. The table below shows the credit quality for all financial assets exposed to credit risk, based on the bank's internal credit rating system.

#### Assets distribution based on Risk Rating

BRR	%
A	2.4%
B	33.1%
C	21.1%
D	0.0%
E	0.0%
F	1.1%
G	0.4%
H	0.2%
UR	41.4%
<b>Total</b>	<b>100.0%</b>

UR (unrated exposures) consists individual clients, pawning, consumer, OD (Cash Backed) and other few facilities (NCRCS, Cheque purchase, apara, vehicle)

#### Analysis of risk concentration

The bank's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector.

The following table shows the risk concentration by industry for the components of the statement of financial position.

Industry Analysis Risk Concentration.

## Notes to the Financial Statements contd.

The Bank's Concentrations of risk are managed by client/counterparty and by industry sector.

The following table shows the risk concentration by industry:

Bank	Note	31.12.2012 Rs.	Financial Services							Total Rs.	
			Financial Services Rs.	Government Rs.	Consumer Rs.	Retail and Wholesale Rs.	Construction Rs.	Manufacturing Rs.	Service Rs.		
<b>Financial Assets</b>											
<b>Cash and balances with Central Bank of Sri Lanka</b>											
- Cash In Hand	14	-	-	-	-	-	-	-	-	-	-
- Balances with Central Bank		698,075,945	698,075,945	-	-	-	-	-	-	-	698,075,945
Sri Lanka government securities	15	1,627,910,656	-	1,627,910,656	-	-	-	-	-	-	1,627,910,656
- Treasury Bills		1,501,961,046	-	1,501,961,046	-	-	-	-	-	-	1,501,961,046
- Treasury Bonds		130,092,611	-	130,092,611	-	-	-	-	-	-	130,092,611
Cash collateral on securities borrowed & reverse repurchased agreements	16	601,312,663	601,312,663	-	-	-	-	-	-	-	601,312,663
Balances with banks	17	1,601,622,423	1,601,622,423	-	-	-	-	-	-	-	1,601,622,423
Financial assets held-for-trading	19	431,054,402	431,054,402	-	-	-	-	-	-	-	431,054,402
<b>Loans and receivables to other customers</b>											
Gross Loans & receivables		19,613,014,669	2,091,635,377	5,896,273,891	4,715,103,489	2,050,393,978	2,831,918,867	2,027,685,198	19,613,010,800		
Less: Allowances for Impairment Losses		(369,768,132)	(1,712,649)	(86,955,907)	(79,979,619)	(163,669,234)	(16,404,570)	(21,046,152)	(369,768,132)		
<b>Lease Rental Receivables</b>											
Gross Loans & receivables		1,067,603,027	-	352,202,708	291,377,185	185,293,840	60,688,766	178,040,528	1,067,603,027		
Less: Unearned Income		(237,771,968)	-	(79,195,706)	(69,429,068)	(34,372,111)	(13,325,902)	(41,449,181)	(237,771,968)		
Less: Collective Impairment Charges		(48,344,440)	-	(6,244,309)	(6,178,465)	(30,460,724)	(4,358,449)	(1,102,493)	(48,344,440)		
Financial Investments – Held-to-maturity		2,285,290,340	2,285,290,340	-	-	-	-	-	-	-	2,285,290,340
Financial Investments – Available-for-sale	21	7,707,278,501	3,259,964,313	6,076,080,677	4,850,893,522	2,007,185,749	2,858,518,712	2,142,127,900	28,902,049,373		

### Commitments and guarantees

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognized as a liability in the statement of financial position.

In Rupees	2012	2011
Acceptances	425,255,489	338,404,589
Guarantees & Bonds	4,561,468,438	3,046,794,128
Letters of credit	1,618,464,283	1,057,390,906
Spot Contracts	81,304,168	159,437,348
Forward Contracts	460,794,561	499,738,346
Cheque pending for realization	444,471,515	303,414,247
Other contingent items	995,840,881	236,659,794
Undrawn loan commitments	6,949,688,579	8,301,143,521
Other commitments	2,301,899	-
<b>Total</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>

### 40.3 Liquidity risk and funding management

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity consistently through ALCO. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has lines of credit that it can access to meet liquidity needs. In addition, the bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 8% of customer deposits. In accordance with the bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

#### Liquid Asset Ratios

	2012
	%
Year End	23.35%
Maximum	23.46%
Minimum	21.28%
Average	22.29%

## Notes to the Financial Statements contd.

### Advances to Deposit Ratios – 2012

The bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers.

#### Advance to Deposit Ratio

	2012
	%
Year End	86.53
Maximum	95.62
Minimum	88.64
Average	92.15

#### Net Loans to Assets

	2012	2011
Net Loans (Rs Mn)	20,024,729,288	17,292,929,045
Total Assets (Rs Mn)	30,822,875,070	26,391,322,883
Ratio	64.97%	65.53%

#### Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December. Contractual maturities of undiscounted cash flows of financial assets and liabilities are shown in the table below

#### Maturity Analysis of Assets and Liabilities

As at December 2012	Less than 3 months Rs.	3 to 12 3 months Rs.	1 to 5 3 months Rs.	Over 3 months Rs.	Total 3 months Rs.
<b>Assets</b>					
Cash and balances with Central Bank of Sri Lanka	2,325,986,601	-	-	-	2,325,986,601
Sri Lanka government securities	1,493,990,946	108,284,697	-	29,778,014	1,632,053,657
Cash collateral on securities borrowed & reverse repurchased agreements	601,312,663	-	-	-	601,312,663
Balances with banks	1,401,039,409	200,583,014	-	-	1,601,622,423
Financial assets held-for-trading	431,054,402	-	-	-	431,054,402
Loans and receivables to other customers	12,476,076,653	3,837,176,952	3,188,890,535	522,585,148	20,024,729,288
Financial investments – Available-for-sale	-	-	-	2,285,290,340	2,285,290,340
Investments in subsidiaries	-	-	-	912,364,489	912,364,489
Goodwill and intangible assets	-	-	-	39,995,579	39,995,579
Property, plant and equipment	-	-	-	614,440,620	614,440,620
Other assets	139,913,812	35,001,244	135,143,354	43,966,598	354,025,008
<b>Total assets</b>	<b>18,869,374,485</b>	<b>4,181,475,603</b>	<b>3,324,033,889</b>	<b>4,447,991,093</b>	<b>30,822,875,070</b>
<b>Liabilities</b>					
Due to banks	568,974,594	282,249,649	60,674,217	-	911,898,460
Derivatives	2,057,759	-	-	-	2,057,759
Cash collateral on securities lent & reverse repurchased agreements	499,494,690	-	-	-	499,494,690
Due to other customers	15,547,430,572	7,137,054,783	405,301,906	53,014,611	23,142,801,872
Current tax liabilities	-	36,134,098	-	-	36,134,098
Deferred tax liabilities	-	37,155,236	-	-	37,155,236
Other liabilities	572,903,136	123,760,276	18,567,312	15,098,450	730,329,174
<b>Total liabilities</b>	<b>17,190,860,751</b>	<b>7,616,354,042</b>	<b>484,543,435</b>	<b>68,113,060</b>	<b>25,359,871,289</b>
<b>Total equity</b>				<b>5,463,003,781</b>	<b>5,463,003,781</b>
<b>Total equity and liabilities</b>	<b>17,190,860,751</b>	<b>7,616,354,042</b>	<b>484,543,435</b>	<b>5,531,116,841</b>	<b>30,822,875,070</b>

**Maturity Analysis of Assets and Liabilities**

As at December 2011	Less than 3 months Rs.	3 to 12 3 months Rs.	1 to 5 3 months Rs.	Over 3 months Rs.	Total 3 months Rs.
<b>Assets</b>					
Cash and balances with Central Bank of Sri Lanka	1,781,297,602	-	-	-	1,781,297,602
Sri Lanka government securities	830,535,296	49,361,469	96,469,316	29,698,921	1,006,065,002
Cash collateral on securities borrowed & reverse repurchased agreements	245,126,821	-	-	-	245,126,821
Balances with banks	2,058,251,113	-	-	-	2,058,251,113
Derivatives	148,409	-	-	-	148,409
Financial assets held-for-trading	149,622,004	-	-	-	149,622,004
Loans and receivables to other customers	11,461,801,219	2,978,177,538	2,111,583,503	741,366,785	17,292,929,045
Financial investments – Available-for-sale	-	-	-	2,197,453,404	2,197,453,404
Investments in subsidiaries	-	-	-	912,382,009	912,382,009
Goodwill and intangible assets	-	-	-	10,670,522	10,670,522
Property, plant and equipment	-	-	-	465,108,037	465,108,037
Deferred tax assets	-	-	-	-	-
Other assets	95,257,483	28,687,139	114,418,409	33,905,884	272,268,915
<b>Total assets</b>	<b>16,622,039,947</b>	<b>3,056,226,146</b>	<b>2,322,471,228</b>	<b>4,390,585,562</b>	<b>26,391,322,883</b>
<b>Liabilities</b>					
Due to banks	92,753,527	13,827,798	274,418,126	-	380,999,451
Derivatives	1,912,522	-	-	-	1,912,522
Cash collateral on securities lent & reverse repurchased agreements	126,403,499	1,885,055	-	-	128,288,554
Due to other customers	12,337,429,073	6,908,018,335	468,543,223	40,605,929	19,754,596,560
Current tax liabilities	-	21,534,610	-	-	21,534,610
Deferred tax liabilities	-	19,661,352	-	-	19,661,352
Other liabilities	510,805,056	340,072,964	15,143,624	19,363,880	885,385,524
<b>Total liabilities</b>	<b>13,069,303,677</b>	<b>7,305,000,114</b>	<b>758,104,973</b>	<b>59,969,809</b>	<b>21,192,378,573</b>
<b>Total equity</b>				<b>5,198,944,310</b>	<b>5,198,944,310</b>
<b>Total equity and liabilities</b>	<b>13,069,303,677</b>	<b>7,305,000,114</b>	<b>758,104,973</b>	<b>5,258,914,119</b>	<b>26,391,322,883</b>

## Notes to the Financial Statements contd.

The table below shows the contractual expiry by maturity of the bank's contingent liabilities and commitments.

Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	As at 31/12/2012	On demand	0-3M	3-12M	1-5Y	<5Y	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Commitments</b>							-
Undrawn OD	1,152,631,618	1,152,631,618	-	-	-	-	1,152,631,618
Commitments for Unutilised Facilities	5,797,056,961	5,797,056,961	-	-	-	-	5,797,056,961
Others	2,301,899	-	-	2,301,899	-	-	2,301,899
<b>Sub Total</b>	<b>6,951,990,478</b>	<b>6,949,688,579</b>	-	<b>2,301,899</b>	-	-	<b>6,951,990,478</b>
Acceptances	425,255,489	182,502,981	227,434,340	15,318,167	-	-	425,255,488
Guarantees	4,561,468,438	1,053,854,922	1,647,574,945	1,394,604,252	465,434,319	-	4,561,468,438
Documentary Credit	1,211,396,249	64,470,816	1,108,174,607	38,750,826	-	-	1,211,396,249
Bills for Collection	407,068,035	10,909,277	396,158,758	-	-	-	407,068,035
Others	995,840,881	1,158,307	774,667,510	9,827,657	74,403,607	135,783,801	995,840,881
Cheque pending for realization	444,471,515	444,471,515	-	-	-	-	444,471,515
<b>Sub Total</b>	<b>8,045,500,607</b>	<b>1,757,367,818</b>	<b>4,154,010,160</b>	<b>1,458,500,902</b>	<b>539,837,926</b>	<b>135,783,801</b>	<b>8,045,500,607</b>
Spot Purchase	69,325,681	69,325,681	-	-	-	-	69,325,681
Spot Sold	11,978,487	11,978,487	-	-	-	-	11,978,487
<b>Sub Total</b>	<b>81,304,168</b>	<b>81,304,168</b>	-	-	-	-	<b>81,304,168</b>
Forward Contracts Bought	358,420,830	-	358,420,830	-	-	-	358,420,830
Forward Contracts Sold	102,373,731	-	102,373,731	-	-	-	102,373,731
<b>Sub Total</b>	<b>460,794,561</b>	-	<b>460,794,561</b>	-	-	-	<b>460,794,561</b>
<b>Total Commitments and Contingent Liability</b>	<b>15,539,589,813</b>	<b>8,788,360,565</b>	<b>4,614,804,721</b>	<b>1,460,802,801</b>	<b>539,837,926</b>	<b>135,783,801</b>	<b>15,539,589,813</b>

### 40.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the trading portfolio is marked to market on a daily basis. Non-trading positions are managed and monitored using other sensitivity analyses on a monthly basis.

#### 40.4.1 Market risk – trading (including financial assets and financial liabilities designated at fair value through profit or loss)

There are two methods for computation of capital charge for Market Risk viz-a-viz Standardized Approach and Internal Models Approach. Currently, Banks are required to compute adequacy of capital using the Standardized Approach.

#### 40.4.2 Market risk – non-trading

##### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the non-trading interest rate gaps for stipulated periods.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the bank's income statement and equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

The table below analyses the bank's interest rate risk exposure on assets and liabilities. The bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.



**Interest Sensitivity Analysis of Assets and Liabilities**

As at 31 December 2012	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	2,325,986,601	-	-	-	-	2,325,986,601
Sri Lanka government securities	1,632,053,657	1,493,990,945	108,714,394	-	29,348,318	-
Cash collateral on securities borrowed & reverse repurchased agreements	601,312,663	601,312,663	-	-	-	-
Balances with banks	1,601,622,423	1,401,039,409	200,583,014	-	-	-
Derivatives	-	-	-	-	-	-
Financial assets held-for-trading	431,054,402	-	-	-	-	431,054,402
Loans and receivables to other customers	20,024,729,288	12,476,076,654	3,837,176,951	3,188,890,535	522,585,148	-
Financial investments – Available-for-sale	2,285,290,340	-	-	-	2,283,760,340	1,530,000
Investments in subsidiaries	912,364,489	-	-	-	-	912,364,489
Goodwill and intangible assets	39,995,579	-	-	-	-	39,995,579
Property, plant and equipment	614,440,620	-	-	-	-	614,440,620
Deferred tax assets	-	-	-	-	-	-
Other assets	354,025,008	-	-	-	-	354,025,008
<b>Total assets</b>	<b>30,822,875,070</b>	<b>15,972,419,671</b>	<b>4,146,474,359</b>	<b>3,188,890,535</b>	<b>2,835,693,806</b>	<b>4,679,396,699</b>
<b>Liabilities</b>						
Due to banks	911,898,460	568,974,594	282,249,649	60,674,217	-	-
Derivatives	2,057,759	-	-	-	-	2,057,759
Cash collateral on securities lent & reverse repurchased agreements	499,494,690	499,494,690	-	-	-	-
Due to other customers	23,142,801,872	13,792,705,182	7,137,054,783	405,301,908	53,014,610	1,754,725,389
Current tax liabilities	36,134,098	-	-	-	-	36,134,098
Deferred tax liabilities	37,155,236	-	-	-	-	37,155,236
Other liabilities	730,329,174	-	-	-	-	730,329,174
<b>Total liabilities</b>	<b>25,359,871,289</b>	<b>14,861,174,466</b>	<b>7,419,304,432</b>	<b>465,976,125</b>	<b>53,014,610</b>	<b>2,560,401,654</b>
<b>Total equity</b>	<b>5,463,003,781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,463,003,781</b>
<b>Total equity and liabilities</b>	<b>30,822,875,070</b>	<b>14,861,174,466</b>	<b>7,419,304,432</b>	<b>465,976,125</b>	<b>53,014,610</b>	<b>8,023,405,437</b>

## Notes to the Financial Statements contd.

### Interest Sensitivity Analysis of Assets and Liabilities

As at 31 December 2011	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	1,781,297,602	-	-	-	-	1,781,297,602
Sri Lanka government securities	1,006,065,002	830,535,296	49,361,469	96,469,317	29,698,921	-
Cash collateral on securities borrowed & reverse repurchased agreements	245,126,821	245,126,821	-	-	-	-
Balances with banks	2,058,251,113	2,058,251,113	-	-	-	-
Derivatives	148,409	148,409	-	-	-	-
Financial assets held-for-trading	149,622,004	-	-	-	-	149,622,004
Loans and receivables to other customers	17,292,929,045	11,461,801,219	2,978,177,536	2,111,583,505	741,366,785	-
Financial investments – Available-for-sale	2,197,453,404	-	-	-	2,195,923,404	1,530,000
Investments in subsidiaries	912,382,009	-	-	-	-	912,382,009
Goodwill and intangible assets	10,670,522	-	-	-	-	10,670,522
Property, plant and equipment	465,108,037	-	-	-	-	465,108,037
Deferred tax assets	-	-	-	-	-	-
Other assets	272,268,915	-	-	-	-	272,268,915
<b>Total assets</b>	<b>26,391,322,883</b>	<b>14,595,862,858</b>	<b>3,027,539,005</b>	<b>2,208,052,822</b>	<b>2,966,989,110</b>	<b>3,592,879,089</b>
<b>Liabilities</b>						
Due to banks	380,999,451	92,753,527	13,827,798	274,418,126	-	-
Derivatives	1,912,522	-	-	-	-	1,912,522
Cash collateral on securities lent & reverse repurchased agreements	128,288,554	126,403,499	1,885,055	-	-	-
Due to other customers	19,754,596,560	12,337,429,071	6,908,018,335	468,543,225	40,605,929	-
Current tax liabilities	21,534,610	-	-	-	-	21,534,610
Deferred tax liabilities	19,661,352	-	-	-	-	19,661,352
Other liabilities	885,385,524	-	-	-	-	885,385,524
<b>Total liabilities</b>	<b>21,192,378,573</b>	<b>12,556,586,097</b>	<b>6,923,731,188</b>	<b>742,961,351</b>	<b>40,605,929</b>	<b>928,494,008</b>
<b>Total equity</b>	<b>5,198,944,310</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,198,944,310</b>
<b>Total equity and liabilities</b>	<b>26,391,322,883</b>	<b>12,556,586,097</b>	<b>6,923,731,188</b>	<b>742,961,351</b>	<b>40,605,929</b>	<b>6,127,438,318</b>

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Asset/Liability Gap (Net Position)	Exchange Rate Change	Impact on Nii
If position is overbought	Rate move up	Profit
If position is overbought	Rate move down	Loss
If position is oversold	Rate move up	Loss
If position is oversold	Rate move down	Profit

Summary 31.12.2012 Adjusted CAR for the Possible Exchange Rate Movements			
If Exchange Rate Moves Down			
	5%	10%	15%
Bank Tier 01 Ratio	21.24	21.24	20.24
Revised Capital Adq Ratio As Per Stress Testing	<b>21.2381</b>	<b>21.2351</b>	<b>21.2321</b>
UBC Total Capital Adq Ratio	20.34	20.34	20.34
Revised Total Cap Adq Ratio As Per Stress Testing	<b>20.3341</b>	<b>20.3310</b>	<b>20.3280</b>

EXCHANGE RATE MOVES UP			
	5%	10%	15%
Bank Tier 01 Ratio	21.24	21.24	21.24
Revised Capital Adq Ratio as Per Stress Testing	<b>21.2442</b>	<b>21.2472</b>	<b>21.2502</b>
UBC Total Capital Adq Ratio	20.34	20.34	20.34
Revised Total Cap Adq Ratio As Per Stress Testing	<b>20.3402</b>	<b>20.3433</b>	<b>20.3463</b>

#### Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.

