

**They  
call it  
impossible**

**We call it  
business  
as usual.**

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We have been behind the stories of success  
We promised and delivered on helping the growth of a Nation  
We offered support and we stood tall,  
while continuing to stand true to our values  
We boosted various industries and entrepreneurs,  
those who have changed their lives and the lives of many others  
We proved the achievable by strengthening those who were not afforded the same  
financial possibilities

**THEY CALL IT IMPOSSIBLE, WE CALL IT BUSINESS AS USUAL**

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## VISION, MISSION AND VALUES

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### 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

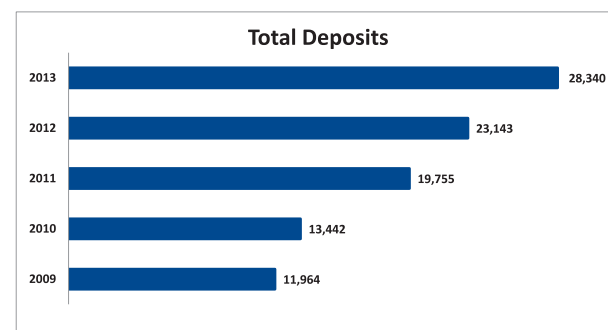
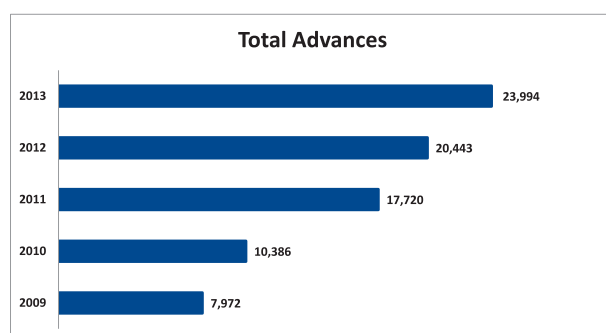
- To our customers we provide the means of economic upliftment through customised banking and financial services.
- To our shareholders we provide a return on their investment above industry norm.
- To our staff we are a learning and innovative organisation providing opportunities for faster career progression 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 behaviour in all our dealings.
- We respect the dignity of people.
- We are passionate about delivering the highest level of service quality to our external and internal customers.
- We encourage and respect diversity among our team while creating a feeling of belongingness across the organisation.
- We believe in leading by example.

## FINANCIAL HIGHLIGHTS

	BANK			GROUP		
	2013	2012	Change %	2013	2012	Change %
<b>Results for the Year (Rs.000)</b>						
Total Income	4,792,752	3,942,649	21.6%	5,191,190	4,189,443	23.9%
Profit Before VAT on Financial Services & Taxation	148,694	559,237	(73.4%)	150,570	548,610	(72.6%)
Profit Before Taxation (PBT)	106,425	462,975	(77.0%)	107,688	449,816	(76.1%)
Provision for Taxation	(8,747)	149,331	(105.9%)	6,163	(34,940)	(117.6%)
Profit for the year	112,714	313,644	(64.1%)	99,068	484,756	(79.6%)
<b>Assets &amp; Liabilities (Rs.000)</b>						
Due to Banks & Other Customers (Deposits only)	28,339,687	23,142,809	22.5%	29,462,271	23,725,596	24.2%
Gross Loans & Advances	23,994,426	20,442,843	17.4%	27,076,184	21,937,485	23.4%
Total Assets	35,010,962	30,822,875	13.6%	36,824,753	31,631,831	16.4%
Shareholders' Funds (Capital & Reserves)	5,457,285	5,463,004	(0.1%)	4,920,193	4,936,053	(0.3%)
<b>Investor Information</b>						
Earnings per Share - Basic (Rs.)	0.32	0.90	(64.4%)	0.30	1.23	(75.8%)
Net Assets Value (Rs.)	15.63	15.64	(0.1%)	14.09	14.13	(0.3%)
Market Value at the Year end (Rs.)	16.60	13.80	20.3%	16.60	13.80	20.3%
Dividend per share	0.35	0.15	133%			
Dividend Yield (%)	2.11	1.09	94%			
Dividend Cover (Times)	0.92	5.99	84.6%			
Number of Employees	691	502	37.6%	866	612	41.5%
Number of Branches	51	36	41.7%	58	39	48.7%
<b>Key Indicators</b>						
Return on Average Shareholders' Funds (Rs.)	2.07%	5.87%	(64.8%)	1.91%	9.75%	(80.4%)
Return on Average Assets (After Tax) (Rs.)	0.32%	1.09%	(70.3%)	0.31%	1.54%	(79.6%)
Price Earning Ratio (Times)	51.88	15.37	237.5%	55.64	11.21	396.4%
Liquid Asset Ratio						
- Domestic Business Unit (%)	22.01%	23.11%	(4.8%)			
- Foreign Currency Business Unit (%)	23.09%	22.91%	0.8%			
<b>Capital Adequacy Ratios (%)</b>						
Tier I - Minimum Requirement (5%)	17.91%	21.24%	(15.7%)	14.15%	17.73%	(20.2%)
Tier II - Minimum Requirement (10%)	16.89%	20.24%	(16.5%)	14.11%	17.96%	(21.4%)



## WHEN IMPOSSIBLE BECOMES THE NORM

As a country, this little island in the Indian Ocean has displayed amazing ambition, girding itself with a strong desire to circumvent challenges and break boundaries, looking towards horizons that will surely open myriad doors. This unbridled enthusiasm is mirrored in Union Bank of Colombo PLC's (UBC) entire outlook, from its very inception in fact. For UBC, being an indigenous bank that has always remained unwaveringly committed to partnering the growth of the nation, this focus on constantly striving for the impossible has been a founding tenet. In our history of eighteen years, we are a Bank that has simply not taken 'no' for an answer.

Every goal we have pursued has been one constructed on the base of adding value to our vision and mission, where our stakeholders' aspirations have remained firmly in focus as we pursued our dreams. This has spurred extraordinary stories of success, where entrepreneurs have been birthed and industries boosted, where financial options have transformed lives onto platforms that create sustainable journeys into the future.

Our support has been sought, gained and eventually become an imperative in our stakeholders' lives, permeating strong paradigms that cascade into national development plans. But for those who look at our ambitious journey thus far and the results we have showcased, it will surely pose a conundrum; how have we achieved all these seemingly impossible outcomes? It really is simple. We don't consider anything impossible because for us, impossible is business as usual.

### MOVING INTO AN ERA OF CHANGE

We have set for ourselves the goal of becoming the Preferred Bank for Small and Medium Enterprises (SME), once again not an easy task given the myriad multi-dimensional options available within Sri Lanka's financial services landscape, but it's a goal that has immense potential if pursued pragmatically. We are also seeing a strong

thrust within the national development agenda to push entrepreneurship and micro and small and medium enterprises to eventually become sustainable contributors to the country's economy. We have also recognised the positive cascades that emerge with the establishment of a vibrant SME sector, ranging from birthing a coterie of confident assiduous entrepreneurial mavens who become role models for younger generations, to spurring employment for communities which also engenders better lifestyles, to urging industries that may have lain dormant or slow in gaining a renaissance, to overall social and economic development and in the macro vista, to the spawning of a penetrative focus by the state to ensure better infrastructure and development tools.

When UBC entered the milieu of Sri Lanka's financial services landscape in 1995, the Bank had equipped itself with a firm will to be different, to push the envelope and shape new paradigms. This spearheaded chapters of pioneering initiatives that, with a far-sighted vision that grasped emerging opportunities, speedily etched a path of unrivaled recognition. The environment that UBC entered into and operated in however, remained challenging, given that a large number of commercial banks, some with a globally renowned presence, had already made inroads and were firmly established in Sri Lanka. It was imperative therefore that UBC creates for itself a unique personality and identity, based on a sustainable plan of taking the bank forward. It is this focus that saw UBC identify the niche observed within the SME sector, which for the most part remained un-banked but required financial backing to firmly establish this sector as a key driver for national development.

### CHARTING A PATH BEYOND

The consistent growth paradigm we have continued to showcase during our tenure proves beyond doubt that UBC has remained firmly focused in not only meeting our goals but in also making our vision a reality. We were also enthusiastic to ensure that we

retained our governance fundamentals, whether in financial stability, ethics, principles, accountability, transparency, values or best practices. This was amply exemplified when UBC's IPO in 2011 was the highest oversubscribed IPO in Sri Lanka at the time, assuredly etching the fact that not only had we conformed to the stringent guidelines prevalent within the diktats of the Colombo Stock Exchange, but we had also proven that high caliber local and foreign investors were convinced of our credibility, consistent financial stability as is seen in our Capital Adequacy Ratio in Tier One and Tier Two well above par and assured sustainability as an on-going business. Our innovative range of technology driven products ably supported by superior service delivery also placed us on a progressive platform, poised to entice further long-term investment.

However, we are also very cognizant of the changing paradigms in the external environment around us. Sri Lanka is well on its way to firmly installing itself as an Economic Hub for South Asia, while having also embarked on multi-pronged plans for infrastructure development, identified industry promotions and adding impetus to support industries and services. The Commonwealth Heads of Government Meeting added further thrust to the nation's plans, opening wide doors to investment prospects that would herald the meeting of the country's planned vision. With the Bank having constructed a firm foundation to continue a sustainable business, it became evident that the time was appropriate for UBC to begin looking outwards.

With our financial foundation re-affirmed until 2017 due to the UBC CAR being well above the regulator's stipulations, we have now set about working on an astute plan of progress. We also recognise that our fundamentals are now well established to move ahead with our plans, which includes, inspiring new investors to join our current investor mix, which has served us well in achieving the plans we had set for ourselves in the past. We strongly believe that we have unbridled potential to move beyond



## WHEN IMPOSSIBLE BECOMES THE NORM CONTD.

and become a top player in the regional financial services landscape. Therefore our plans for the medium and long term require global expertise, experience and presence to move ahead and which is the *raison d'être* that our fundamentals and performance will speak for itself in enticing global investors to enter our investor mix, giving UBC a massive capital infusion to fuel our plans.

Our Group synergies add to our attraction as a sustainable investment option. The quality of our portfolio remains progressive and stable, our multi-tasking team is garnered from the *crème de la crème*, our network and presence is strategic and our focus on providing total financial solutions unrelenting. With National Asset Management Limited (NAMAL), Sri Lanka's premier asset management company adding an imperative dimension to professionalism in asset management and UB Finance Company Limited (UBF), an acquisition of a failed finance company which through strategic restructuring by UBC saw an extraordinary turnaround well before its envisaged time, the Group is well positioned to build on its enviable reputation.

### INFUSING TECHNOLOGY INTO THE BANKING EQUATION

We have always remained a strident ideologue of the imperative need for technology to drive our industry, which has led UBC to pioneer some of the most innovative and unique technological initiatives ever experienced in the country's banking industry. This iconoclastic attitude when it comes to ensuring that technology is a fundamental in our business rather than an option, has seen the Group having systems and processes that have enabled customers and our stakeholders access superior service and state of the art products in a milieu of continuous accessibility.

It is probably this unshaken focus on maximising the use of technology that saw UBC pioneer IT initiatives, including launching Union Bank Online Internet Banking in Sri Lanka, computer generated

deposit slips, Unitel phone banking, the first off-site ATM, statements obtained via mobile phones, e-cheques, TV Banking, the unique Barefoot Banking service and the very first trilingual mobile app, that has over the years seen UBC conferred with the National Best Quality Software Award.

This use of technology has also assured UBC of being at top of the mind recall among our stakeholders, given that our presence penetrates beyond the physical infrastructure of our branches to virtual reality in real-time, enabling customers to pursue their banking needs anywhere anytime. This is well evidenced when UBC became the first private bank to join Lanka pay the National Common Payment ATM switch, networking more than 1,300 ATMs all around the country, augmenting our customer offerings.

As we move into an era of looking beyond horizons, technology will continue to play an integral role in our plans, which includes centralisation of key processes, tangible cost management, efficiency improvement and productivity enhancement. New products like the UBC Debit Card and germane value additions will become a reality, while global presence and accessibility via new correspondent channels and ATMs will become the norm.

### FORGING LIFELONG RELATIONSHIPS

UBC has always remained enthusiastic on forging and nurturing lifelong partnerships with all our stakeholders, especially our customers, whose journeys have remained inextricably intertwined with the Bank's journey. It is imperative therefore that we remain attuned to our customer expectations, their aspirations, emerging paradigms and eventual opportunities that may arise to ensure they are offered only the best in products and services. While we have created a niche for ourselves in ensuring that we etch ourselves firmly as The Preferred SME Bank, we are also cognizant of birthing a healthy customer mix and this includes personal and corporate customers,

to form an impenetrable formula that will ensure that we attain the road we have mapped for ourselves.

### ACCESSIBLE, REACHABLE AND FLEXIBLE

There has always been a unique value proposition at UBC - we are a Bank that truly espouses the phrase, 'Anytime, Anywhere'. Combining the a physical infrastructure network of 51 branches located strategically around the country, UBC doesn't simply rely on customer presence at the bank, but rather has focused on getting to the customer. Using the tenet of building relationships through diverse avenues, we have ensured that UBC's presence is penetrative, and not simply through physical infrastructure, but through personalised interventions and technological penetration. Having mooted a hub concept for our branches in 2013, UBC is now rolling out a plan to locate service touch-points via smaller service centers that would revolve around a geographical hub, located around the country, giving customers more accessibility, flexibility and reach.

## WHEN IMPOSSIBLE BECOMES THE NORM CONTD.

### AS THE FUTURE UNFOLDS

UBC has firmly etched itself within the annals of the banking industry as one of the country's fastest growing banks, quickly gaining ground as The Preferred Bank for SMEs. We are also firmly focusing towards bigger and better goals, where global investment is being pursued, technological advancements are being added on and in ensuring that our team is equipped with the right tools to achieve our goals in a rapidly transforming external milieu. We are enthusiastic about the macroeconomic environment and the path that Sri Lanka is journeying, as it gives UBC scope and force to grow our business on a sustainable yet ambitious platform.