#### Country Risk

Country risk is the risk that an occurrence within a country could have an adverse affect on the Group directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Group.

Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

#### Geographical Analysis – Group

	Europe Rs.	America Rs.	Asia Rs.	Australia Rs.	Total Rs.
<b>Assets</b>					
Foreign Banks Balances	8,263,774	24,471,458		4,975,019	70,525,176
<b>Liabilities</b>					
Foreign Borrowings			507,081,103		507,081,103
Foreign Banks (Nostro Overdrawn)		33,726,762	27,083,338		60,810,100

#### 40.6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

## Notes to the Financial Statements contd.

### 41. Commitments, Contingent Liabilities and Leasing Arrangements

In the normal course of business, the Bank entered in to various irrevocable commitments and incurs certain contingent liabilities. These consists of guarantees, letters of credit and other undrawn commitments to lend.

Though these obligations may not be recognised on the Statement of Financial Position, they do not contain credit risk and are therefore part of the overall risk of the bank.

No material losses are anticipated as a result of these transactions.

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
Acceptances	425,255,489	338,404,589	274,579,470	425,255,489	338,404,589	274,579,470
Guarantees	4,561,468,438	3,046,794,128	2,540,197,217	4,561,468,438	3,046,794,128	2,540,197,217
Letters of credit	1,618,464,283	1,057,390,906	1,175,259,265	1,618,464,283	1,057,390,906	1,175,259,265
Spot Contracts	81,304,168	159,437,348	220,989,239	81,304,168	159,437,348	220,989,239
Forward Contracts	460,794,561	499,738,346	832,838,089	460,794,561	499,738,346	832,838,089
Cheque pending for realization	444,471,515	303,414,247	207,677,082	444,471,515	303,414,247	207,677,082
Other contingent liabilities	995,840,881	236,659,794	252,495,780	995,840,881	236,659,794	252,495,780
Undrawn loan commitments	6,949,688,579	8,301,143,521	2,008,639,349	6,949,688,579	8,301,143,521	2,008,639,349
Other commitments	2,301,899	-	-	2,301,899	-	-
<b>Total</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>7,512,675,491</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>7,512,675,491</b>

#### 41.1 Capital commitments

The commitments for the installation of Risk Management System and the core banking system incidental to the ordinary course of business as at 31 December are as follows;

	Bank			Group		
	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.	01.01.2011 Rs.
<b>Approved and Contracted for</b>						
Capital Commitments for Risk Management System	24,785,827	-	-	24,785,827	-	-
Others	1,788,097	-	8,862,819	1,788,097	-	8,862,819
	<b>26,573,924</b>	<b>-</b>	<b>8,862,819</b>	<b>26,573,924</b>	<b>-</b>	<b>8,862,819</b>
<b>Approved but not Contracted for</b>						
Capital Commitments for Core Banking System	854,260,444	-	-	854,260,444	-	-
Others	3,766,977	-	-	3,766,977	-	-
	<b>858,027,421</b>	<b>-</b>	<b>-</b>	<b>858,027,421</b>	<b>-</b>	<b>-</b>
<b>Total Capital Commitments</b>	<b>884,601,345</b>	<b>-</b>	<b>8,862,819</b>	<b>884,601,345</b>	<b>-</b>	<b>8,862,819</b>

#### 41.2 Lease Arrangements

Operating Lease Commitments - Bank as Lessee

The bank has entered in to operating leases for bank premises. These leases have an average life of 5 years with no renewal option. There are no restrictions placed upon the lessee by entering in to these leases.

Future minimum lease payments under non cancellable operating leases as at 31 December are, as follows;

	Bank		Group	
	31.12.2012 Rs.	31.12.2011 Rs.	31.12.2012 Rs.	31.12.2011 Rs.
Within one year	110,696,419	105,360,187	116,096,419	111,015,067
After one year to five years	244,194,720	284,434,943	268,008,720	285,848,663
More than five years	20,140,993	-	56,862,073	-
	<b>375,032,132</b>	<b>389,795,130</b>	<b>440,967,212</b>	<b>396,863,730</b>

#### 41.3 Litigations against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has established and legal protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonable estimated, the Bank makes adjustments to account for any adverse effect which the claims may have on its financial standing. 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 it's outcome.

- a. Case No - 129/12/CL  
Case filed by a third party against the bank, claiming the movables seized by the bank in District Court of Kandy
- b. Case No - 176/2012 SC(SPL LA)  
Special leave application filed by defendants against decree absolute of the District Court granted is Debt recovery matter filed by the bank in Supreme Court.
- c. Case No - 20/2012 SC(SCLA)  
Case filed by a customer to prevent the bank from exercising parate rights over the mortgaged property in the Supreme Court.
- d. Case No - 20/2012 SC(SCLA)  
Appeal made by a customer to Supreme Court against judgment of the High Court.
- e. Case No - 22/2011 Sc (Appeal)  
Appeal filed by a customer against the judgment of the High Court in the Supreme Court.
- f. Case No - 11287/SPL, 11104/SPL  
Two Cases filed by third parties in the District Court of Homagama, owns the same property claiming the title of the property .
- g. Case No - 11745/L  
Two Connected cases filed by a third party in the District Court of Matara over the same property claiming the title of the property.
- i. Case No - 2321/L  
Case filed by a third party in the District court of Panadura owns the same property claiming the title of the property.

#### 41.3.1 Litigations against the UB Finance Company Limited

- a. Case No - DHP/2066/09 , DSP/0222 /10, MR / 54859, DLM/107/2011 , DLM/00043/09  
Five cases filed in the District court of Colombo by the customers claiming the deposit money and the reposses of the vehicles.
- b. Case No - HC /Civil/337, HC/Civil/293/10, HC/Civil/177 /10  
Three cases filed in the Commercial High Court of Colombo claiming loan amounts.
- c. Case No - 56402/06  
Filed Action against the Company in the Magistrate Courts regarding the non payment of Deposits.
- d. Case No - 2121 / P  
Case filed by a third party against the title of the property in the District Court Of Panadura.
- e. Case No - C/A 315/11  
An employee filed an action at the labour department asking the deducted salary totaling to Rs. 567,000.

## Notes to the Financial Statements contd.

### 42. Asset Pledge

#### Bank

Nature of Assets	Nature of Liability	Carrying Amount	
		2012 Rs.	2011 Rs.
Government Treasury Bills & Bonds	Cash collateral on securities lent & repurchased agreements	499,494,690	128,288,554
Export Bills Receivable	Due to Banks - Borrowings	507,081,103	-
<b>Group</b>			
Government Treasury Bills & Bonds	Cash collateral on securities lent & repurchased agreements	499,494,690	128,288,554
Export Bills Receivable	Due to Banks - Borrowings	507,081,103	-
Investment in Real Estate	Other borrowed funds	160,000,000	160,000,000

### 43. Related Party Disclosures

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows:

#### Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank, Key employees of the Group including Directors of subsidiary companies and Corporate Management of the Bank.

#### Compensation of key management personnel of the bank

	2012 Rs.	2011 Rs.
Short-term employment benefits	61,931,209	32,311,392
Post employment benefits	7,042,372	6,055,090
Other Long term benefits	10,871,259	5,056,279
Directors Fees	8,755,713	2,800,000
	<b>88,600,553</b>	<b>46,222,761</b>

In addition to the salaries, the Bank has also provided non-cash benefits such as vehicle, insurance for Key Management Personnel in line with the approved benefit plan of the Bank.

#### Transactions with key management personnel of the bank

The bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with key management personnel for the relevant financial year.

	Maximum Balance during 2012 Rs.	Balance as at 31 Dec 12 Rs.	Income during 2012 Rs.	Maximum Balance during 2011 Rs.	Balance as at 31 Dec 11 Rs.	Income during 2011 Rs.
Loans and Advances	40,629,281	40,629,281	1,141,979	5,171,204	5,171,204	103,821
Deposits	22,146,381	20,609,981	719,653	13,620,692	13,620,692	290,864
Other	28,115	28,189	-	25,581	25,581	-

#### Transactions with other related parties

In addition to transactions with key management, the bank enters into transactions with entities that have significant influence over the bank. The following table shows the outstanding balance and the corresponding interest during the year.

#### Subsidiaries

	Amount owed by related parties			Amount owed to related parties		
	Interest/Income Rs.	Balance as at 31 Dec 12 Rs.	Maximum balance during the year Rs.	Interest o f related parties Rs.	Balance as at 31 Dec 12 Rs.	Maximum balance during the year Rs.
<b>2012</b>						
Rent	5,764,659	-	-	-	-	-
Other	5,907,358	-	-	-	-	-
Dividend	9,282,865	-	-	-	-	-
Deposits	-	-	-	91,865,547	552,690,000	976,333,988
<b>2011</b>						
Dividend	7,650,000	-	-	-	-	-
Other	359,000	-	-	-	-	-
Deposits	-	-	-	14,478,240	1,118,207,359	1,327,728,883

#### Other related parties

	Amount own by related parties			Amount own to related parties		
	Interest from related parties Rs.	Balance as at 31 Dec 12 Rs.	Maximum balance during the year Rs.	Interest to related parties Rs.	Balance as at 31 Dec 12 Rs.	Maximum balance during the year Rs.
<b>2012</b>						
Funded	65,086,707	677,299,573	677,299,573	55,492,190	482,041,548	597,727,445
Non-funded	686,992	12,880,557	72,300,000			
<b>2011</b>						
Funded	24,591,094	271,012,156	522,098,000	8,308,525	250,355,624	250,355,624

#### Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates.

## Notes to the Financial Statements contd.

### Consolidated subsidiaries

The consolidated financial statements include the financial statements of the Bank and the subsidiaries in the following table.

Name of subsidiary	Country of origin	% equity interest 2012	% equity interest 2011
National Assets Management Limited	Sri Lanka	51.00	51.00
UB Finance Company Limited	Sri Lanka	68.53	68.82

### Other Related Parties

Other Related Parties includes the following entities controlled by the Key Management Personnel of the Bank.

### Transactions with the Bank's Private Provident Fund

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members. The Bank for the year ended 31 December 2012 has contributed a sum of Rs.31.6 Mn to the Fund. (2011 - Rs.21.1Mn). As at 31 December 2012, the Fund has invested a sum of Rs. 103.5 Mn with the Bank. (2011 - Rs.84 Mn).

During the year the Bank has incurred a sum of Rs.10.6 Mn (2011 - Rs.1.1 Mn) as Interest Expense to the Fund.

### Other

Bank has invested Rs.300Mn in the NAMAL High Yield Fund managed by National Asset Management Limited. Value of the Units as at 31.12.2012 is Rs.320.9Mn. Bank has invested Rs. 1,578Mn in a 20 year Deep Discounted Bond issued by Serendib Capital Limited, a Special Purpose Vehicle in 2003. Value of the Bond as at 31.12.2012 is Rs. 2,283Mn.

Subsequent to the Balance Sheet date, the Bank has entered in to an agreement with Silverlake appointing them as the provider to buy a new core banking software. Silverlake's local representative Company is a related party of the Bank. Please refer notes 41.1 and 46 for more details.

Direct and indirect accommodation granted to key management personnel and their close family members and entities that have significant influence as a percentage of regulatory capital is 17% (2011 - 6%).



## 45. Segmental Analysis - Group

	Corporate		Treasury		SME		Other Group Companies		Total	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Interest Income	956,515,745	729,977,767	433,367,730	414,239,961	1,775,978,676	752,293,695	288,260,430	132,909,744	3,454,122,580	2,029,421,167
Inter-Segment Interest Income	(737,056,775)	(300,748,409)	(100,427,958)	(241,351,183)	137,484,733	542,099,592	190,414,223	99,731,108	190,414,223	99,731,108
Total Interest Income	219,458,970	429,229,358	332,939,772	172,888,778	2,613,463,409	1,294,393,287	478,674,653	232,640,852	3,644,536,803	2,129,152,275
Total Interest Expense	209,535,108	280,253,901	198,712,082	-	1,802,805,676	821,960,946	23,057,304	3,600,374	2,234,110,170	1,105,815,222
Net Interest Income	9,923,862	148,975,457	134,227,690	172,888,778	810,657,733	472,432,341	455,617,349	229,040,478	1,410,426,633	1,023,337,053
Total Other Income	72,636,217	95,626,016	164,670,363	68,842,646	214,418,749	130,792,347	57,000,281	144,401,619	508,725,609	439,662,628
Total Net Income	82,560,078	244,601,472	298,898,053	241,731,424	1,025,076,482	603,224,688	512,617,630	373,442,097	1,919,152,242	1,462,999,681
Total Other Expenses	243,323,013	204,493,664	262,081,872	190,543,769	647,668,636	462,016,167	214,658,319	49,475,824	1,367,731,840	906,529,424
Segmental Results	(160,762,935)	40,107,808	36,816,181	51,187,655	377,407,846	141,208,521	297,959,310	323,966,273	551,420,402	556,470,258
Vat On Financial Services	-	-	-	-	-	-	-	-	98,793,941	82,784,786
Taxation	-	-	-	-	-	-	-	-	(35,076,055)	158,654,092
Profit After Taxation	-	-	-	-	-	-	-	-	487,702,516	315,031,380
<b>Other Information</b>										
Segment Assets	7,124,484,345	7,400,902,206	3,799,759,776	4,519,304,323	14,033,040,678	10,142,926,518	6,674,546,633	4,555,392,651	31,631,831,433	26,618,525,698
Consolidated Total Assets									31,631,831,433	26,618,525,698
Segment Liabilities	2,207,513,209	2,936,684,891	2,057,759	1,912,522	17,998,666,761	16,059,770,279	6,214,825,866	2,890,453,903	26,423,063,595	21,888,821,594
Consolidated Total Liabilities									26,423,063,595	21,888,821,594
Cash flow from operating activities	2669,659,398	685,150,591	124,749,956	(399,281,082)	(733,381,663)	(1,096,448,702)	(661,376,684)	(84,232,628)	1,399,651,007	(844,811,821)
Cash flow from investing activities	-	-	(1,286,399,515)	(1,068,528,449)	(313,847,542)	(306,756,189)	(116,171,932)	(123,237,055)	(1,716,418,990)	(1,498,521,693)
Cash flow from financing activities	-	-	539,184,014	401,722,271	(52,387,500)	-	(42,406,474)	535,000,000	444,390,040	936,722,271

## Notes to the Financial Statements contd.

### **46. Events After the Reporting Period**

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements, other than the following;

The Bank has entered into an agreement with Silverlake Systems SDN BHD (Silverlake), appointing them as the exclusive provider for the Bank's new state-of-the-art core banking system including the trade module and treasury operations. Please refer note 41.1 for more details.

### **47. Fair Value of Financial Instruments**

#### **Financial Instruments recorded at Fair Value**

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### **Financial Assets - Held for Trading**

Financial assets held for trading consists of Government debt securities and equity securities. Quoted equity securities valued using market price published by the Colombo Stock exchange. Government debt securities are valued using discounted cash flow techniques which incorporate market interest rate for similar investments published by the Central Bank of Sri Lanka.

#### **Financial investments – Available for Sale**

Available for sale financial assets valued using valuation techniques primarily consist of unquoted equities and Government debt securities. These assets are valued using models that use both observable data.

#### **Derivatives**

Derivatives (Forward foreign exchange contracts) are valued using valuation techniques which consider market interest rates, forward interest rates and spot and forward exchange rates.

### **47.1 Determination of Fair Value and Fair Value Hierarchy**

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**Fair value of financial instruments (cont'd)**
**A. Determination of fair value and fair value hierarchy (cont'd)**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<b>Bank</b>				
<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	38,132,921	-	-	38,132,921
Equity Securities	110,151,429	320,902,973	-	431,054,402
<b>Financial Assets available for sale</b>				
Treasury bills	1,463,828,125	-	-	1,463,828,125
Treasury bonds	100,314,597	-	-	100,314,597
<b>Total Financial Assets</b>	<b>1,712,427,071</b>	<b>320,902,973</b>	<b>-</b>	<b>1,564,142,722</b>
<b>Financial liabilities</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	2,057,759	-	2,057,759
<b>Total Financial Liabilities</b>	<b>-</b>	<b>2,057,759</b>	<b>-</b>	<b>2,057,759</b>
<b>31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	200,714,665	-	-	200,714,665
Treasury bonds	204,161,177	-	-	204,161,177
Equity Securities	149,622,004	-	-	149,622,004
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	148,409	-	148,409
<b>Financial Assets available for sale</b>				
Treasury bills	198,813,800	-	-	198,813,800
Treasury bonds	372,676,438	-	-	372,676,438
<b>Total Financial Assets</b>	<b>1,125,988,086</b>	<b>148,409</b>	<b>-</b>	<b>571,490,238</b>
<b>Financial liabilities</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	1,912,522	-	1,912,522
<b>Total Financial Liabilities</b>	<b>-</b>	<b>1,912,522</b>	<b>-</b>	<b>1,912,522</b>

## Notes to the Financial Statements contd.

Group				
31 December 2012	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	38,132,921	-	-	38,132,921
Equity Securities	112,141,877	320,902,973	-	433,044,850
<b>Financial Assets available for sale</b>				
Treasury bills	1,463,828,125	-	-	1,463,828,125
Treasury bonds	100,314,597	-	-	100,314,597
Equity Securities - Quoted	27,446,451	-	-	27,446,451
Investment in Units	-	96,381,954	-	96,381,954
<b>Total Financial Assets</b>	<b>1,741,863,971</b>	<b>417,284,927</b>	<b>-</b>	<b>2,159,148,898</b>
<b>Financial liabilities</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	2,057,759	-	2,057,759
<b>Total Financial Liabilities</b>	<b>-</b>	<b>2,057,759</b>	<b>-</b>	<b>2,057,759</b>
31 December 2011	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	200,714,665	-	-	200,714,665
Treasury bonds	213,744,769	-	-	213,744,769
Equity Securities	158,076,406	-	-	158,076,406
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	148,409	-	148,409
<b>Financial Assets available for sale</b>				
Treasury bills	198,813,800	-	-	198,813,800
Treasury bonds	363,092,846	-	-	363,092,846
Investment in Units	-	28,517,221	-	28,517,221
<b>Total Financial Assets</b>	<b>1,134,442,487</b>	<b>28,665,630</b>	<b>-</b>	<b>1,163,108,117</b>
<b>Financial liabilities</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	1,912,522	-	1,912,522
<b>Total Financial Liabilities</b>	<b>-</b>	<b>1,912,522</b>	<b>-</b>	<b>1,912,522</b>