We look back on a very successful journey and have used the lessons learned and challenges overcome in those years to form the blueprint in charting a new journey that for others may seem impossible, but for us, would be deemed, business as usual.

### CUSTOMERS



**SMALL AND MEDIUM  
ENTERPRISES (SME)**



**PERSONAL  
CUSTOMERS**



**CORPORATE  
CUSTOMERS**



## WHEN IMPOSSIBLE BECOMES THE NORM CONTD.

### SMALL AND MEDIUM ENTERPRISES (SME)

Our SMEs have shown beyond doubt that with the apt backing and know-how, they can surely become assertive contributors in the larger scheme of development. UBC's comprehensive range of financial solutions ensures that these SMEs including micro enterprises are given flexible options that are customised to suit their individual requirements. Our in-depth knowledge in developing the appropriate financial solutions that would not only present financial backing, but also intangibly add the essential confidence for this customer segment, given that they are not 'banking savvy', has surely given us a competitive edge.

Our personalised customer service and proactive intervention with these SME customers is amply supported by an extensive portfolio which includes working capital, trade finance, import and export credit, leasing and factoring. Our strategic expansion initiatives where physical infrastructure is well supported by innovative accessibility, technological sophistication and varied service touch-points which include the unique Barefoot Banking platform, adds to our ability of being present around the country. This has also spurred a resurgence of SMEs in diverse industries including manufacturing, power, transportation and professional services.

### PERSONAL CUSTOMERS

Personal customers encompass a multitude of expectations, orientations, requirements and services, given their diversity in backgrounds, age, social strata, personality and attitude. Since our inception, we have remained attuned to the aspirations of our personal customers, recognising their individualism and need for absolute customisation, spurring us to develop products and services that are innovative and designed to add value to

these aspirations. Our multi-pronged accessibility and penetrative presence has been extremely advantageous, as UBC is well keyed in to serve our customers via person-to-person or in virtual real-time through sophisticated technology. Our extensive product and service portfolio includes savings and deposits products which have been developed to suit the various customer segments in this category and current accounts and have been augmented by even more value added services including housing and consumer credit, leasing, pawning, foreign currency, fund transfers, unit trust and bancassurance.

The fact that UBC has pioneered technological innovations that have truly set benchmarks for the industry has also added to our competitive advantage in attracting individuals to bank with us. From having the first drive through ATM to spawning a series of unique products including the e-cheque facility, first trilingual mobile app, Easy Plus which is the first current account devoid of any charges, same day cheque clearance, TV banking, online banking and cheque acceptance until 4 pm, UBC has surely forged a path of continuing to build strong relationships with our personal customers.

### CORPORATE CUSTOMERS

A strong corporate presence is evident in our customer mix, constructed on corporate relationships that have been nurtured since our inception. UBC has always remained aware of ensuring that the experience and expertise required to serve our corporate customers is the crucial conduit to retaining them. Our professionalism in dealing with our corporate customers is quite legendary, as is the knowledge span in diverse industries, which is a vital tool in extending pertinent, timely and astute advice. This discerning customer segment is nurtured through a strong relationship management culture, where extensive banking solutions including money markets, treasury, foreign exchange services, leasing and bank guarantees are delivered through

exceptional banking professionals in our Relationship Management Team.

### FINANCIAL SOLUTIONS BUILT ON INNOVATION

UBC has beyond doubt proved our technological prowess given the award winning products and services we have continually offered to our wide and varied customer segments, which have also paved paths for the industry to follow. However, our financial solutions are not simply founded on technology; it is a corollary of knowledge, expertise, experience and industry acumen that has been brought together on a singular platform of ensuring that our customer expectations are exceeded. While we have cultivated a comprehensive range of financial solutions for our focused customer segment, the SMEs, our personal and corporate customers have continued to be presented with a diverse array of financial solutions that are designed to add value to their future plans. In fact, UBC goes beyond simply exceeding customer expectations, to fueling ambition and prompting thought processes via focused customer service, to push our customers beyond the boundaries they have set for themselves and achieve unsurpassed success.

“ We highly appreciate your excellent and friendly service provided in banking with you ”

**W A Arosha Asanga**  
**Group Managing Director**  
**DAMRO GROUP**

*(Union Bank Corporate Customer)*

“ As a local entrepreneur, I am happy to state that the assistance given from Union Bank has contributed largely to the success story of Lucky Lanka ”

**Mr. Lal Keerthi Gunawardena,**  
**Chairman**  
**LUCKY LANKA MILK PROCESSING**  
**COMPANY LTD.**

*(Union Bank SME Customer - Matara Branch)*

“ Union Bank has supported my financial needs and provided valuable advice to further develop my business. The Bank has helped me grow in numerous ways and I look forward to further strengthening the relationship I have with the Bank ”

**Mr. Rathnawimal Aluthge**  
**Proprietor**  
**RATHNA BATIK**

*(Union Bank SME Customer - Horana Branch)*

“ Union Bank’s flexible financial solutions have supported me to take my business to greater heights ”

**L G Athula Priyankara**  
Proprietor  
**PANDA PLASTICS (PVT) LTD.**

*(Union Bank SME Customer - Piliyandala Branch)*

“ Union Bank has assisted me to increase my portfolio over the past years, and has continuously provided me with sound advice on how I should invest my finances profitably. Having being a customer for 18 years, Union Bank has always ensured I receive a very personalised service ”

**Evelyn de Zoysa**

*(Elite Circle – Privileged Banking Customer)*

“ Your readiness to assist us has brought immense benefits with the acquisition of several new milk collecting centres. Our gratitude for focusing the attention not only on the securities to be offered by the customer but his actual financial needs ”

**W. A. N. S Bandara**  
Managing Director,  
**DIKOYA DAIRY PRODUCTS (PVT) LTD.**

*(Union Bank SME Customer - Kadawatha Branch)*

WHEN IMPOSSIBLE BECOMES THE NORM 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.



**SMALL AND MEDIUM ENTERPRISES (SME)**

- Working Capital
- Trade Finance
- Import and Export Credit
- Leasing/Hire Purchase
- Factoring
- Bancassurance
- 'Viyaparika Saviya' – Free advisory service
- Cheque collection via Mobile Banking
- Special Service – cheque deposit facility up to 4.00 p.m.



**PERSONAL COUSTOMERS**

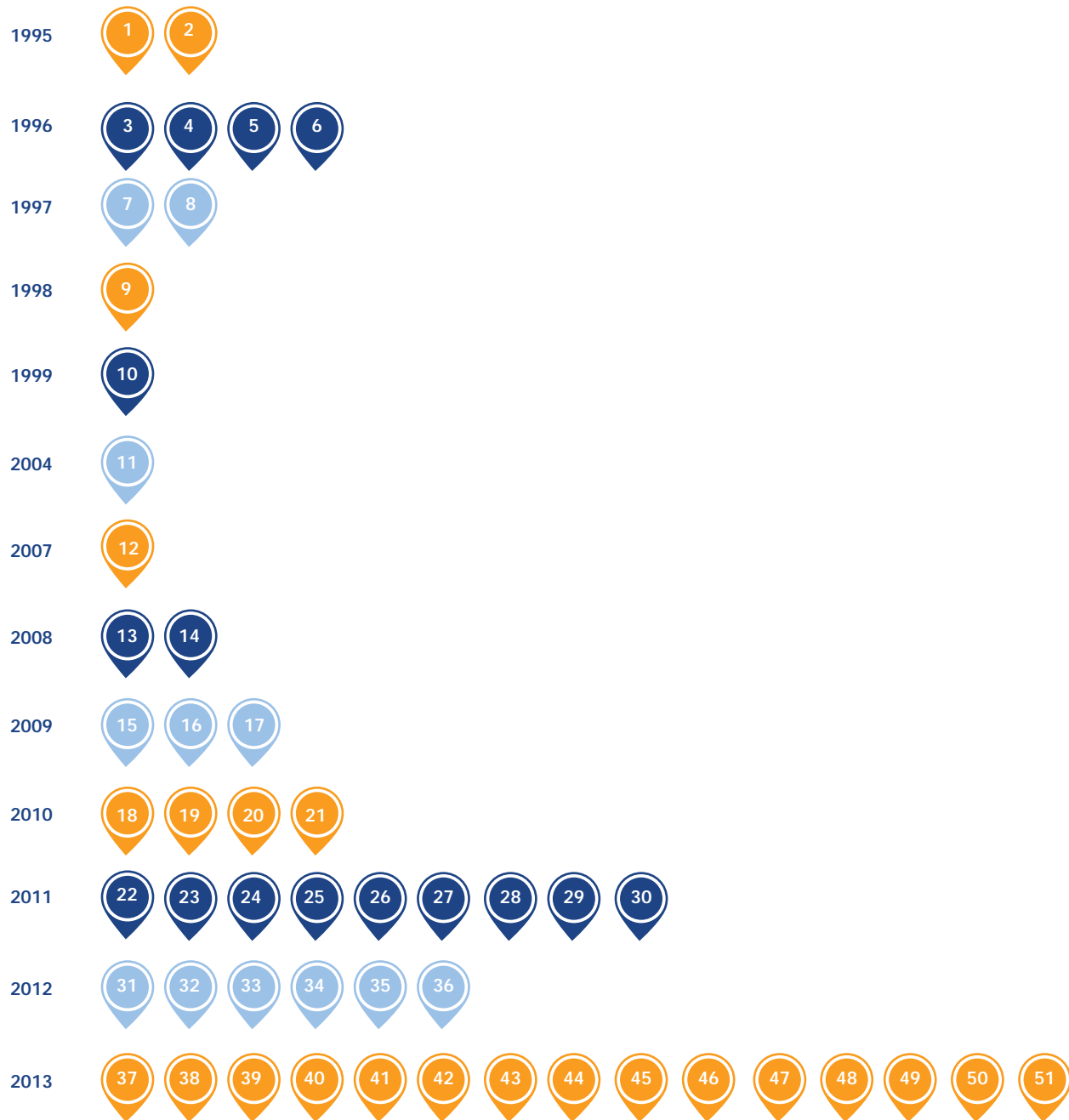
- Savings and Deposit Products
- Foreign Currency
- Housing and Consumer Credit
- Leasing/Hire Purchase
- Pawning
- Trade Finance
- Fund Transfers
- Unit Trusts
- Bancassurance
- E Banking
- 'Elite Circle' Priviledge Banking
- Safety lockers
- TV Banking



**CORPORATE CUSTOMERS**

- Money Markets
- Treasury
- Foreign Exchange Services
- Leasing/Hire Purchase
- Bank Guarantees
- Trade Finance
- Bancassurance

## 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

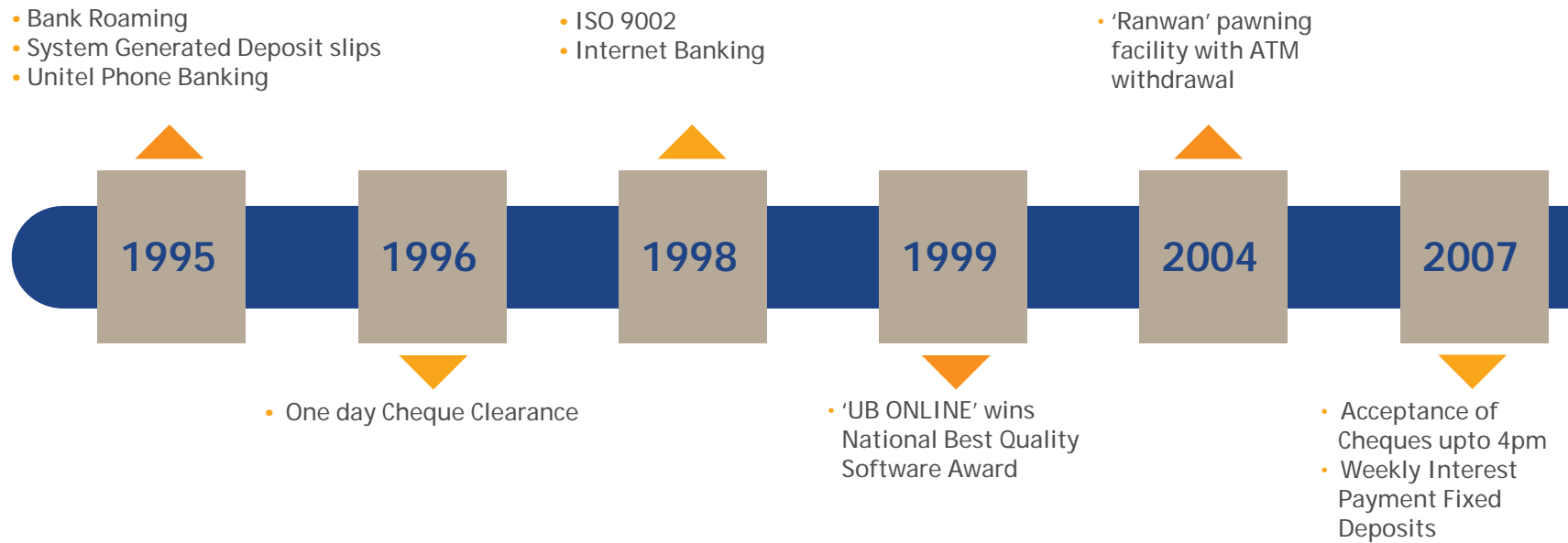
19 Chunnakkam  
20 Atchuvvely  
21 Wattala  
22 Gampaha  
23 Batticaloa  
24 Trincomalee  
25 Galle  
26 Piliyandala  
27 Kadawatha

28 Ratnapura  
29 Dambulla  
30 Anuradhapura  
31 Horana  
32 Badulla  
33 Chilaw  
34 Ambalangoda  
35 Panadura  
36 Marawila

37 Narammala  
38 Pelawatta  
39 Angunakolapelessa  
40 Kebithigollewa  
41 Gampola  
42 Embilipitiya  
43 Kegalle  
44 Warakapola  
45 Kekirawa