**Fair value of financial instruments (cont'd)**
**A. Determination of fair value and fair value hierarchy (cont'd)**

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's Financial Instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Bank	2012		2011	
	Carrying amount Rs.	Fair value Rs.	Carrying amount Rs.	Fair value Rs.
<b>Financial assets</b>				
Cash and balances with Central Bank of Sri Lanka	2,325,986,601	2,325,986,601	1,781,297,602	1,781,297,602
Sri Lanka Government Securities - held to maturity	29,778,014	29,778,014	29,698,921	29,698,921
Cash collateral on securities borrowed & reverse repurchased agreements	601,312,663	601,312,663	245,126,821	245,126,821
Balances with banks	1,601,622,423	1,601,622,423	2,058,251,113	2,058,251,113
Loans and receivables to other customers	20,024,729,288	20,092,984,439	17,292,929,045	17,255,087,992
	24,583,428,989	24,651,684,140	21,407,303,502	21,369,462,449
<b>Financial liabilities</b>				
Due to banks	911,898,460	911,898,460	380,999,451	380,999,451
Cash collateral on securities lent & repurchased agreements	499,494,690	499,494,690	128,288,554	128,288,554
Due to other customers	23,142,801,872	23,133,288,944	19,754,596,560	19,744,690,497
	24,554,195,022	24,544,682,094	20,263,884,565	20,253,978,502
<b>Group</b>				
<b>Financial assets</b>				
Cash and balances with Central Bank of Sri Lanka	2,326,433,124	2,326,433,124	1,781,607,106	1,781,607,106
Sri Lanka Government Securities - held to maturity	29,778,014	29,778,014	148,859,687	148,859,687
Cash collateral on securities borrowed & reverse repurchased agreements	616,317,592	616,317,592	245,126,821	245,126,821
Balances with banks	2,995,130,691	2,995,130,691	3,332,381,395	3,332,381,395
Loans and receivables to other customers	20,907,215,277	20,969,097,109	17,834,959,587	17,797,118,535
	26,874,874,698	26,936,756,530	23,342,934,595	23,305,093,543
<b>Financial liabilities</b>				
Due to banks	924,093,226	924,093,226	424,206,362	424,206,362
Cash collateral on securities lent & repurchased agreements	394,164,303	394,164,303	1,912,522	1,912,522
Due to other customers	23,725,595,501	23,690,769,173	19,845,291,770	19,835,385,707
Other borrowed funds	323,603,729	269,079,671	338,078,671	269,079,671
	25,367,456,759	25,278,106,373	20,609,489,325	20,530,584,262

**Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

**Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. Loans and advances to customers with a variable rate are also considered to be carried at fair value.

**Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing interest rates of the Bank.

## Notes to the Financial Statements contd.

### 48. Maturity Analysis of Assets and Liabilities

Bank As at 31 December 2012	Within 12 months Rs.	2012 After 12 months Rs.	Total Rs.	Within 12 months Rs.	2011 After 12 months Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	2,325,986,601		2,325,986,601	1,781,297,602	-	1,781,297,602
Sri Lanka government securities	1,602,705,339	29,348,318	1,632,053,657	879,896,765	126,168,238	1,006,065,002
Cash collateral on securities borrowed & reverse repurchased agreements	601,312,663	-	601,312,663	245,126,821	-	245,126,821
Balances with banks	1,601,622,423	-	1,601,622,423	2,058,251,113	-	2,058,251,113
Derivatives			-	148,409	-	148,409
Financial assets held-for-trading	431,054,402		431,054,402	149,622,004	-	149,622,004
Loans and receivables to other customers	16,313,253,604	3,711,475,683	20,024,729,288	14,439,978,755	2,852,950,290	17,292,929,045
Financial investments – Available-for-sale		2,285,290,340	2,285,290,340		2,197,453,404	2,197,453,404
Investments in subsidiaries		912,364,489	912,364,489		912,382,009	912,382,009
Goodwill and intangible assets		39,995,579	39,995,579		10,670,522	10,670,522
Property, plant and equipment		614,440,620	614,440,620		465,108,037	465,108,037
Deferred tax assets			-		-	-
Other assets	174,915,056	179,109,953	354,025,008	123,944,622	148,324,293	272,268,915
<b>Total assets</b>	<b>23,050,850,088</b>	<b>7,772,024,982</b>	<b>30,822,875,070</b>	<b>19,678,266,091</b>	<b>6,713,056,792</b>	<b>26,391,322,883</b>
<b>Liabilities</b>						
Due to banks	851,224,243	60,674,217	911,898,460	106,581,325	274,418,126	380,999,451
Derivatives	2,057,759	-	2,057,759	1,912,522	-	1,912,522
Cash collateral on securities lent & reverse repurchased agreements	499,494,690	-	499,494,690	128,288,554	-	128,288,554
Due to other customers	22,684,485,355	458,316,517	23,142,801,872	19,245,447,408	509,149,152	19,754,596,560
Current tax liabilities	36,134,098		36,134,098	21,534,610	-	21,534,610
Deferred tax liabilities	37,155,236		37,155,236	19,661,352	-	19,661,352
Other liabilities	696,663,412	33,665,762	730,329,174	850,878,020	34,507,504	885,385,524
<b>Total liabilities</b>	<b>24,807,214,793</b>	<b>552,656,496</b>	<b>25,359,871,289</b>	<b>20,374,303,792</b>	<b>818,074,782</b>	<b>21,192,378,573</b>
<b>Total equity</b>		<b>5,463,003,781</b>	<b>5,463,003,781</b>		<b>5,198,944,310</b>	<b>5,198,944,310</b>
<b>Total equity and liabilities</b>	<b>24,807,214,791</b>	<b>6,015,660,277</b>	<b>30,822,875,070</b>	<b>20,374,303,792</b>	<b>6,017,019,091</b>	<b>26,391,322,883</b>

**48. Maturity Analysis of Assets and Liabilities**

Group As at 31 December 2012	Within 12 months Rs.	2012 After 12 months Rs.	Total Rs.	Within 12 months Rs.	2011 After 12 months Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with Central Bank of Sri Lanka	2,326,433,124		2,326,433,124	1,781,607,106	-	1,781,607,106
Sri Lanka government securities	1,602,705,339	29,348,318	1,632,053,657	999,057,531	126,168,238	1,125,225,768
Cash collateral on securities borrowed & reverse repurchased agreements	616,317,592	-	616,317,592	245,126,821	-	245,126,821
Balances with banks	2,995,130,691	-	2,995,130,691	3,332,381,395	-	3,332,381,395
Derivatives				148,409	-	148,409
Financial assets held-for-trading	431,054,402	1,990,449	433,044,850	149,622,004	8,454,402	158,076,406
Loans and receivables to other customers	16,717,167,940	4,190,047,336	20,907,215,277	14,678,015,734	3,156,943,853	17,834,959,587
Financial investments – Available-for-sale	136,142,822	4,045,900	140,188,723	34,505,321	5,158,042	39,663,363
Investments in subsidiaries	-	-	-	-	-	-
Investments in Real Estate	90,887,104	261,179,661	352,066,765	148,232,462	199,788,275	348,020,737
Goodwill and intangible assets		405,865,804	405,865,804	-	387,771,381	387,771,381
Property, plant and equipment		687,212,641	687,212,641	-	524,967,072	524,967,072
Deferred tax assets	525,668,427		525,668,427	328,867,001	-	328,867,001
Other assets	225,562,815	385,071,067	610,633,882	153,065,376	358,645,276	511,710,652
<b>Total assets</b>	<b>25,667,070,257</b>	<b>5,964,761,175</b>	<b>31,631,831,433</b>	<b>21,860,629,159</b>	<b>4,767,896,539</b>	<b>26,618,525,698</b>
<b>Liabilities</b>						
Due to banks	863,419,009	60,674,217	924,093,226	149,788,236	274,418,126	424,206,362
Derivatives	2,057,759	-	2,057,759	1,912,522	-	1,912,522
Cash collateral on securities lent & reverse repurchased agreements	394,164,303	-	394,164,303	63,746,072	-	63,746,072
Due to other customers	23,015,525,322	710,070,179	23,725,595,501	19,208,500,843	636,790,927	19,845,291,770
Other borrowed funds	323,603,729	-	323,603,729	338,078,671	-	338,078,671
Current tax liabilities	190,551,625	-	190,551,625	168,777,314	-	168,777,314
Deferred tax liabilities	37,805,619	-	37,805,619	19,702,350	-	19,702,350
Other liabilities	785,134,182	40,057,652	825,191,833	974,830,577	52,275,956	1,027,106,533
<b>Total liabilities</b>	<b>25,612,261,547</b>	<b>810,802,048</b>	<b>26,423,063,595</b>	<b>20,925,336,585</b>	<b>963,485,009</b>	<b>21,888,821,594</b>
<b>Total equity</b>		<b>5,208,767,838</b>	<b>5,208,767,838</b>		<b>4,729,704,104</b>	<b>4,729,704,104</b>
<b>Total equity and liabilities</b>	<b>25,612,261,547</b>	<b>6,019,569,886</b>	<b>31,631,831,433</b>	<b>20,925,336,585</b>	<b>5,693,189,113</b>	<b>26,618,525,698</b>