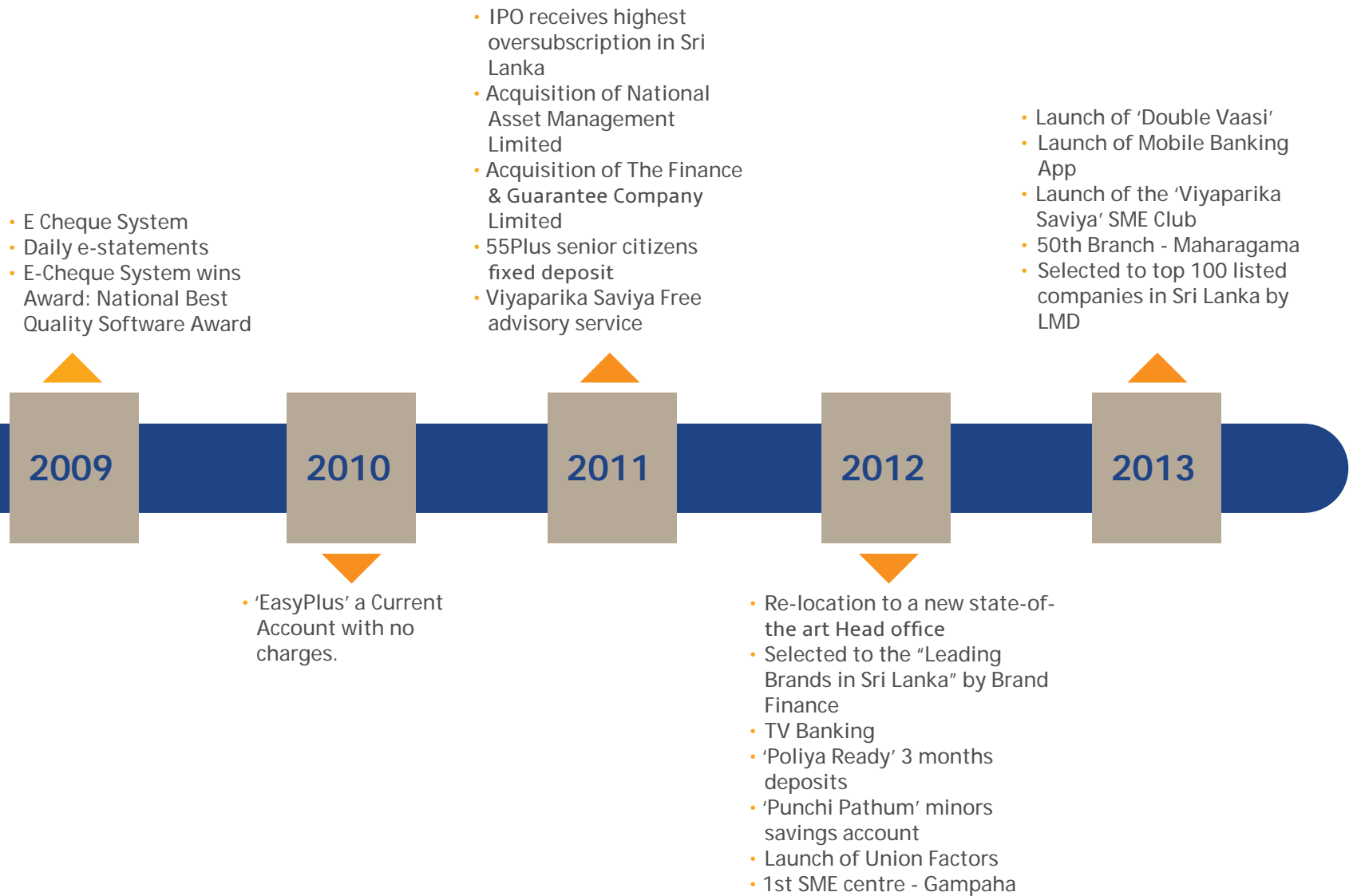
46 Horowpathana  
47 Ambalantota  
48 Minuwangoda  
49 Balangoda  
50 Maharagama  
51 Matugama

## MILESTONES





## MILESTONES









## CHAIRMAN'S REVIEW

When we were discussing the theme for this year's annual report, one of the features that kept recurring in our deliberations was the fact that Union Bank of Colombo PLC has truly done the impossible. And this is a perception that has been deduced by our stakeholders including those in the industry, which makes our journey highly commendable. For us, going about our business means being engaged in meeting the challenges that loomed in front of us, removing ourselves from the quagmires that we were steeped in and ensuring the meeting of our progressive goals. This was our business and this is what brought in the value additions that we see among our stakeholders today. But for others, given what we have overcome and the results we have infused in this short journey of ours, what we have been doing may seem impossible.

Another reason for our 'business as usual' stance that may have seemed impossible to others was the fact that the paths we forged were aligned to national development goals, while remaining strongly focused on our end vision of being the Preferred SME Bank. This led us to add fillip to the national goal of developing entrepreneurship and industries, building a business that truly spoke of consistency and sustainability, honing a team that worked on a benchmark of reaching beyond excellence and being a highly compliant entity that espouses lofty values, ethics and principles.

It is this therefore that has seen the Bank emerge victorious through various chapters in our history, some severely challenging but nevertheless enabling us to gain impressive insight from the lessons learned and deliver continually improving results, both tangibly and intangibly. And while Sri Lanka too has notched a triumphant year in development and has spearheaded initiatives that keep moving ahead towards achieving the country's national goals, we at UBC are proud to have been a strong partner in those achievements. It is in this backdrop hence, that I have great pleasure in presenting the Annual Report and Financial Statements for UBC and our subsidiaries for the year ending December 31st 2013.

## ECONOMIC PERFORMANCE HIGHLIGHTS

Globally, it has been an year that has remained for the most part, lacklustre. While political upheavals continued with Syria taking center stage, the world's economy did not strengthen performance in most advanced economies as expected, failing to make up for the sluggish expansion seen in developing regions. Even those emerging markets who had been upbeat in the past, are seeing less prospects. According to the International Monetary Fund, global output is envisaged at just 2.9% this year, a downgrade from the earlier expected 3.1% predicted in July and certainly the slowest year of growth since 2009. Providing that countries show planned progress in 2014, the IMF expects a modest upward trend to 3.6%. However, the IMF is perceiving the trends in a positive light, stating that those countries who were in dire economic straits, are now displaying a much better turnaround attitude.

The USA, tasked with driving much of the global recovery should live upto expectations, but it is worrisome that paradigms can easily change. There's also danger that if the US Congress doesn't raise or suspend the current US \$16.7 Tn debt ceiling, it could tip the world's largest economy into a deep downturn that will permeate across the globe. There remains another risk of tighter financial conditions in the US, as markets prepare for the end of the US's loose monetary policy. A tighter fiscal policy should trim 2.5% from output in 2013, but recovery in real estate is envisaged to contribute 2.6% to economic growth in 2014, which will stall further fiscal crises.

Europe conversely was upbeat, seeing the core economies of Germany and France and even Italy and United Kingdom edging into a positive growth trajectory over 2012. However, hurdles remain as financial fragmentation must be addressed, the health of banks needing more focus and a need to move closer to the banking union

being a necessity.

Emerging markets meanwhile continue to account for a major segment of global growth, forecasted to expand nearly four times as fast in 2013 as advanced economies. However, it is believed that China in particular will slow down in the medium term as the economy transitions from investment driven to one of consumption. Being the second largest economy in the world, the impact of this slowdown could permeate to other nations, especially commodity exporters dependent of China's need for energy. Japan on the other hand, has showcased an impressive pickup since the Government's monumental stimulus programme to spur the economy, went into top gear. This added a fillip of about 1% to growth, although as the stimulus recedes next year and Japan moves ahead with higher consumption taxes, growth is expected to slow.

South Asia was not spared from the impacts of the global uncertainties either, facing global turbulence while regional inflation remained highest among developing economies. Both the IMF and the World Bank downgraded India's growth forecasts, despite them being bullish about the country at the beginning of 2013, as a result of high headline inflation, heavy capital outflows and the sharp depreciation of the Indian Rupee.

Although global conditions continued to remain weak, 2013 has been a year of remarkable achievement in the macro context for Sri Lanka. Posting a GDP of 6.7%, well ahead of regional and global averages, core indicators including headline inflation remained at single digits. Core inflation, at its lowest levels stood at 2.1% in December and the level of investment was maintained at over 30% of GDP. The emphasis on employment generation via incentivising micro and SMEs, creating an entrepreneurial culture and adding fillip to various industries bore fruition, evidenced by unemployment hovering at 4.5%, slightly over last year's 4%, primarily due to new job seekers entering the employment market, more a positive sign than negative.

## CHAIRMAN'S REVIEW CONTD.

"Our focus on SMEs will continue because we strongly believe that growth does lie in this segment of business and this focus is a national responsibility to us as it is one that gives us the opportunity to partner the state in developing a crucial conduit in its development agenda".



Alexis Lovell, MBE - Chairman

## CHAIRMAN'S REVIEW CONTD.

Country ratings continued to give a positive outlook for Sri Lanka, with both Fitch Ratings and Standard and Poor's retaining the BB-stable and B+ stable outlook respectively. Other indices too moved upwards including the Legatum Prosperity Index, which saw Sri Lanka positioned as the highest ranked in South Asia and ranked 60th in the world. Also gaining the highest ranking in South Asia, Sri Lanka sat at 92nd in the world in the Human Development Index, advancing to the high human development category from the previous medium development category. Other bests in South Asia were notched in the Ease of Doing Business Index with Sri Lanka ranked 85th in the world and the Index on Economic Freedom moving to 81 from 97. Ranked second in South Asia, Sri Lanka moved up to 65 in the Global Competitiveness Index.

The external sector was envisaged to grow 6.9% by end 2013, with monthly export earnings exceeding the targeted US \$1 Bn since October. The trade deficit too is tipped to show positive signs, contracting by 12.9%. The Balance of Payments recorded a surplus of US \$700 Mn, while remittances are expected to reach an extraordinary US \$6.7 Bn by end 2013. The hospitality sector continued its dynamism, with significant investment being infused. These investments hold a significant portion of the country's US \$1 Bn FDIs, which is also the third consecutive year that FDIs have surpassed the US \$1 Bn benchmark. The construction of new hotels including a number of international chains are well on track, while tourist arrivals posting record highs, increased by 15% with envisaged earnings notching US \$1.4 Bn by end 2013. While Western Europe continued to remain the primary source for tourists, non-traditional markets including China and Russia increased numbers significantly.

Prudent fiscal management measures has seen the budget deficit decline to 5.8% of GDP from 6.4% posted in 2012, while debt to GDP ratio also declined to 78% from last year's 79.1%. Foreign reserves remain at healthy levels showcased at US \$7.1 Bn,

sufficient for 4.5 months of import, while the rupee showed noteworthy stability despite global market volatility. While the Central Bank notes that private sector credit has picked up and credit to public corporates has moderated, it also states that while policy rates reduced and market interest rates declined, the stability of the banking sector was preserved due to strong capitalisation and liquidity conditions. Responding aptly to monetary policy easing, market interest rates on deposits saw gradual downward adjustments, while prime lending rates quickly adjusted, aligned to this trend. However, commercial banks' longer term lending rates which remained rigidly downwards in the first of the year, saw an upward movement in the second half, with increased levels of liquidity and improved foreign investor appetite reflecting positively on yield rates on government securities.

The agriculture sector was expected to grow by 4.1% at end 2014 with paddy production recording considerable growth due to increased harvest in the Yala season, although tea, rubber and coconut production declined due to adverse weather conditions. The fisheries industry gained fillip with fish production increasing by 9.9% by September 2013 and expected to remain in similar waters at end of the year. Favourable macroeconomic conditions, increased economic activities, expansion of infrastructure development and the recovery seen among Sri Lanka's larger trading economies saw buoyancy emerge in the industry sector, which is expected to showcase growth of 9.2%. The services sector which is tipped to end the year at a growth of 6.7% saw all sub sectors including wholesale and retail trade, hotels and restaurants, transport and communication and banking, insurance and real estate post considerable growth curves. The IT, BPO and KPO sectors will add on US \$471 Mn in earnings in end 2013, due to this sector taking full advantage of the high growth potential. There are over 300 companies employing over 60,000 Sri Lankans in this industry.

A sustained real economic growth of over 8% is being targeted for 2014, while focusing on sustained growth in the 5+1 hub concept. There will be a concerted effort to drive hub activity-led growth, where an unrelenting focus will be pursued in poverty reduction, high productivity, SME and women focused development, provincial development, sound macro fundamentals and improved social infrastructure taking precedence. It must also be noted that moving towards US \$100 Bn economy will demand considerable productivity and knowledge levels from the workforce. There are also expectations to expand worker remittances to US \$10 Bn by 2017.

### THE BANKING INDUSTRY MOVES FORWARD

The Banking industry meanwhile continued to be robust and resilient having now entered a strengthened supervisory and regulatory framework. Despite challenges, the sector saw business volumes and outreach expand, with branch network expanding to nearly 3,500, and the ATM network touching 2,500.

There was a tangible change in the funding structure of the banking sector which moved towards local debt, equity markets and foreign borrowings. On the strength of the sector's balance sheets, US \$1,548 Mn was raised through foreign borrowings, which was further augmented by the liberalisation policy adopted for foreign borrowings by banks, allowing LCBs upto US \$50 Mn each until 2015.

The regulatory and monitoring environment adopted a few more key policies which included the strengthening of Internal Capital Adequacy Assessment Processes (ICAAP) and risk management frameworks, streamlining regulations on the exposure of the sector to the stock market and facilitating the adoption of the new Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards while also calling for enhanced disclosure requirements. The CBSL also reduced interest rates on loans and advances in line



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with the low interest regime prevailing in Sri Lanka and peer emerging economies.

As articulated in the CBSL Roadmap for 2014, the CBSL is prompting a new vision for the banking sector in the run-up to the targets of 2016, in order to sustain the positive outlook of the economy and ensure financial system stability. There are plans for at least five Sri Lankan banks to have a strong regional presence and possess assets of Rs 1 Tn or more. Mergers, consolidations and acquisitions will be encouraged and a large Development Bank will be launched to provide substantial impetus to developing banking activities. There are also moves for foreign banks operating in Sri Lanka to demonstrate greater participation in economic activities. Increased efficiency and prudent asset and liability management will ensure that banks will have substantially lower interest margins. The CBSL in turn will moot policies that are forward looking and able to adjust to volatility, while adequate capital and other buffers will be established to prepare the sector to withstand business cycles without sacrificing investment potential ensuing due to global economic downturns. Greater cohesion and overall sectoral integration would be infused to provide a stronger thrust that would make the sector a more sustainable growth model.

Strengthening the banking industry's capital base is also being pursued with LCBs having a minimum capital requirement of Rs 10 Bn and LSBs a minimum of Rs 5 Bn, applicable for existing banks from January 2016 and for new banks from January 2015. The first quarter of 2014 will see the conclusion to the migration of the advanced approach under the Basel II Capital Adequacy Framework requirements and beginning from the third quarter of 2014, the adoption of Basel III Capital Standards.

The banking industry's risk management framework will also gain considerable improvement aligned to the changing paradigms. During 2014, a regulatory framework for the valuation of immovable property of LCBs will be introduced, as will prudential requirements to regulate exposure of the banking system to asset

markets and other potential economic uncertainties and shocks. While guidelines to a Stress Testing Framework will be established, the CBSL is intent on implementing the new Liquidity Risk Management Framework in tandem with the introduction of the Basel III Liquidity Coverage Ratio. Minimum standards for the core banking system and other IT based platforms used by the bank will also come into effect next year. The incorporation of appropriate changes to the existing regulatory framework aligned to the new accounting standards including the introduction of the new off-site surveillance reporting system and amendments to existing directors and regulations will become reality. A comprehensive supervisory framework will also be developed for consolidated supervision of banking groups.

### CONTINUING TO GROW

I, must reiterate that this journey has not been easy for UBC. If you look back at our history, to give credence to what we have witnessed in the last few years, we really did rise from an impossible situation to what we are today. We were a Bank that emerged, like the phoenix, transforming ourselves to operate in a milieu of stability which gave us the depth and scope to adhere to the stringent guidelines required for a listing on the Colombo Stock Exchange. This was surely an achievement as UBC's listing on the CSE was truly a groundbreaking one in the annals of the Colombo Bourse and with this strength, we have built strong and sustainable financial fundamentals that form the foundation for our positive reputation. Our Capital Adequacy Ratio both in Tier One and Tier Two were reached well prior to the Regulator's deadline and gives the Bank a firm foundation until 2017 to continue working on our business as usual stance with no distractions. This then leads us to map ambitious growth plans which is the strategy we are currently focusing on.

Our chartered path has multiple options and this includes introducing new investors into

our equation. While our current investor mix has certainly been a strong truss in the path journeyed thus far, given our plans in the medium to long term, we do require a global brand to take us to the next level. This is imperative to us in meeting the new goals we have set for ourselves.

Our focus on SMEs will continue because we strongly believe that growth does lie in this segment of business and this focus is a national responsibility to us as it is one that gives us the opportunity to partner the state in developing a crucial conduit in its development agenda. However, we are a small bank and it is vital that we identify our customer base in line with our capabilities. We have continued to grow our SME and Retail customer base, which now accounts for 60% of the business, thereby aligning with the Bank's vision of being a Bank of choice for SMEs. We are working on an astute mix to infuse the right balance.

We realise the inherent challenges in the corporate customer base which accounts for 40% of the business currently, primarily because being a small bank, our cost of borrowing is high and as would be prudent, the corporate sector pursues better rates from us. Introducing massive capital infusion would be the solution in managing this challenge, which leads us to the options of either obtaining this capital from our existing shareholders or introducing a global brand as an investor. Given our strategic plans, it is rational for UBC to pursue the option of a global investor, to invest in a progressive bank like ours. With this capital infusion, cost of borrowing will naturally reduce and we can be a firm contender in gaining the best corporates into our customer base.

While we aspire to work ourselves even further up the ladder, it becomes imperative that we organise ourselves internally to meet the ensuing challenges that will naturally emerge. This means that our Group Strategy has to be extremely cognizant of our SWOTs and using this analysis, be able to plan our short, medium and long term strategies accordingly. The

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Group strategy would hedge on fine-tuning our SME and corporate business mix, seeking the available niches and pursue those industries and customer segments that display potential; it is vital that we reduce our corporate borrowings, either by working on our ratings and introducing a new investor or by instilling other avenues for capital increase. This, as I mentioned prior, will attract the large corporates which will be a natural phenomenon once cost of borrowings decline, UBC's current and savings accounts will also be strategized to be made compatible with our future plans.

The integrated resources we intend employing to manage the Bank will involve astute daily cash flow management and leveraging on the synergies of our two subsidiaries, NAMAL (National Asset Management Limited) and UB Finance. There was a visionary rationale in the NAMAL acquisition, constructed primarily on the fact that there was a dearth in professional asset management in the country. It was a fledgling industry when we entered it but today, we have grown this asset portfolio into an impressive Rs 12 Bn, which unequivocally proves our expertise and prowess in this sphere. UB Finance too augments our reputable position in the financial services industry, as having acquired and restructured a failed company (then The Finance & Guarantee Company Limited), UBC has proved once again that we are equipped with the specialty expertise to turnaround distressed entities. UB Finance's strong fundamentals and financials, including a forceful presence in factoring, have formed a strident foundation for the Company to now adhere to the stringent demands required for a listing. As per the regulator's diktats, we will soon be listing this company, which today stands as testimony of a classic turnaround case study.

We have surely etched paradigms that are unique and unparalleled. As you will observe, with the changing landscape around us, organic growth will be continued but we will also remain perceptive to changing epitomes. The insistence that our KPIs and a sustainable bottom line remains consistent, has prompted a growth

paradigm that showcase stability. Despite the challenging environment the Bank has posted a profite of Rs. 113 Mn (post tax). I must add that while our concentration has not been on performance this year because our emphasis has been on preparedness for the medium term based on the macro landscape we are seeing, our positioning is primarily to get our strategies right. Hence, while growth is not substantial, this year has been one where we have been infusing change management, focusing on lessons learned, identifying talent, nurturing our strengths and consolidating our operations, all designed to showcase a sustainable business model.

The following pages in this Annual Report will have a detailed account of our performance.

### ETCHING OUR FUTURE CHAPTERS

There's a fundamental feature in continuing our 'Business as Usual' journey that we have been strengthening for many years now. Technology remains a crucial dynamic in our growth strategy. Given our smaller stature in the larger landscape of the banking space and reach, we are well aware that it is sophisticated technology that will give UBC the competitive edge in moving ahead. This will also circumvent some of the emerging challenges we observe including the progressive lack of human resources which is ubiquitous to all industries in this field. Building technology that people have access to via the Internet and mobile phones for example, which in tandem reduces human intervention enables products and services being accessible any time, anywhere.

From an operational viewpoint, technology is also an extraordinary cost manager, while also adding efficiencies and enhancing productivity into the operational equation. This is reflected in our branch expansion strategy as well, given that we are speedily infusing modern technological initiatives into ensuring that we are accessible to our customers. Having implemented one of the most sophisticated Core Banking Solutions,

which is used by some of the largest banks in Asia, our branch accessibility will maximize on our IT platform, increasing efficiency of service, while reducing the number of team members required in operations. By end 2014, we plan on strategically increasing our network to 75 branches via a hub concept. This will leapfrog UBC into a new banking arena primarily due to the fact that our unique hub concept builds on strategic hotspots housing small branches around these hubs. A successful pilot branch in Marawila, positioned as a satellite branch manned by just four UBC team members has proved a model worth emulating for the future.

UBC's concept of mobile banking is different from the accepted norm. Ours infuses multi-faceted options that truly exemplifies the meaning of mobile banking, using the fundamentals of technology for each of the options, ranging from banking via smart phones, regular Internet Banking, TV banking and the unique Barefoot Banking, which takes our products to communities who have no time, knowledge or wherewithal for traditional banking including farmers. We reach out to customer segments that need intervention in their banking needs, adding value to the services they already receive and instilling multiple avenues to do so. This is one of the reasons we have displayed immense success in our SME banking, because our competitive edge is that UBC is able to relate to customer segments, being aware of their needs and aspirations and adding value with products and services that are beyond expectation.

This year, UBC will aim towards qualifying for an award of being placed among the Best Annual Reports in the country, which evidences our young team's commitment to keeping the Bank's compliance platform, ethics, values, governance and transparency persona in the public eye. This also adds further impetus to enticing our global investor, while also aspiring towards being among the top five banks in Sri Lanka. We have continued to have good customer retention, primarily due to our continuous intervention in improving our service

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benchmarks although, this is an area that requires unceasing focus due to emerging challenges, competition and opportunities that arise.

UBC's Strategic Plan has ingrained change management into its fundamental tenets. The process, which has already gained ground and has tangibly proven that the changes instituted have already borne fruit through the consistent bottom line being showcased, will now add in the imperative growth momentum for us to move forward. This will surely be in tandem with the macro fundamentals earmarked for Sri Lanka, with GDP growth projected to remain in the 8% range in the next few years and per capita income spiraling upwards to reach US \$5,000 among other targets. As an assessment, when Sri Lanka reaches the US \$4,500 per capita target, the country will see a palpable spike, reflecting a phenomenon that has occurred in other countries in Asia including Indonesia and Malaysia, triggering development and cascading those benefits to the people, which augurs well for UBC.

Positioning ourselves as one of the best 10 listed banks in Sri Lanka also means we have to cater for the envisaged transformations which will undoubtedly require the partnership of a global presence, a partner who shares similar ambitions as our shareholders, a vision of eventually being the best bank in the country. It is on this common objective that we will build that partnership. With this partnership, we will also infuse professional advice and management, charting a map that will pose fundamental questions and possible solutions to make way for the future. It is then that our dynamics will change and the growth momentum will begin to materialise. I do believe we have already fueled the thought process and the strategies required to become a presence in the big league, but a presence that will have a fundamental vision constructed on a platform of progressive growth.

From a governance perspective, having learned from lessons past, we will maintain

our conservative stance. While our internal control processes have been strengthened, we have also just completed the due diligence which will give us a fair perspective of our strengths and weaknesses. Our new risk management system too will add value to our future plans.

### IN APPRECIATION

Having now done the impossible but knowing that the path is just beginning in our 'Business as Usual' chapter, I am extremely grateful to the Governor and Officials of the Central Bank of Sri Lanka for their sound advice and consultation in ensuring that UBC maintains its visionary objectives on a well governed platform. I am also appreciative to my Board of Directors whose confidence and constant availability has ensured that the strategic path we have embarked upon, remains in focus. I wish to express my appreciation to Mr. Gerard Ewe Keng Lim who resigned in November. His invaluable advise is noted. I also welcome Mr. Imtiaz Muhseen to the Board. His knowledge and expertise would no doubt be an asset to the Bank and we are indeed fortunate to have him. Our shareholders have continued displaying amazing trust in allowing us to venture into paths that are ambitious and for that, I remain extremely thankful, while assuring you that your interests will continue to remain paramount in our plans.

Our stakeholders including the dynamic UBC team who forge new paths and create new benchmarks, our customers who continue being an integral facet of our success, our valued business partners who believe in our vision and our communities who continue to remain loyal and committed to ensuring that UBC eventually rises to the zenith, "Thank you". It is you who have given us the courage and spirit to charter paths that have hitherto been impossible, having confidence in the UBC leadership to take the Bank to newer heights.

I know that UBC can surely change the face of this industry in Sri Lanka because we

have already proven that we have the apt rudiments for this. I am also convinced that we have the ethos and structure to optimise on our advantages, maximise on our potential and seek opportunities that are abundant in this progressive macro milieu. I strongly believe that our goal of becoming one of the best banks in Sri Lanka will become a reality, sooner rather than later.



**Alexis Lovell, MBE**  
*Chairman*



## LEADERSHIP FORUM

**“The leadership we have displayed in achieving our goals has been commendable; these are seen in the success stories that have emerged from our customers and in the support we have extended to them to ensure that their ultimate success would augment our journey”.**

As I look back on 2013, I'm both proud and humbled that our Bank has surely prompted a significant change in the SME sector of the country. Having identified this as being the niche area of focus for this bank, which is a relatively young bank and smaller in the larger picture of the industry, the strategy to partner the national development focus of creating an empowered and vibrant SME sector has gained fruition. The accompanying strategy also centered on organic growth and innovative delivery channels that would ultimately reach our end target market. However, we did continue maintaining a balanced healthy mix within our customer profile, which can be challenging given the external milieu, but was astutely managed due to far-thinking policies and operational initiatives that were constantly implemented and followed up to ensure continuity.

The leadership we have displayed in achieving our goals has been commendable; these are seen in the success stories that have emerged from our customers and in the support we have extended to them to ensure that their ultimate success would augment our journey. Our intervention has also prompted revival of micro industries, added fillip to existing industries, a resurgence in entrepreneurial spirit and noteworthy development in geographical areas that have our presence. When we present our ambitious growth plan to an outsider, this plan may be deemed impossible to achieve. But we implemented our plan pragmatically,



Anil Amarasuriya  
Director / Chief Executive Officer

focused in achieving what we had set out to do and eventually, meeting those goals. For us it was business as usual, although, to some, what we have achieved, may seem to have been impossible.

### MACRO OVERVIEW

Sri Lanka has been surely and steadily working towards achieving her Master Plan for development, which had also identified the financial services industry as a key player in moving the country into 2014 and beyond. This is surely proven with the country posting a GDP of 6.7% for 2013, well ahead of the growth performances of the region and globally, as well as the Colombo Bourse, which showed lacklustre performance for most part of the year, ended two years of losses with a 4.8% gain in 2013.