# Capital Adequacy

Computation of Capital Adequacy Ratios - Basel 11 (Rs '000)

	Bank				Group			
	2012		2011		2012		2011	
	Assets Rs.	Risk weighted Assets Rs.	Assets Rs.	Risk weighted Assets Rs.	Assets Rs.	Risk weighted Assets Rs.	Assets Rs.	Risk weighted Assets Rs.
<b>Risk-weighted Assets for Credit Risk</b>								
Claims on Central Government and Central Bank of Sri Lanka	3,220,194	-	1,920,888	-	3,220,194	-	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	2,198,826	449,819	2,059,624	460,235	2,200,051	450,064	2,077,130	463,736
*Rupee Exposures less than 3 months	1,556,721	312,146	1,802,261	362,261	1,556,721	312,146	1,819,766	365,762
*Foreign Currency Exposures less than 3 months	642,105	137,673	257,363	97,974	643,330	137,918	257,363	97,974
*Exposures more than 3 months (both rupee & foreign currency)	-	-	-	-	-	-	-	-
Claims on Financial Institutions	2,283,760	2,283,760	2,195,923	2,195,923	2,283,760	2,283,760	2,195,923	2,195,923
*Primary Dealers/Finance Companies	-	-	-	-	-	-	-	-
*Other Financial Institutions	2,283,760	2,283,760	2,195,923	2,195,923	2,283,760	2,283,760	2,195,923	2,195,923
Claims on Corporates	8,248,407	8,102,657	5,055,342	4,974,434	9,211,080	9,065,331	5,241,197	5,160,289
Retail claims	6,182,202	5,618,323	6,241,461	5,467,627	6,182,202	5,529,458	6,241,169	5,467,061
Claims Secured by Residential Property	435,049	217,525	274,946	137,473	215,058	107,529	251,478	125,739
Claims Secured by Commercial real Estate	1,606,399	1,606,399	1,993,787	1,993,787	1,957,808	1,957,808	1,993,787	1,993,787
Past Due Loans	695,879	1,035,437	358,892	381,242	695,879	1,035,437	876,488	909,775
Past Due Residential Mortgage Loans	158,719	148,169	138,187	86,351	432,815	421,030	180,474	107,494
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items	1,375,792	9,102	870,547	9,863	787,918	9,102	872,453	9,863
Other Assets	1,766,019	1,766,019	1,507,131	1,507,131	2,546,570	2,546,570	1,938,660	1,938,660
	28,171,246	21,237,210	22,616,729	17,214,067	29,733,336	23,406,090	23,908,808	18,372,328

	Credit Conversion Factor (%)	Bank				Group			
		2012		2011		2012		2011	
		Principal amount of Off-balance sheet items Rs.	Credit equivalent of Off-balance sheet items Rs.	Principal amount of Off-balance sheet items Rs.	Credit equivalent of Off-balance sheet items Rs.	Principal amount of Off-balance sheet items Rs.	Credit equivalent of Off-balance sheet items Rs.	Principal amount of Off-balance sheet items Rs.	Credit equivalent of Off-balance sheet items Rs.
<b>Off-balance sheet Items</b>									
Direct Credit Substitutes									
General Guarantees of Indebtedness	100%	580,298	580,298	1,106,645	1,106,645	580,298	580,298	1,106,645	1,106,645
<b>Transaction-related Contingencies</b>									
Performance Bonds, Bid Bonds & Warranties	50%	2,493,046	1,246,523	799,331	399,666	2,493,046	1,246,523	799,331	399,666
Others	50%	1,948,900	974,450	909,313	454,657	1,948,900	974,450	909,313	454,657
<b>Short-Term Self-Liquidating Trade-Related Contingencies</b>									
Shipping Guarantees	20%	312,475	62,495	231,504	46,301	312,475	62,495	231,504	46,301
Documentary Letters of Credit	20%	1,211,396	242,279	999,865	199,973	1,211,396	242,279	999,865	199,973
Trade related acceptances	20%	385,265	77,053	622,857	124,571	385,265	77,053	622,857	124,571
Others	20%	464,400	92,880	-	-	464,400	92,880	-	-
<b>Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time</b>									
Undrawn Overdraft Facilities/Unused Credit Card Lines	0%	1,934,220	-	1,950,199	-	1,934,220	-	1,950,199	-
Others	0%	407,068	-	57,526	-	407,068	-	57,526	-
<b>Other Commitments with an Original Maturity of over one year</b>									
Undrawn Term Loans	50%	-	-	-	-	-	-	-	-
Others	50%	220,015	110,008	236,660	118,330	220,015	110,008	236,660	118,330
<b>Foreign Exchange Contracts</b>									
Original Maturity-less than one year	2%	542,099	10,842	659,176	13,184	542,099	10,842	659,176	13,184
		10,499,183	3,396,828	7,573,077	2,463,326	10,499,183	3,396,828	7,573,077	2,463,326



	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Risk-weighted amounts for Market Risk</b>				
<b>Interest Rate Risk</b>				
General risk	174	4,532	174	4,532
Specific risk	-	-	-	-
<b>Equity Risk</b>				
General risk	38,830	10,011	39,312	10,011
Specific risk	38,647	8,503	39,129	8,967
<b>Foreign Exchange &amp; Gold Risk</b>	1,905	6,095	1,905	6,095
<b>Total Capital Charge for Market Risk</b>	79,556	29,141	80,520	29,605
<b>Total Risk-weighted amount for Market Risk (Total Capital Charge X 10 )</b>	795,556	291,414	805,200	296,048

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Risk-weighted Assets for Operational Risk</b>				
Average Net Income for last three financial years	1,372,969	1,033,358	1,487,477	1,067,703
<b>Deductions :</b>				
Realised profits from the sale of securities ( average of last three financial years )	15,111	16,758	15,111	16,758
Extraordinary / irregular item of income ( average of last three financial years )	-	-	-	-
Income from insurance ( average of last three financial years )	-	-	-	-
<b>Gross Income</b>	1,357,858	1,016,600	1,472,366	1,050,945
<b>Total Capital Charge for Operational Risk (Gross Income X 15%)</b>	203,679	152,490	220,855	157,642
<b>Total Risk-weighted amount for Operational risk (Total Capital Charge for Operational Risk X 10)</b>	2,036,787	1,524,901	2,208,549	1,576,418

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Risk-weighted amounts for credit risk</b>	21,237,210	17,214,067	23,406,090	18,372,328
<b>Risk-weighted amounts for market risk</b>	795,556	291,414	805,200	296,048
<b>Risk-weighted amounts for operational risk</b>	2,036,787	1,524,901	2,208,549	1,576,418
<b>Total Risk-weighted Assets</b>	24,069,553	19,030,381	26,419,839	20,244,793

## Capital Adequacy contd.

	Bank		Group	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Calculation of Total Capital Base</b>				
<b>Core Capital (Tier 1)</b>				
Paid-up Ordinary Shares/Common Stock/Assigned Capital	4,979,791	4,979,791	4,979,791	4,979,791
Non-cumulative, Non-redeemable Preference Shares				
Share Premium				
Statutory Reserve Fund	53,299	37,617	53,299	37,617
Published Retained Profits/(Accumulated Losses)	285,042	132,419	(259,451)	(537,247)
General and Other Reserves	146,322	53,371	147,494	53,371
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)	-	-	201,137	194,341
Approved perpetual debt capital instruments				
<b>Deductions/Adjustments-Tier 1</b>				
Goodwill/Net deferred tax assets	-	-	113,031	113,031
Other intangible assets	39,995	10,671	292,835	274,740
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.	21,376	24,754	32,689	24,754
50% investments in the capital of other banks and financial institutions	290,432	290,441	-	-
<b>Total Core Capital</b>	<b>5,112,651</b>	<b>4,877,332</b>	<b>4,683,716</b>	<b>4,315,348</b>
<b>Supplementary Capital (Tier II)</b>				
Revaluation Reserves (as approved by CBSL)				
General Provisions	94,219	72,196	94,219	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				
<b>Deductions-Tier II</b>				
50% of investments in unconsolidated banking and financial subsidiary companies.	21,376	24,754	32,689	24,754
50% investments in the capital of other banks and financial institutions	290,432	290,441	-	-
<b>Eligible Tier II Capital</b>				
<b>Base Capital ( Tier I + Tier II )</b>	<b>4,895,061</b>	<b>4,634,333</b>	<b>4,745,246</b>	<b>4,362,790</b>

### LIMITS :

- (i) Approved subordinated Term Debt is limited to 50% of Total Tier 1 Capital.
- (ii) The total of Tier 1 I 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	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Core Capital Ratio ( Minimum Ratio - 5% )</b>				
Core Capital (Tier 1) x 100	511,265,086	487,733,178	468,371,583	431,534,849
Total Risk-weighted Assets	24,069,553	19,030,381	26,419,839	20,244,793
<b>Total Capital Ratio ( Minimum Ratio - 10% )</b>				
Capital Base x 100	489,506,123	463,433,263	474,524,595	436,279,035
Total Risk-weighted Assets	24,069,553	19,030,381	26,419,839	20,244,793
<b>Core Capital (Tier 1) Ratio ( % )</b>	21.24%	25.63%	17.73%	21.32%
<b>Total Capital Ratio ( % )</b>	20.34%	24.35%	17.96%	21.55%