Have observed the fallout experienced in the US and the Eurozone five years ago and the struggle that has ensued for those countries to get back on track, CBSL has, for some years now been implementing an

astute plan constructed on pragmatism, stability and consistency, to ensure a robust and resilient banking sector. By focusing on risk based supervision, calibrating the business model and processes within the banks and aligning the banking sector's mission with the emerging needs of the country's economy, there was an overall strengthening of the supervisory and regulatory framework as well.

There have been some key policies adopted in 2013 which included strengthening further the Internal Capital Adequacy Assessment Processes (ICAAP) and risk management frameworks, streamlined regulations of the sector's exposure to the stock market, the adoption of the New Accounting Standards and statutory reporting requirements and enhancing disclosure to instigate greater transparency based on prescribed reporting formats. A maximum interest level of 24% and penal interest rate of 2% above the applicable rates was also introduced, while exemptions were granted to encourage foreign borrowings, which encouraged licensed commercial banks to borrow upto US \$50 Mn annually until 2015.

The banking sector also must be commended for its unwavering focus in ensuring that a stable environment was continuous, which meant that in 2013, there has been a satisfactory rise in business volumes and reach. This augurs well in the larger vista, as the banking sector has now penetrated into some challenged areas that remained difficult to get to during the thirty year civil conflict, but is now showing a robustness that would see these provinces contribute significantly into the development agenda.

By November 2013, there were a total of 3,426 branches placed around the country, compared to 3,359 in 2012, while ATMs also saw an increase to 2,496.

The sector has also see the asset portfolio grow to 5.9 Tn,. Meanwhile, the funding structure has seen positive transformations adding focus towards local debt, equity markets and foreign borrowings. However, deposit and credit growth flat-lined to an

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extent as the market was yet struggling to revive itself from the credit ceiling imposed last year and the interest rate volatility seen in the industry. The sector did see a number of banks, using the strengths of their balance sheet to solicit foreign borrowings, raising a significant US \$1,548 in 2013, compared to US \$973 last year.

While resilience remained the hallmark of the banking sector, there was considerable focus on overall risk management, with general indicators showing stability and continuity. Total Capital Adequacy Ratios are adhering to stipulated diktats, while trends in liquidity too show stable signs. By end November 2013, liquid assets to total assets ratio stood at 32.1%, while credit to deposits and borrowing ratio stands at 66.1%. The Gross NPL ratio however seems to be showing signs of an upward movement, which may see the ratio close the year over 5%. This will surely make the sector much more emphatic on collections and monitoring.

With UBC also having a finance company within our Group umbrella, it is prudent for me to touch on the performance of the Non-Banking Financial Institutions, which in fact saw deposits being the major source of funding, representing 47% of total liabilities. CAGR was recorded at 23%, capital funds increased to Rs. 95Bn, an incline of 14% and accommodations accounting for 78% of assets, although growth moderated to 19%. Asset quality saw a deterioration. Displaying a similar picture to the banking sector, the NPA ratio inclined once again, to stand at over 6% by end 2013, primarily due to the dependence the sector has on the pawning business which was impacted considerably with the decline in global gold prices.

Given some hard lessons learned in the past vis a vis the NBFIs sector, CBSL has continued to regulate and monitor the management of NBFIs as well as spur a milieu that would ensure stability and sustainability through timely interventions, including the introduction of apt policy measures. In 2013, the scope of the Structural Changes Direction was aligned to current financial sector development, expanding its purview and

orbit. Regulations pertaining to the writing off accommodations on related parties and a regulatory framework prompting direction for debt instruments, interest rates and liquidity were introduced. Amendments to the Corporate Governance Direction were also issued. Another significant initiative was issuing of guidelines for the adoption of the Sri Lanka Accounting Standards, LKAS 32, 39 and Sri Lanka Financial Reporting Standards, SLFRS 7.

### OPERATING ENVIRONMENT

As a vital sector that drives the country's economy, the financial services sector is crucial to all other key economic hub industries. Given Sri Lanka's aggressive development plans coupled with lofty performance growth plans, it is imperative that the financial services sector continues to be an ideologue in meeting these goals and ambitions. It is this overarching tenet that has prompted the regulator to maintain a keen eye on the operations and emerging paradigms in this sector, being aware of threats, while exploiting opportunities and building on strengths. The policies and strategies adopted therefore have always been in ensuring stability and sustainability in the macro industry, while maintaining an empowered environment for the sector to operate in.

However, macro policies don't always have the desired impact in the medium term. A good example is the credit ceiling imposed last year, which once lifted however, fell way below expectation in getting back on track. There was no substantial credit growth in 2013 which was a disappointment to the industry. While the industry was expected to lend at least Rs 70 Bn each quarter, the actualities fell below expectation and this too was the trend for UBC, although, having envisaged a similar scenario, we looked inwards at consolidating some of our operations, systems and processes that would infuse a more efficient milieu in the coming year. This paves the way for 2014 to be an year that will see definite improvement and certainly augur well for us

because with this year being concentrated towards internal consolidation, we are now equipped with a far-reaching integrated resource portfolio, ready and able to work within a more robust credit environment.

The industry has also infused considerable investment into infrastructure, a phenomenon that UBC also engaged in, anticipating growth in all areas. This has seen us engage in innovative accessibility and reach initiatives, while increasing our physical presence in strategic locations. With prudent cost management being a focus and technology having always been a maven in our customer interventions, the UBC concept of growing the branch physical infrastructure on a planned geographical roll out, while also placing these branches within a geographical hub plan where several satellite branches will be spearheaded by a hub branch, has become an innovative model that we will surely take forward. We have also strengthened our unique Barefoot Banking concept further, penetrating areas that had hitherto remained un-banked or considered difficult, to add more impetus into our customer service initiatives. I'm of the strong view that as a Bank that has a distinct and unambiguous vision of where we want our journey to take us, it is imperative that we balance the concept of being conservative and aggressive, while preparing ourselves for emerging opportunities and creating a milieu in which our stakeholders are able to grow with us.

The Fiscal Budget 2014 made a significant change to the banking sector's taxation regime, with the addition of 2% Nation Building Tax. Given that this taxation is conceptualised to action exactly what it means, develop the nation, we do believe that in this time of ambitious national development, this taxation would be yet another positive avenue that would add much needed investment required for the country's development plans. While the addition of 2% NBT would significantly add to our taxation areas, we also cannot forget that just last year, applicable VAT was reduced and hence, the newly introduced NBT simply offsets that reduction.

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CBSL has unveiled several initiatives to take the financial services industry forward. One such, which will impact UBC, is that it encourages licensed banks to acquire NBFIs, while an individual corporate group will only be allowed to operate one NBFI. Another specific is that banks with assets below Rs 100Bn into which category UBC falls into, is expected to grow beyond Rs 100 Bn through organic growth or consolidation/merger with another bank or NBFI. NBFI merger plans must be submitted by March 2014. Our shareholding in UB Finance is 66.17% and while there are other shareholders, the structure is rather complex. There's also the need for NBFIs and that means UB Finance to be listed on the Colombo Bourse. Some of the finance companies that have come under the umbrella of a bank, like UB Finance for example, were taken over by the bank due to the finance company being distressed. Merging these finance companies with the banks therefore would have serious implications from a banking perspective, especially with regard to asset quality & provisioning.

Sri Lanka remains inextricably intertwined with Asia's growth, which continues to show consistency and less dependency on the west. If this advantageous feature is augmented further, it won't be long before Asia will have a strong trading bloc emerging from this region with Asia becoming the engine of growth globally. However, with Sri Lanka being considerably dependent on the west as a trading partner, the country will have to balance its focus, although we do see India and China have considerable influence in world trade and commerce.

With the Five Plus One Strategy well on its way to gaining fruition, UBC observes niche areas and investment opportunities that could make a significant transformation in our future strategy. Tourism for instance has been seeing and will see considerable investment infusion, which will signal spin-off industries including those in the SME and Micro areas. There will be cascading developments in service sectors, transport, F&B, human resources, craft and marketing to name a few, which means UBC's focus in

developing the SME sector will gain added fillip.

### PERFORMANCE IN SYNOPSIS

A detailed Statement of Account of our performance is available in this Annual Report. However, I would like to mention, that despite some business areas across the industry showing lacklustre performance, UBC managed this challenge astutely, to eventually post a Profit Before Tax of Rs. 106Mn and Profit After Tax of 113Mn. We did also grow our deposit base, once again despite numerous emerging challenges, equipped as we are with a vibrant team for whom challenges are exciting and aided by technological initiatives and unique product introductions during the year.

Hence, at end December 2013, our deposit portfolio stood at Rs 28.3Bn, an increase of Rs. 22.5% over last year, despite operating within an environment where interest rates continued to decline. The upward movement is commendably attributed to our team's efforts in launching timely and innovative products and services, that stemmed the downward trend and worked on successful mobilisation of deposits, which augmented our bottom line.

Credit growth remained subdued this year, primarily due to not leaping back from the credit ceiling of 18% imposed in 2012. Despite the relaxation of the ceiling in 2013, private sector credit growth remains worse off than in 2012, which was exacerbated further with international gold prices dropping drastically this year. This phenomenon had not been predicted or envisaged and hence had permeating negative impacts across the pawning industry, which comprises a considerable segment of business. However, it is noteworthy, that UBC's credit growth, though continually challenged due to external circumstances and intense competition, posted a commendable 17.5% growth, well above industry growth of 8%.

With the mismatch seen in interest rates both in lending and deposits, net interest

margins began shrinking, a phenomenon that remained prevalent throughout the year. There is a dire need for interest rates to even out although the expectations are that there will be further decline before upward momentum is observed. Lackadaisical performance continued to dog the leasing business too, an ubiquitous feature across the entire industry, aggravated by high duty rates on economy vehicles, which made leasing vehicles by the lower and middle income earners a non-starter.

This slower credit growth did have an impact on our SME business as well, although, UBC's strategic focus and constant monitoring has been the advantage in maintaining consistency and sustainability in our SME business, which forms the majority of the Bank's business mix. You may recall that UBC first began concentrating on the SME niche in 2011 post a Strategic Review and Plan headed by external consultants who pointed out that this focus would best fit UBC's persona. Very visionary at the time, this has surely tied in well with the country's forward progress, giving UBC immense scope to grow the SME portfolio. Each of the strategies we employ therefore has been seen to augment our SME focus and this includes our expansion, networking and technology plans.

An initiative begun last year, we continued to hone our centralised operations adding more operations into the centralised purview. The new credit processing unit for instance, is completely dedicated to processing proposals, which allows the branch team to concentrate on sales and marketing, working on relationship management and customer service. The addition of this unit has also added a better line of monitoring and controls, while honing efficiencies within the system. This also meant that productivity increased within our teams.

Another significant milestone we achieved during the year was that we notched the largest number of branches opened during a single year within the history of Union Bank. We now have a total of 51 branches, which



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we hope to increase to 75 by end 2014, ably supported by state of the art technology and managed by an exceptional team, who also champion unique initiatives to reach customers, including barefoot banking and good relationship management. Most of the branches have an unwavering focus on catering to SMEs manned by trained expert professionals in SME. Our geographic placements being primarily outside the western province, in areas where UBC sees potential for SME growth, also evidences our commitment to growing the SME sector.

Adding to our compliance and governance profile, UBC established a Group Integrated Risk Management Committee, which would lead to the implementation of three internal risk management committees. This would enable comprehensive analysis, evaluation and review of the Group's operational risk profile, liabilities and assets, while also placing a spotlight on compliance and governance. The establishment of the Internal Capital Adequacy Process designed to evaluate and review risk faced by the Bank, allowing for more in-depth analysis of the risk environment is also significant.

### THE TECHNOLOGY DRIVER

Being a National Best Quality Software Award winner consistently for our pioneering IT initiatives, UBC has always emphasised that IT is not merely a support feature in our operations but rather a vital backbone in our entire existence. It is this that drives us to continually innovate and pioneer technological products and services that would add impetus to extending better service to our customers. As an example, having been the first to launch Internet Banking in Sri Lanka, as well as TV Banking among a host of other conveniences, UBC's objective to become The Preferred SME Bank, means that not only do we require state of the art technology to support our rapid expansion plan, but we also need technology to gear us towards managing a growing SME customer segment. This led us to upgrade our Legacy System.

Our most exciting milestone in IT this

year was the implementation of our Core Banking Solution, sourced from the reputed Silverlake Core Banking Systems and will be completely in operation by March 2014. We strongly believe that this Core Banking Solution will add the imperative impetus we need to move towards our future plans, where we can further hone our customised product portfolio among other positives which we envisage.

We have also strengthened our technological prowess in risk management with the initiation of the Kalypto Risk Management system, which enables a transparent accountable approval process for all credit proposals. This not only moves UBC towards a paperless environment but also, significantly aids the centralisation process, giving more autonomy to the branches.

### MOVING TOWARDS NEWER HORIZONS

We espouse the phrase, business as usual, it really means that. While we are actually about to make significant inroads into areas that have hitherto remained uncharted, this may undoubtedly pose the conundrum to some that what we are trying to do is impossible. This feature has always been our premise, a foundation that we have used to build a strong and stable bank that relies on its professionalism, expertise, values and ethics to make a difference to our stakeholders. The very fact that we have focused so emphatically in the SME sector and given extraordinary support to uplifting this sector is a primary example. However, we are also well aware of the importance of ensuring a sustainable business mix, which while remaining primarily with the SMEs, will also have a strong personal and corporate customer input.

The plans we have etched also have our team in mind. This is a team that has risen beyond challenges and perceived each hurdle, not as an impossibility, but as business as usual. This gung-ho attitude has led us to pioneer numerous initiatives in the industry, notching benchmarks that others now emulate. However, in a

constantly transforming milieu, there's a need to imbibe this winning team within a learning and development culture. We will be even more emphatic in ensuring that our team is equipped with the apt skill and knowledge to meet the demands of our focused strategies for the future.