## Ten Years at a Glance

### Ten Year Summary

	2012 RS	2011 RS	2010 RS	2009 RS
<b>Operating Results</b>				
	<b>SLFRS</b>			
Gross Income	3,942,648,925	2,523,138,664	2,078,120,074	2,052,704,053
Interest Income	3,444,113,712	2,083,742,198	1,771,976,557	1,855,783,799
Interest Expense	2,211,052,866	1,102,214,847	997,841,287	1,392,872,704
Net Interest Income	1,233,060,846	981,527,351	774,135,270	462,911,095
Exchange Income	169,701,453	81,375,306	48,204,897	39,728,046
Other Income	328,833,760	358,021,160	257,938,620	157,192,208
Profit/ (loss ) before Taxation	559,237,254	534,028,312	412,841,729	180,451,783
Value Added Tax	96,262,603	82,784,786	104,850,021	46,468,715
Income Tax	149,330,531	143,550,243	158,194,702	71,842,056
Profit/ (loss ) After Income Tax	313,644,120	307,693,283	149,797,006	62,141,012
<b>Assets</b>				
	<b>SLFRS</b>			
Cash & Balances with Central Bank of Sri Lanka	2,325,986,601	1,781,297,602	1,092,431,525	1,396,635,110
Investment Securities				2,848,257,103
Sri Lanka government securities	1,632,053,657	1,006,065,002	2,434,526,632	-
Cash collateral on securities borrowed & reverse repurchased agreements	601,312,663	245,126,821	1,852,604,648	-
Balances with banks	1,601,622,423	2,058,251,113	943,348,776	-
Derivatives	-	148,409	1,275,208	-
Financial assets held-for-trading	431,054,402	149,622,004	161,205,900	-
Bills of Exchange				330,734,648
Net Loans and Advances				7,189,589,535
Loans and receivables to other customers	20,024,729,288	17,292,929,045	9,919,464,662	-
Financial investments – Held-to-maturity	-	-	-	-
Financial investments – Available-for-sale	2,285,290,340	2,197,453,404	2,112,994,811	-
Investments in subsidiaries	912,364,489	912,382,009	-	-
Goodwill and intangible assets	39,995,579	10,670,522	4,024,643	-
Deferred Taxation	-	-	-	39,182,113
Other Assets	354,025,008	272,268,917	212,906,869	352,605,675
Property, Plant & Equipment	614,440,620	465,108,037	235,669,824	201,581,378
<b>Total Assets</b>	<b>30,822,875,070</b>	<b>26,391,322,884</b>	<b>18,970,453,499</b>	<b>14,306,149,188</b>
<b>Liabilities</b>				
Deposits				11,963,995,607
Borrowings & Due to foreign banks				92,396,759
Due to banks	911,898,460	380,999,451	320,824,567	-
Derivatives	2,057,759	1,912,522	1,130,820	-
Cash collateral on securities lent & repurchased agreements	499,494,690	128,288,554	81,785,390	-
Due to other customers	23,142,801,872	19,754,596,560	13,442,439,001	-
Current tax liabilities	36,134,098	21,534,610	23,632,161	-
Deferred Taxation	37,155,236	19,661,352	5,884,454	-
Other Liabilities	730,329,174	885,385,524	538,351,472	650,982,544
<b>Total Liabilities</b>	<b>25,359,871,290</b>	<b>21,192,378,574</b>	<b>14,414,047,864</b>	<b>12,707,374,910</b>
<b>Shareholder's Funds</b>				
Share Capital	4,979,791,113	4,979,791,113	4,604,791,113	1,813,170,000
Reserves	483,212,668	219,153,197	(48,385,479)	(214,395,722)
<b>Total</b>	<b>5,463,003,781</b>	<b>5,198,944,310</b>	<b>4,556,405,634</b>	<b>1,598,774,278</b>
<b>Contingencies</b>				
Guarantees	4,561,468,438	3,046,794,128	2,540,197,217	3,552,649,733
Documentary Credit	1,618,464,283	1,057,390,906	1,175,259,265	458,399,214
Others	9,359,657,092	9,838,797,844	3,797,219,009	1,614,871,192
<b>Total</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>7,512,675,491</b>	<b>5,625,920,139</b>
<b>Share Information</b>				
Earnings per share	0.90	0.89	0.64	0.44

2008 Rs.	2007 Rs.	2006 Rs.	2005 Rs.	2004 Rs.	2003 Rs.
1,935,829,061	1,311,123,307	1,000,773,915	705,687,077	597,218,322	600,282,556
1,750,332,385	1,155,289,418	851,527,221	606,702,899	504,210,559	507,845,785
1,387,000,585	912,902,139	591,520,173	447,056,713	342,510,341	347,906,534
363,331,800	242,387,279	260,007,048	159,646,186	161,700,218	159,939,251
44,404,151	36,530,449	32,396,218	23,793,826	26,135,448	19,740,058
141,092,525	119,303,440	116,850,476	75,190,352	66,872,315	72,696,713
112,104,760	60,316,076	115,413,441	22,118,048	28,658,027	26,728,659
36,659,428	19,351,651	30,565,802	8,267,796	6,329,955	6,652,821
52,343,464	27,548,269	33,732,854	8,229,697	9,260,858	-
23,101,868	13,416,156	51,114,785	5,620,555	13,067,214	20,075,838
2,144,048,967	1,855,471,509	1,524,976,488	1,805,826,818	1,288,714,717	925,331,194
2,350,343,067	2,032,421,349	1,961,317,620	1,894,804,039	1,830,335,683	1,605,069,722
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
121,274,375	111,750,401	114,255,785	164,734,810	57,542,686	69,291,063
7,367,482,120	5,835,916,796	4,918,345,967	3,987,249,510	3,206,098,905	2,174,096,575
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
65,762,470	89,116,311	99,038,775	107,904,756	-	-
299,212,971	414,270,269	317,101,045	338,796,830	184,433,879	196,925,012
163,031,569	114,236,432	86,709,807	88,047,596	95,979,320	94,972,704
12,679,354,059	11,160,179,679	9,058,346,864	8,449,017,515	6,700,301,649	5,536,977,630
10,492,076,858	8,932,543,714	7,807,072,788	6,866,717,047	5,623,655,755	4,595,154,258
92,983,345	130,543,576	148,044,309	204,015,507	228,226,882	148,727,131
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
613,330,591	766,730,991	356,284,525	705,787,904	440,266,565	398,011,028
11,198,390,794	9,829,818,281	8,311,401,622	7,776,520,458	6,292,149,202	5,141,892,417
1,757,500,000	1,630,000,000	1,060,000,000	1,036,666,600	885,000,000	885,000,000
(276,536,734)	(299,638,602)	(313,054,758)	(364,169,543)	(476,847,573)	(489,914,787)
1,480,963,266	1,330,361,398	746,945,242	672,497,057	408,152,427	395,085,213
2,633,841,926	1,822,445,064	1,251,473,265	977,271,801	968,959,310	787,080,012
280,735,267	418,912,792	508,218,821	344,605,325	540,906,447	309,719,076
862,033,930	865,210,194	498,548,041	469,033,573	354,922,729	151,636,364
3,776,611,123	3,106,568,050	2,258,240,127	1,790,910,699	1,864,788,486	1,248,435,452
0.17	0.11	0.48	0.06	0.15	0.32

## Quarterly Performance of the Bank 2012 (Based on SLAS)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Rs.Mn</b>				
Net Interest Income	295,720	273,266	300,417	261,562
Non interest Income	138,209	118,214	115,609	118,276
Less: Non - Interest Expenses	260,747	281,303	296,512	321,571
Provision for Bad & Doubtful Debts & Loans written off	13,919	1,259	4,968	172.00
Operating Profit Before Corporate Tax & VAT	142,699	85,365	148,171	57,884
Operating Profit After Corporate Tax	69,906	31,314	87,182	26,132
Total Gross Loans and Advances	19,206,735	19,808,912	20,444,966	20,611,521
Net Loans and Advances	19,675,818	19,253,599	19,868,752	20,018,211
Total Deposits	20,084,578	21,525,924	21,900,915	22,506,360
Equity Capital & Reserves	5,256,382	5,235,308	5,322,490	5,361,177
<b>Regulatory Capital Adequacy</b>				
Core Capital Adequacy Ratio, % of Risk Weighted Assets (Minimum Requirement, 5%)	23.26%	20.86%	21.34%	20.39%
Total Capital Adequacy Ratio, % of Risk Weighted Assets (Minimum Requirement, 10%)	22.18%	19.91%	20.37%	19.47%
<b>Assets Quality</b>				
Gross Non-Performing Advances Ratio (Without Interest in Suspense)	5.70%	6.83%	6.39%	5.43%
Net Non-Performing Advances Ratio (Net of Interest in Suspense & Provision)	4.63%	5.78%	5.39%	4.45%
<b>Profitability (Annualized)</b>				
Interest Margin	4.41%	4.10%	4.18%	3.94%
Return on Assets (After tax)	1.04%	0.73%	0.91%	0.75%
Return on Equity	5.36%	3.86%	4.78%	4.06%
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets Ratio (Minimum Requirement, 20%)				
Domestic Banking Unit	21.57%	22.11%	21.69%	23.11%
Off-Shore Banking Unit	25.27%	24.84%	23.05%	22.91%

# 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 utilised by the clients as at the Balance Sheet date.

## Contingencies

A condition or situation, the ultimate outcome for 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 recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

## Fair Value

Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

## Glossary contd.

### Foreign Exchange Income

The realised 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 and Advances (NPL)

All loans are classified as non-performing 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 and advances (net of Interest in Suspense) divided by total loan portfolio (net of Interest in Suspense)

### Off Balance Sheet Transactions

Transactions that are not recognised 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 realisable 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 the 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 of 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 recognised, 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 collateralised by the purchase of Treasury Bills and/or guaranteed commercial papers from 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 pre-determined 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 the summation of core capital (Tier I) and 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 at the Colombo Stock Exchange.