This also means that our team will be prepared to spearhead our expansion and networking plans, be well honed in knowledge and skill to work aptly both with technology and human intervention, adding professionalism and experience into the equation. Our branch network, which will speedily reach 75 by end 2014 and be augmented with other avenues of reach and accessibility, will be manned by teams who will market the Bank more aggressively, driving each touch-point to optimise results. We intend being more emphatic in growing our factoring business too, which we do believe holds immense potential for growth.

The New Year will see UBC move to wider horizons, where we will seek newer investors who will guide us into an era that promises to be vibrant and prosperous. We will be setting our sights on honing our niche but also moving into other areas that show potential. We will also seek more innovative avenues to grow our business portfolio, while maintaining an unrelenting focus on aligning our SME vision to that of the country's SME vision, making this segment a strong and robust economic contributor, designed to pioneer, innovate, develop and drive industries, while empowering communities in a sustainable manner.

Technologically too, UBC will continue in similar vein, honing our centralised operations even further with new software, systems and processes aimed at increasing productivity, efficiencies, aiding prudent cost management and minimizing human intervention. We will also embark on a Business Process Regeneration Project in 2014. Into our extensive product and services portfolio, we will add a bundled Debit Card, while remittances too will gain more impetus with the opening of new alternate channels.

## LEADERSHIP FORUM CONTD.

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Sri Lanka has certainly displayed beyond doubt that the country is well entrenched to achieve its vision, evidenced by key performance indicators. As a Bank that has committed ourselves to being a firm partner in the country's development drive, we are well poised to take advantage of the opportunities emerging in key sectors, including tourism. The groundwork has already been laid and the next year will see us moving towards attracting new investors to put our plans into action.

### IN APPRECIATION

While the macro milieu evolved into a mixed bag of ups and downs, UBC asserted its stance in the banking industry by continuing to implement its strategic plan with absolute focus. This is primarily due to the leadership, direction and guidance that has been continually extended to me by the Chairman and Board of Directors for which I'm most grateful. Their confidence in me gave me the impetus to lead a team of dynamic and motivated professionals and post the good results you see today, despite a slew of challenges which has been synonymous with the industry.

Being extremely cognizant of the absolute need for compliance, transparency and accountability in an era where governance lies supreme, I'm most grateful to the Governor of the Central Bank and his officials, who have always extended immense assistance whenever we required it. The avenues of dialogue and communication that we have now opened will surely help us in working our way towards meeting our goals, keeping us aligned to the requisite diktats, regulations and guidelines that are designed to maintain a vibrant and sustainable industry.

I'm indebted to my management and team whose credo has always been in doing the impossible but calling it business as usual. You've worked in challenging circumstances which sometimes added unforeseen hurdles but managed to emerge even more determined to succeed. Thank you for your

unbridled support and your need to always do better.

In a business environment where competition is intense, I'm thankful to the loyalty and confidence our customers and valued business partners have continued to show us. Your enthusiasm in becoming partners to our success, has led us to always be cognizant of emerging paradigms that would impact our stakeholders, taking precautions and managing challenges to ensure sustainable growth all around. You have truly become one with our Bank and we look forward to your continued relationship with us, constructed on a strong sustainable foundation of ethics, values, principles and transparency, where we will always innovate banking solutions through professional and empowered people.

## LEADERSHIP FORUM CONTD.

**“Over the years, our strategy has been simple and uncluttered. Our vision was to partner the country’s growth agenda by assisting the backbone of development, the SME sector”.**

The avid concentration to further solidify our vision to becoming the preferred SME Bank in Sri Lanka took on more emphasis this year as we began focusing on multiple avenues that would augment the national development agenda initiatives of nurturing and strengthening entrepreneurs and the SME sector in the country. Over the years, our strategy has been simple and uncluttered. Our vision was to partner the country’s growth agenda by assisting the backbone of development, the SME sector.

We supported business start ups, gave advice and consultation, added leadership and marketing tenets and boosted small and medium industries with avenues to make their ventures sustainable. This heralded a new, confident breed of entrepreneurs and vital industries that had hitherto not had the assistance of financial services and germane value additions to give them the knowledge, skills and funding to improve themselves and thus their communities. UBC’s simple recipe thus, augmented a vital passage in the country’s development agenda, while creating a sustainable brand of SMEs that would contribute significantly in uplifting livelihoods, communities and eventually, the nation. This was the way we did business, based on a simple vision that was practical and pragmatic. Our strategic focus therefore continued throughout the year in stronger mode, expanding and strengthening our SME sector to herald a healthy SME to corporate mix.

The centralisation processes we introduced last year added to the smooth back office workings to create a more efficient system that added value and credence to our end goal. More initiatives including maximising on the advantages that would ensue with



A. N. De Silva  
Chief Operating Officer

our new sophisticated Core Banking Solution figured considerably in timely decision making and approvals, for speed, efficiency and stringent controls.

Adding to the tasks performed by the Central Processing Unit which began handling the scanning of new accounts and infused significant tangible results in ensuring that the branch in itself is eventually free of documentation, a dedicated Central Credit Processing Unit was established this year. It is tasked with processing new proposals marketed by the branches, annual credit reviews, thus freeing the branch manager and his team to concentrate on marketing and strengthening customer relationships.

Based on the objective of making our operations leaner, more service and market oriented, which is currently being done with continuing centralization, our main focus will be to concentrate on growing our assets and liabilities. We also observed a considerable forging and strengthening of relationships between our SME customers and the UBC team, whose expertise in assisting this sector with much more than

financial services, remained the key to ensuring our competitive edge.

The robust SME strategy we employ saw us expand our branch network to 51, concentrated largely outside the Western Province. The decision to focus primarily on strategic locations outside the metropolis is two pronged and firmly aligned to edging us closer to our vision of being the Preferred SME Bank. Firstly, there has always been a strong SME presence in geographic areas outside the Western Province, which have immense potential. Secondly, while SMEs in the Western Province are focused on continually by other financial service providers due to their large concentration in this Province, SMEs away from such Provinces though requiring even more focus given the larger numbers, tend to get sidelined or ignored.

We have always believed that these SMEs can become extremely successful with the apt support, which we began extending, not only with targeted products and services, but value additions including technical and marketing advice. Hence, while UBC has a presence of 21 branches in the Western Province, our reach is now extensive albeit strategic and includes a presence in areas that have minimum banking presence including Kebethigollawa and Horowpathana. In fact, we have broken ground in some of these areas, being the first private commercial bank, auguring well for our sincerity and commitment to integrating the SME sector into our key operations, while ensuring that the sector maximises from our presence in these areas. By end 2014, we intend expanding our reach to 75 branches, retaining our emphasis on presence in the provinces.

Working on optimising our strengths and maximising on opportunities while initiating prudent cost management, UBC has always acknowledged the imperative role played by technology in these three vital areas of business. The state of the art Core Banking Solution which is billed to go live in the first quarter of 2014 will certainly add the competitive edge to our end objective of

## LEADERSHIP FORUM CONTD.

eventually being named among the best banks in Sri Lanka.

Two major developments are to be heralded in the risk arena this year; firstly the introduction of the ICAP or Internal Capital Adequacy Process which annually evaluates and reviews the risks confronting the Bank on all fronts including interest rate, strategic, reputation and legal and secondly, the establishment of the Group Integrated Risk Management Committee based on the diktat of the Board of Directors. Under this initiative, three internal risk management committees will be established tasked with analysing, evaluating and reviewing Group operational risk, Group assets and liabilities and Group compliance.

UBC's compliance initiatives were also added to with new risk management technology via the Kalypto Risk Management system, a vital tool in our risk management process. Post analysis of our risk exposure last year, the deduction pointed towards UBC's need to emphasize more on the preferred client segment of the Bank and reduce concentration on big time corporates. The new system enables all credit proposals submitted through the system, including facilities approved by the Board of Directors, to be subjected to a standardised highly transparent and accountable approval process. An added benefit is that this paperless process leads us towards achieving one of our sub-objectives of eventually becoming a paperless bank.

This commitment to a paperless environment continues unabated as we strongly believe in reducing our carbon footprint in any way possible. Electronic mail registers and e-document forwarding systems have been implemented this year, while internal communication within the entirety of the Bank's operations remains for the most part, on an e-platform.

The year showcased a milieu of declining interest rates in deposits, having analysed emerging trends, UBC was quick to turnaround a downward trend, successfully mobilising additional deposits through the

introduction of a slew of new products and services. These include Double Vaasi, Call and Pay, Sarisara mobile Banking, launching of the Union Bank Mobile Banking App on Apple and Android platforms, all of which are designed to add value to a customer's aspirations and expectations.

UBC's credit growth showcased a difficult year, as private sector credit demand was extremely low which was a phenomenon across the entire banking industry. However, given the UBC Team's dynamism, UBC's growth percentage did move upwards, above industry standards. While our gross NPL ratio stood xx%, the constant emphasis on quality ensures that our credit portfolio is constructed on a sound, strong and qualitative portfolio with minimum risk exposure.

This leads us to also focus on our recovery process, which is one of the most critical areas in ensuring a sustainable business that would showcase consistent performance. Cash flow delays have impacted our business negatively, especially in the SME sector, but is a phenomenon that is ubiquitous in this business sector. This however does not mean complacency, but rather making UBC proactive in eliminating such delays, by employing stricter monitoring and controls. The emphasis on monitoring and containing Non-Performing Advances gains complete engagement from top management downwards and is designed to ensure that UBC will assuredly collate the most qualitative portfolio possible.

Another factor that did impact negatively this year is the downturn observed in the pawning sector, which is a major contributor to the Bank's revenue mix, holding 10% of our portfolio. The downward spiral and ensuing volatility in gold prices, which once again impacted the entire pawning industry saw considerable decline in the performance of this sector. However, this is a vital segment of business that marries well with SMEs and entrepreneurs and hence, while the impacts are of concern, we are taking steps to address the challenges that would ensue in this environment and

implement strategies that would minimise risk and enable us to continue supporting this vital conduit in SME business.

Observing the volatility seen in some areas of business of which more often than not, we have little control over, UBC is pursuing paradigms that would improve income streams and reduce dependency on some volatile business areas. By focusing on diversified business alternatives including mobile banking, bancassurance and remittances, all of which have minimum exposure to macro occurrences, we do believe we are creating a stable and strong base to grow our business.

Development of Human Resources continues to be an integral facet in our Strategic Plan, pursued aggressively via our performance plan spearheaded by the Leadership Team. Balanced Score Card assessments are now used extensively to measure performance and productivity, both individually and collectively. Under-performance in any area is critically evaluated with remedial measures implemented. This assessment also forms a crucial platform for succession planning, rewards and remuneration.

UBC is extremely confident of the macroeconomic environment prevalent in the country, having observed accelerated development in infrastructure, increasing numbers of tourists and investments, key industries gaining crucial ground to meet ambitious targets, a successfully concluded CHOGM which added to the positive features of an emerging economy and increasing business confidence. The macro fundamentals are in place for UBC to pursue our end vision, given the national focus SMEs have received in the Fiscal Budget of 2014. We also believe that as a corporate steward with aspirations of eventually being named among the top five banks in the country, we have a responsibility to create a sustainable platform of social inclusion, equity and equality, which can only be done if the country stands aloft on a united platform and a common vision.



## LEADERSHIP FORUM CONTD.

**“The Credit Team at UBC certainly performed a task worth commending, becoming extremely proactive in this sluggish environment and for having observed the signs and begun a strategy to improve credit business.”**

Being even more determined to reach our vision of being The Preferred SME Bank continued to gain momentum this year. Given the emphasis placed on the SME sector in the Fiscal Budget 2014 and the Government’s unwavering intensity to ensure that the SME sector gains its rightful place as a strong contributor to the national economy, we at UBC feel immensely privileged to have joined the country on this journey, taking responsibility in meeting national goals. Being the preferred SME bank for the country has been our primary focus in business, but it is one that requires tactical strategy, innovative thought and a penetrative presence. We also realize that our plan of action must be constructed on a strong portfolio of products and services that not only meet the requirements of our SME customers, but also move beyond to exceed customer expectations, steering these customers on a path that they may have hitherto not journeyed.

The SME customer profile is generally one which remains on the sidelines of national development, not within the uniform bankable system and while being skilled and knowledgeable in some areas, may not have the holistic scope of the market, technology and aspirational initiatives to move ahead. This is where UBC has surely made inroads, as the relationships we forge with our customers go beyond simply providing products and services and into a realm that prompts a lifelong partnership which assures success for them and us. It is this formula, which for us is business as usual, that has created the strong foundation for the sustainable growth we have posted for



Ravi Divulwewa  
Vice President - Credit

UBC including in the credit area, which while reflecting the nuances of the macro milieu, nevertheless, gives credence to our strong fundamentals.

As we began the year 2013, the industry had just emerged from a milieu where the CBSL stipulated diktats curbed overall lending within a ceiling of 18%, prompting an extremely challenging year for credit business in 2012. With the lifting of that ceiling, the industry was hopeful of a more growth oriented credit environment, which would add more buoyancy in the lending arena. However, this proved otherwise and the industry seemed to wallow in lethargy with credit continuing to flat-line throughout the year.

The Credit Team at UBC certainly performed a task worth commending, becoming extremely proactive in this sluggish environment and for having observed the signs and begun a strategy to improve credit business. The challenges were numerous however neither the SMEs nor the corporates seemed ready to face a milieu of augmenting credit growth just yet.

However, despite considerable challenges, UBC did end the year on a significantly higher growth average than the industry which showcased at 9%, while UBC sits at a comfortable 16%. This is commendable given the industry’s lackadaisical feel throughout the year. It must be noted that UBC’s growth remains below the ceiling of 18%, which was imposed last year, a feature that we have been taking note of and will work on improving over the next year.

We strongly believe that the pervasive strategy UBC planned over last year to work within the challenge of the credit ceiling geared our branch teams to focus extensively on this area of business. While the strategies employed last year including the centralization of the credit approval process, more focus on relationship development and cost management, increasing productivity and better controls and monitoring were continued with even more dynamism this year for better overall credit business growth. Our strategy has always been to work on flexible strategic business plans, so external nuances and paradigms can be imbibed. Hence, the slow business feel fueled our branches to becoming more proactive this year, despite working through diverse challenges, which seems to have founded the recipe for success. The teams in all 51 branches worked on a common strategy of building our SME customer base by developing customised solutions that would add fillip to these customers’ business aspirations.

However, we did come across another hurdle during the year, the volatility of gold prices which impacted our pawning business. Pawning is highly intertwined to developing our SME business and given the drastic decline in gold values, the entire banking industry saw dramatic leeward in the demand for pawning. Another negativity that emerged in this scenario is the difficulty in recovering the pawning advances granted. However, once again, UBC’s proactive stance fueled a renaissance, initiating the conversion of these pawning advances into term loans, which ensured a proper repayment programme.

## LEADERSHIP FORUM CONTD.

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In this sentiment, the NPL ratio which we have always maintained at manageable levels, increased due to the negativities that emerged from our pawning business. The NPL ratio of UBC was 8.2% , slightly higher than the industry average was purely due to the fallout from the pawning business. Realizing the emerging NPL challenges during the year, UBC did work on some strategies to assuage the fallout and are negotiating some large settlements which will infuse a more even keel to our NPL exposure.

The decline in interest rates in the lending arena has been faster than the decline in interest rates in deposits which placed us in a slight quagmire, given that, on seeing the decline in interest rates for advances, customers demand low rates aligned to the phenomenon. With net interest margins shrinking, this aspect requires further evening out, before an improvement is seen, although expectations are that rates will decline further. The leasing market too did not perform as anticipated due to a number of reasons including the high duty rates on economy vehicles making leasing vehicles prohibitive.

We also anticipate challenges in continuing to grow our Advances portfolio, which has fallen prey to various external issues, all of which are permeating the entirety of the industry. However, we will continue to see a tangible increase in SME lending, as the corporate sector being extremely interest rate sensitive, as is characteristic, will demand lower rates, forcing us to emphasize more on SMEs. Given the strategies we work with for the SME sector, we do believe we can create a much more empowering environment for this sector and given the holistic nature of our interaction, can retain and grow the SME customer profile much more dramatically.

There is also a need for UBC to focus much more on our factoring business, in which we observe significant potential in the coming years. We have already seen appreciable growth in factoring due to an intense plan we employed by strengthening the department

in knowledge, skill and professionalism, which triggered a rapid increase in the portfolio. The coming year will see UBC build much more emphasis around this area of business.

We foresee the next year auguring well for UBC given the stability we have been seeing in the general fiscal conditions. Our strategy of being present primarily outside the western province to serve our preferred customer segment, which are the SMEs, is visionary as we are now able to reach communities that have hitherto remained on the outskirts of the banking system. Our belief that the smaller SMEs, especially those at grassroot level have immense potential given the noteworthy growth we have seen in this sector proves that we can continue focusing significantly on this niche area. This will surely fuel a strong bottom line and a sustainable ongoing business model prompting a significant achievement for UBC, which is a relatively young bank in the greater scheme of things.

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**“we have continued to maintain and sustain a stable and strong financial foundation, that allows us to meet our ambitious objectives that are inextricably intertwined with national development”.**

As we look back at an year that has transformed national focus, triggered thought process and encouraged sustainable development, for us at Union Bank of Colombo, those dynamics have always been resident in the way we do business. The stories of success that we have prompted by identifying and forging relationships that today contribute significantly to the national vision, the uncompromising value ethos we have always espoused, creating SME enterprises that have transformed lives, birthed industries and seen economies in both rural and urban settings prosper, has been the philosophy we have always espoused. But to do all this, we have continued to maintain and sustain a stable and strong financial foundation, that allows us to meet our ambitious objectives that are inextricably intertwined with national development. While what we have mapped for ourselves may be considered impossible, for us, it is simply going about our business.

## ECONOMIC OVERVIEW

One of the biggest challenges facing the banking industry overall was the considerable decline in gold prices, showcasing a 27% drop YoY. This impacted pawning business, which forms a bulk of the financial services industry's business portfolio, taking quite a slice off projected profits. The rupee also depreciated by 2.5% which though seemed to stabilize towards the end of the year. Inflation remained at low single digits of 4.7%, while the repurchase rate reduced from 7% to 6.5% and reverse repurchase rate, in similar vein, reduced from 9% to 8.5%. An increase in liquidity in the market was prompted with the statutory reserve ratio working downwards to 6% from 8%.



Malinda Samaratinga  
Chief Financial Officer

### *Monetary front shows encouraging signs*

The Average Weighted Prime Lending Rate was seen in the range of 14% in January 2013 but moved downwards to 9.9% in December.

The Average Weighted Deposit Rate declined to 9.7% during the year, while the Average Weighted Fixed Deposit Rate in similar fashion, declined to 13%.

## UBC PERFORMANCE

### PROFITABILITY

It has certainly been a challenging year from an operational perspective given the adverse market conditions we were forced to conduct business in. However, this has been a ubiquitous paradigm pervading the entirety of the financial services industry.

This therefore led to UBC displaying a decline of 64% in its profitability, posted at Rs.113 Mn by end of the year. Pawning

provisions stood at Rs.228 Mn and the shortfall in comparison to the budget and compared to last year, is primarily due to the drastic decline in gold prices. Point to point reduction of gold prices from January to December is approximately 27%.

However, the unfavorable impacts were cushioned considerably with most of UBC's key indicators performing better than industry average. There was 17% seen in loan growth, compared to the industry average of 9%, a deposit growth of 22.5%, while the industry stood at 17% and NPA (without pawning) standing at 5.9%, which last year was 7%. UBC's expansion plans too continued unabated with a 42% expansion in reach, evidenced by the branch network increasing to 51 by end 2013, compared to the 36 branches within the network in December 2012.

There has also been continuous focus in infusing state of the art technology into our banking systems and processes, prompting better productivity, efficiency, controls and monitoring. The Information Systems implemented by Silverlake is in its final stages and billed to be completed in 2014, while the Kalypto system is already in operation. The centralisation process instituted and permeated throughout the Bank's operational purview and designed to add further efficiencies, saw back office functions including the Central Credit Unit functioning at very high productivity, leaving branch personnel to focus more on identifying, nurturing and strengthening business opportunities.

In recognition of UBC's status as a corporate steward and industry leader which has been evidenced by our constant focus on the triple bottom line, we are honoured to have been conferred the accolade of Training Partner by the Institute of Chartered Accountants of Sri Lanka. This gives us the opportunity to hone the skills and talents of young entrants into the financial services industry, being mentors in ensuring that they are equipped with the apt tools and knowledge to become significant contributors to the industry's vision.



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The Group reported Rs.99.3 Mn in profit, also a decline in 80% compared to the previous year. However, it must be noted that in 2012, UB Finance posted an extraordinary profit of Rs.199Mn due to the Deferred Tax Asset being shown in the books, for the losses carries forward from pre- acquisition time. Despite the expansion and investments on resources required for restructuring, in 2013, UBF operational losses reduced to Rs.46 Mn. NAMAL recorded their best performance post acquisition, recording a noteworthy profit of Rs.21 Mn for the year.

## INCOME

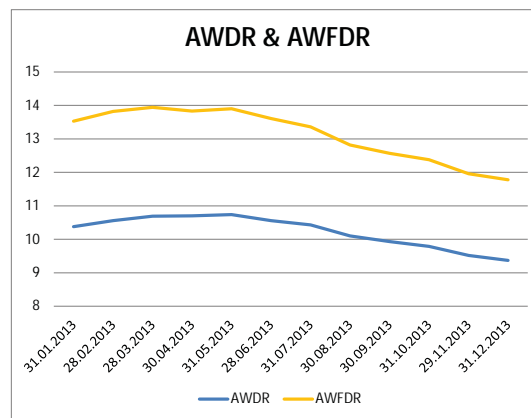
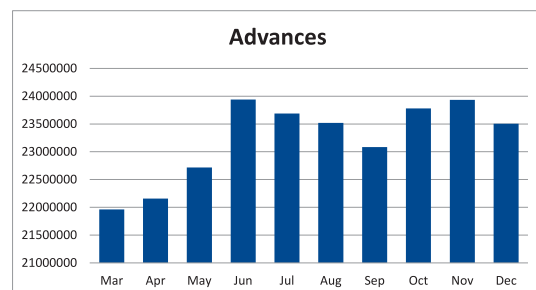
## FUND BASED OPERATIONS

## Interest income

Interest income delivered Rs.4.1 Bn in an increase of 20% compared to 2012, with support from advances, which showed growth of 17.0% to Rs.23.5Bn by year end.

Interest Income of the Group inclined 21.1%. Group level advances notched 21.4% growth.

## Interest Expense



Interest expense increased by 34.5% to Rs.2.9 Bn, while a 22.5% increase in the deposit base to Rs.28.3 Bn is reported for 2013. Market rates remained high during the first half of the year, although a sharp decline was noticed towards latter part. The Bank's interest rates offered on deposits followed market patterns, which rates in perspective, were higher in 2013 than in 2012.

Group interest expense was Rs.3.1 Bn, which is a 40% increase compared to the previous year. Group borrowings increased to Rs 29.5 Bn, displaying an incline of 24.2% compared to 2012.

## Net Interest Income (NII)

NII declined by 6.3% compared with last year, standing at Rs.1.2 Bn, primarily due to the increase in Advances to Deposit ratio, resulting from the rapid increase in deposits (in comparison to lending). the Bank's YoY Advances to Deposit ratio improved to 82.9% from the previously posted 86.5% in 2012.

The Group reported a decrease of 8.8% due to similar reasons with the Group's Advances to Deposits Ratio standing at 86.1% , a decline from last year's 88.1%.

## CASA Mix

With CASA dropping to 19.2% from the previous year's 20.1%, UBC instituted several initiatives to improve CASA which included the introduction of Telephone Banking, joining the Lanka Clear Payment Switch and introducing TV banking into the mix. The low CASA showcased also added strain on the NII.

## Income from Fee based operations

This income increased by 8.6% to Rs.108 Mn primarily due to the increase observed in Trade and Remittances. The Group also showed similar paradigms, displaying 16.8% increase from that of the previous year.

## Net Trading Income

Net Trading Income detailed an impressively large increase of Rs.120.9 Mn from the comparative Rs.10.2 Mn, resulting mainly from investments in Unit Trusts. This strategy was employed to increase the yields, while funds were pending disbursement.

There was negative impact on NII due to income reported under Trading Income. The cost of holding this is shown in the interest expense.

Other Group companies did not report a significant trading income.

**LEADERSHIP FORUM** CONTD.**Other income**

UBC reported 17.3% growth income, posting other income of Rs.393 Mn for the year. This was mainly driven by the disposal of 40 million UB Finance shares at Rs.3 per share, resulting in a capital gain of Rs.100 Mn.

In addition, the Bank received Rs.9 Mn in dividends from NAMAL during the year.

Foreign exchange income posted negative growth, resulting in a 22% decrease, with the primary cause being in the decrease in margins due to the competitiveness in the business.

**Treasury**

The Treasury posted an average year in terms of profitability, as overall income declined by 33%. Fixed Income recorded a marginal increase of 6.5%, while Foreign Exchange income declined by 29% mainly due to thinner margins, which is a result of the intense competition prevalent in the market.

**IMPAIRMENT**

Impairment for the year is detailed at Rs.328 Mn, compared to 2012 showcasing the provision reversal of Rs.8 Mn. The significant level of provisioning due to the poor performance seen in the pawning portfolio is the primary reason impacting the impairment cost of the Bank. The individual threshold remained similar to last year. Loans meeting the criteria required were individually analysed to decide the recoverability of each loan.

In Rupees	31.12.2013	31.12.2012	31.12.2011
Gross Loans and Receivables	23,994,425,634	20,442,842,571	17,720,001,722
(Less): Individual Impairment charges	(165,628,397)	(330,457,436)	(372,271,860)
Collective Impairment charges	(366,871,791)	(876,558,47)	(54,800,817)
Net Loans and Receivables	23,461,925,446	20,024,729,288	17,292,929,045

Collective provisions were implemented based on the product categories of the Bank. Historical information of individual products were analysed to arrive at the probability of default and loss, given the default in arriving at the impairments.

UB Finance is not affected due to pawning and showed an improvement in impairment charge. As a result, Group impairment stood at Rs.27 Mn lower than that of the Bank.

**OPERATING EXPENSES**

Despite the increase of Branches by 40% to 51 branches in strategic locations, the prompting of greater efficiencies in operational expenses instilled a positive feature of seeing operating expenses increase by only 15.38%.

This expenditure was mainly driven by staff and office establishment expenses.

The Group resulted a 21.15% increase in costs however, incurred due to the establishment of resources for UB Finance.

**FINANCIAL VAT ON PROFIT**

Taxes remained low, due to the low profitability of the Group.

**TOTAL ASSETS**

Total assets increased by 13.6% to Rs.35 Bn due to Advances and other investments in Government Securities and Repos.

Group Assets too heralded an incline to Rs.36.8 Bn, which is a 16.9% increase in comparison to the previous year.

**RATIOS****Credit Quality**

Assets Quality	2013	2012
Gross Non-Performing Advances Ratio% (Without Interest in Suspense)	8.24%	5.43%
Net Non-Performing Advances Ratio % (Net of Interest in Suspense and Provision)	7.79%	4.45%

Calculated based on CBSL Guidelines

NPA as at year end remained at Rs.2,375 Mn which is 9.8% of the portfolio. The pawning portfolio amounted to Rs.946 Mn of this.