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](mailto:ubc@unionb.com)

Website : [www.unionb.com](http://www.unionb.com)

### SWIFT Code

UBCL LK LC

### VAT Registration Number

134005610-7000

### Credit Ratings

Fitch Rating BB+(lka)

RAM Rating BBB/P3

### Auditors

Ernest & Young,  
Chartered Accountants  
No.201, De Saram Place,  
Colombo10

### Board of Directors

Mr. Alexis Lovell, *MBE* - *Chairman*

Mr. Asoka de Silva - *Senior Director/*

*Deputy Chairman*

H R H Prince Faisal Al Abdulla Al Faisal Al Saud

Dr. Harsha Cabral PC

Mr. Anil Amarasuriya

Mr. Kin Leong Chong

Mr. Gerard Ewe Keng Lim

Mr. Aslam Omar (*Resigned with effect from 31st December 2012*)

Mr. Priyantha Fernando

Mr. Sunil Karunanayake

Mr. Sabry Ghouse

Mr. Suren Madanayake

### Alternate Directors

Mr. Nigel Bartholomeusz

Ms. Lee Sian Goh

Ms. Sow Lin Chiew

### Board Secretary

Mrs. Nirosha Kannangara (LLM(Sri Lanka))

## Branch Network

Branch	Address	Telephone	Fax
Head Office	64, Galle Road, Colombo 03	011 2374100	011 2370593
Ambalangoda	118, Galle Road, Ambalangoda	091 2256420	091 2256883
Anuradhapura	38, Main Street, Anuradhapura	025 2 224888-9	025 2224890
Atchuveley	Pathamemy, Sannadhy Road, Atchuveley	021 3215447	021 3215447
Badulla	81, Bank Road, Badulla	055 2224657	055 2224697
Batticaloa	3, Station Road, Batticaloa	065 2228512	065 2228514
Chilaw	50, Colombo Road, Chilaw	032 2224556	032 2224557
Chunnakam	130-132, Station Road, Chunnakam	021 2240930-1	021 2240932
Dambulla	723, Anuradhapura Road, Dambulla	066 2285510-1	066 2285512
Galle	66, Matara Road, Pettigalawatta, Galle	091 2247307	091 2247256
Gampaha	6, Asoka Gardens, Colombo Road, Gampaha	033 2248812	033 2248813
Horana	41, Panadura Road, Horana	034 2263156	034 2263178
Ja Ela	151/B, Colombo Road, Ja-Ela	011 2228572-3	011 2228574
Jaffna	62/17, Stanley Road, Jaffna	021 2224567-8	021 2224569
Kadawatha	315F, Kandy Road, Kadawatha	011 2927716	011 2928816
Kandy	165, D.S. Senanayake Veediya, Kandy	081 2224500	081 2204611
Kollupitiya	51A, Ananda Coomaraswamy Mawatha, Colombo 03	011 2565475-6	011 4717463
Kotahena	16A, Kotahena Street, Colombo 13	011 2448825 / 011 2329098	011 2440232
Kurunagala	11, Rajaphilla Road, Kurunagala	037 2225419-/22	037 2225423
Mannar	66, Main Street, Mannar	023 2251343-4	023 2251345
Marawila	44, Chilaw Road, Marawila	032 2252522	032 2252523
Matara	17, Station Road, Matara	041 2228441-4	041 2228440
Moratuwa	729, Galle Road, Idama, Moratuwa	011 2642501-3	011 2 642 504
Nawala	232, Nawala Road, Nawala	011 2805814/ 011 401414-16	011 4401417
Negombo	387, Main Street, Negombo	031 2238229/ 031 2238319	031 2238208
Nugegoda	114, Stanley Thilakarathne Mawatha, Nugegoda	011 2832323 / 011 2832300	011 2832301
Old Moor Street	330, Old Moor Street, Colombo 12	011 2399994-5	011 2399996
Panadura	495, Galle Road, Panadura	038 2237098	038 2237072
Pettah	215/53, Bodhiraja Mawatha, Colombo 11	011 2321139/ 011 4710942	011 4627664
Piliyandala	71, Moratuwa Road, Piliyandala	011 2606152	011 2606172
Ratnapura	109, Main Street, Ratnapura	045 2224422	045 2224423
Trincomalee	114, N C Road, Trincomalee	026 2226505	026 2226506
Vavuniya	124, Bazaar Street, Vavuniya	024 2225612-3	024 2225614
Wattala	258, Negombo Road, Wattala	011 2980731	011 2980732
Wellawatta	605, Galle Road, Colombo 06	011 2553223-6	011 4710943
Wennappuwa	33, Colombo Road, Wennappuwa	031 2253543-4	031 2253545

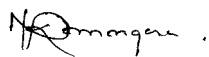
## Notice of Meeting

Notice is hereby given that the 18<sup>th</sup> Annual General Meeting of UNION BANK OF COLOMBO PLC will be held on 22<sup>nd</sup> of May 2013 at 10.00 a.m. at the "Auditorium", of Sri Lanka Foundation No. 100, Independence Square, Colombo 07, Sri Lanka. 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 31<sup>st</sup> December 2012 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, **Mr. Gerard Ewe Keng Lim** 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. Alexis Lovell** 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. Asoka de Silva** 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. Sunil Karunanayake** who retires in terms of the said Article a Director.
- 1.6 To re-elect in terms of Article 95 of the Articles of Association of the Bank. **Mr. Sabry Ghouse** who retires in terms of the said Article a Director.
- 1.7 To re-elect in terms of Article 95 of the Articles of Association of the Bank. **Mr. Suren Madanayake** who retires in terms of the said Article a Director.
- 1.8 To re-elect in terms of Article 95 of the Articles of Association of the Bank. **Mr. Imtiaz Muhseen** who retires in terms of the said Article a Director.
- 1.9 To authorise the Directors to determine donations for the year ending 31<sup>st</sup> December 2013 and upto the date of the next Annual General Meeting.
- 1.10 To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors and authorize the Board of Directors to determine their remuneration.
- 1.11 To authorise the Directors to determine remunerations for the year ending 31<sup>st</sup> December 2013 and upto the date of the next Annual General Meeting.
- 1.12 Presentation of reports of the performance on Human Resources and Remuneration Committee, Integrated Risk Management Committee, Nomination Committee and Audit Committee on duties and roles during the year 2012.
- 1.13 To consider any other business of which due notice has been given.

By order of the Board,



**Nirosha Kannangara**  
Company Secretary

Date: 04<sup>th</sup> April 2013.

### 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. Alexis Lovell	of Australia or failing him
Mr. Asoka de Silva	of Colombo or failing him
Mr. H R H Prince Faisal Al-Abdulla Al Faisal Al Saud	of Saudi Arabia or failing him
Dr. Harsha Cabral PC	of Colombo or failing him
Mr. Anil Amarasuriya	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. Priyantha Fernando	of Sri Lanka or failing him
Mr. Sunil Karunanayake	of Sri Lanka or failing him
Mr. Sabry Ghouse	of Sri Lanka or failing him
Mr. Suren Madanayake	of Sri Lanka or failing him
Mr. Imtiaz Muhseen	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 22<sup>nd</sup> of May 2013 at 10.00 a.m. at the "Auditorium", of Sri Lanka Foundation of No. 100, Independence Square, Colombo 07, Sri Lanka 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, <b>Mr. Gerard Ewe Keng Lim</b> 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 <b>Mr. Alexis Lovell</b> 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 <b>Mr. Asoka de Silva</b> 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 <b>Mr. Sunil Karunanayake</b> 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 re-elect in terms of Article 95 of the Articles of Association of the Bank <b>Mr. Sabry Ghouse</b> who retires in terms of the said Article a Director as set out in Clause 1.6 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect in terms of Article 95 of the Articles of Association of the Bank <b>Mr. Suren Madanayake</b> who retires in terms of the said Article a Director as set out in Clause 1.7 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect in terms of Article 95 of the Articles of Association of the Bank <b>Mr. Imtiaz Muhseen</b> who retires in terms of the said Article a Director as set out in Clause 1.8 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to determine donations for the year ending 31 <sup>st</sup> December 2013 and upto the date of the next Annual General Meeting as set out in Clause 1.9 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
9. To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors and authorise the Board of Directors to determine their Remuneration as set out in Clause 1.10 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
10. To authorise the Directors to determine remunerations for the year ending 31 <sup>st</sup> December 2013 and upto the date of the next Annual General Meeting, as set out in Clause 1.11 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hands this .....day of ..... Two Thousand and Thirteen.

.....  
**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.

**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 it thinks fit.

**Please fill the details:**

Share Certificate No.	:
Name	:
Address	:
Jointly with	:





Union Bank of Colombo PLC  
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