The NPA ratio of the Bank for products other than pawning showed an improvement in comparison to the previous year. It stood at 5.1% in comparison to the previous year's 6.1%.

**LEADERSHIP FORUM** CONTD.**Return on Assets Ratio (ROA)**

This ratio decreased to 0.32% compared to 1.6% in 2012, triggered by the low profitability of the Bank during the current year.

A similar paradigm occurred for the Group which decreased to 0.31% compared to 1.54% in 2012.

**Return on Equity ratio (ROE)**

ROE decreased to 2.06% from 5.88% due to similar reasons as did the Group which showed a ratio of 1.90%

**Cost to Income**

Despite aggressive expansion, the Bank managed to maintain the Cost to Income ratio at 71.52%, a marginal increase from 2012.

**Liquidity**

The Bank maintained a healthy liquid asset ratio throughout the year.

Liquid Asset Ratio	2013	2012
Year End	22.14%	23.35%
Maximum	23.52%	23.46%
Minimum	20.59%	21.28%
Average	21.88%	22.29%

**Capital Adequacy**

UBC remained one of the strongest capitalized banks in the country as seen in the table below:

Capital Adequacy	2013	2012
Core Capital (Tier 1) Ratio	17.91%	21.24%
Total Capital Ratio	16.89%	20.34%

**Group Performance**

Rs. Mn	NAMAL	UB Finance
Total Asset	191.4	2,726.3
Total Liabilities	10.9	2,179.2
Net Assets	180.5	547.1
Profit/Loss after Tax	21.1	(46.1)

## LEADERSHIP FORUM CONTD.

**“UBC has gained for itself an enviable reputation of being a pioneer in introducing IT products”**

There have always been imperative dynamics that have driven the success of our business. And into these dynamics there has always been a backbone that has remained strong and strident in ensuring this success. Information Technology is an assertive support facet that has surely etched the blueprint for creating and forging a sustainable business, that for others may have seemed impossible. IT undoubtedly is a key factor that drives successful business and gaining a competitive edge remains hinged on IT initiatives being timely, efficient and driving productivity, to stay ahead of competition. Sophisticated technology has become a way of life, critical to myriad areas from industry to government, people to infrastructure, ensuring smooth transitioning of systems and processes that bridge gaps and leave no areas untouched.

### UNION BANK WITH TECHNOLOGY

The need to ensure that UBC's business is sustainable and able to identify its strengths, weaknesses, opportunities and threats, manage risks, maintain costs prudently and be astute in decision making is based fundamentally on the progressive use of technology. The systems and processes introduced therefore, enable customers to access superior service, sophisticated products in continuous real-time accessibility.

With UBC's focus on becoming the Preferred Bank for SMEs, which also means supporting the rapid expansion process planned, the Bank's Legacy System has been upgraded in tandem, to gaining closer access to this vision. Given UBC's ambitious plans for the medium to long term, a timely decision was made to obtain a new state of the art Core Banking Solution. A thorough evaluation



Rajeev Munasinghe  
Vice President - Information Technology

process resulted in the conclusion of implementing the Silverlake Core Banking System, which would ideally correspond with the Bank's plans. Implementation began in October 2012 and is billed for completion in March 2014.

A new risk management system too is being implemented to cover Credit, Market and Operational Risk.

### BEING A PIONEER

UBC has gained for itself an enviable reputation of being a pioneer in introducing IT products that have seen it gain the accolade of National Best Quality Software Awards for a number of years. A pioneer in launching Internet Banking to Sri Lanka, UBC was also the first to introduce an off-site ATM, statements via mobile phones, e-cheques, TV Banking and the unique Barefoot Banking platforms.

All these products and services work on the premise of adding value to a customer's expectations and aspirations, while also fueling development of the financial services

industry, upping prevalent benchmarks. For example, TV Banking allows the payment of utility bills and other transactions while watching television from the comfort of a home, a service that yet remains one that is only offered by UBC. In fact, this concept is unique to the entire region, although, some countries do offer balance inquiries via television.

Similarly, Barefoot Banking brings the teller to the customer's doorstep, where all transactions including depositing cheques online can be done in this manner, another feature that remains unique to UBC.

UBC's technological capabilities continue to be showcased when it became the first private bank to join the Nation Common Payment ATM switch, networking more than 1,300 ATMs for customer convenience. Another first to the market is UBC's trilingual mobile app, launched this year.

### TECHNOLOGY, UBC AND THE FUTURE

The Bank's new software developments are designed not only to improve operations, services and products but also to maximize productivity, infuse efficiency, speed and data into a network fueling timely decision making. Into this equation, the Bank continues to centralise some of its key processes, decreasing manual intervention, which has seen a tangible reduction in cost and immense improvement in efficiency.

Next year will see the Bank augment on the new software introduced, adding a Business Process Regeneration project in early 2014.

From a product perspective, UBC will introduce a Debit card, which will be bundled with various offers and discounts for value addition. There will be added focus on increasing remittance business, which remains a crucial conduit within the Bank's business, by opening new channels especially in the UAE, added to significantly by the increasing network of ATMs for more accessibility in withdrawals of these remittances.





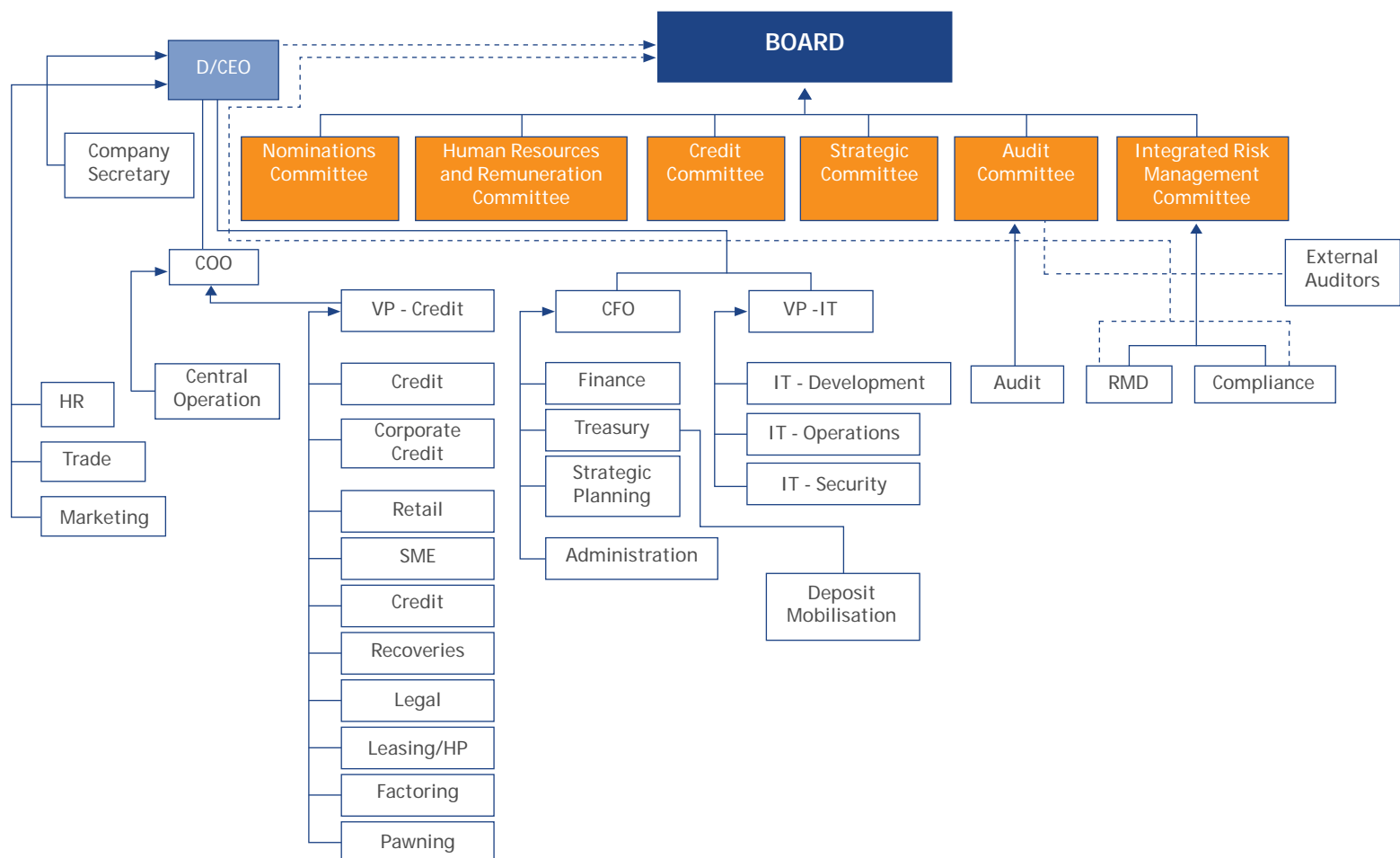




# CORPORATE GOVERNANCE

Corporate Governance is basically the system by which companies are directed and controlled in the proper manner. As stated in the Principles of Corporate Governance published by the Organization for Economic Development, corporate governance involves a set of relationships between a company's management, its Board, its shareholders, and other stakeholders and it also provides the structure through which the objectives are set, and the means of attaining those objectives and monitoring performance are determined. Globally Corporate Governance generic principles include :

- Overall responsibility of managing and ensuring presence of clear policies that set out responsibilities duties and obligations of the Board
  - Ensure that firm has in place adequate systems of identifying, monitoring and managing risks
  - Managing conflicts of interest in ethical and prudent manner
  - Setting of KPIs for the CEO and Senior Management and establish a system for effective monitoring performance
  - The necessity for effective structures
  - Presence of effective internal audit arrangements
  - Development of disclosure and transparency procedures
- Principles of effective corporate governance relate to the role that the Board of Directors performs in functioning in an overseeing capacity. Well defined and enforced corporate governance based on generic principles mentioned above, 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. Banks being the foremost financial institution structure in the economy of any country, weaknesses in governance at Banks can result in the transmission of problems across the banking sector and eventually to the whole economy creating adverse effects for almost all the stakeholders of the economy. Thus not only the supervisors but
- Importance of effective corporate governance framework
  - Rights of shareholders and equitable treatment of shareholders





## CORPORATE GOVERNANCE CONTD.

society at large demands sound corporate governance structure and practices from a Bank that is not limited to mere regulatory demands but having in place exemplary place best practices of governance.

Union Bank has also taken keen interest in having in place best practices of Corporate Governance. Throughout the years it had developed and set in policies, procedures and structures that would inculcate the best practices of Corporate Governance from top to bottom of the governance pyramid. Present Board members represent disciplines of finance, law, commercial bringing their expertise knowledge and skills to the overall management of the Bank. Composition of the Board is in line with the Corporate Governance Direction No 11 of 2007 with majority of Directors being independent. During the financial year the Board has taken endeavor to strengthen and add value to the composition of the Board by bringing in expertise from financial sector Mr. Imtiaz Muhseen to the Board and subsequently appointing as the Chairman to Audit Committee.

### INITIATIVES DURING THE YEAR

- Setting overall goals and targets for Directors
- Strengthening the Board Sub Committees
- Reviewing of all policies relating to corporate governance
- Introducing share dealing policy for the employees

Apart from setting the principle of good governance from the top, Board stewards the direction by spearheading the strategy for the Bank for long term and short term. KPIs are set accordingly. One of the key principles of governance is delegation and in this regard the Board has delegated its supervisory powers to several Board sub committees so as to ensure overall supervision is effective. Governance structure of the Bank demonstrates the

allocation of authority and responsibilities within the Board and the Management, and the linkage mechanism of the Board and the Management that ensures delivery of promised value to the stakeholders .

### STATEMENT OF COMPLIANCE TO THE DIRECTION NO 11 OF 2007 ON CORPORATE GOVERNANCE

Union Bank acknowledging the importance of maintaining high standards of governance striving to satisfy the aspirations of all stakeholders. The Bank shall continue to enroll best practices of governance and shall endeavor to build shareholder value and to reach the aspiration of achieving the strategic goals and targets. In doing so the Board shall ensure that the Bank is directed by the Board having in place proper systems and controls. The Bank shall conduct its business in accordance with clearly defined values that is over and above the regulatory standards not only by having in place proper policies but also implementing and practicing them to the letter and spirit.

During the year the Bank has been in compliance with Direction No 11 of 2007 on Corporate Governance and the status of same is reported in the statements to the effect are included in the report. I wish to confirm that to the best of my knowledge, there are no material violations of any of the provisions of the direction. Further I confirm that the factual finding statement issued under the Sri Lanka Related Services Practice Statement 4750 is in line with the Annual Corporate Governance report published herein.



**Alexis Lovell, MBE**

*Chairman*

*Union Bank of Colombo PLC*

28 February 2014

## CORPORATE GOVERNANCE CONTD.

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 2013 is given below:-

**ANNUAL CORPORATE GOVERNANCE REPORT – 2013 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;	The Board on a continuous basis approves or oversees and monitors the execution of the strategic objectives, corporate values, and polices through Board meetings and budgets which are communicated to the management. The Board's views relating to the above are communicated throughout the Bank at various Executive Committee meetings such as Exco, Management Committee, Balance score card meetings etc.
	(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	A Board approved overall business strategy with measurable goals in place. The ICAAP approved by the Board includes capital planning against Pillar I and II risks.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Identifying principal risks and implementation of appropriate risk management techniques are performed via Board appointed Integrated Risk Management Committee (IRMC).
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, share-holders and borrowers	Board approved Communication Policy is 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 are reviewed by the Board Audit Committee (BAC) on a regular basis. Financial reports and other reports extracted from the IT system are submitted to the Board and other committees periodically. Adequacy of Management Information System will be further reviewed by the Board.
	(f) Identify and designate Key Management Personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: <ul style="list-style-type: none"> <li>i) significantly influence policy;</li> <li>ii) direct activities; and</li> <li>iii) exercise control over business activities, operations and risk management</li> </ul>	Identification of the Key Management Personnel is done in accordance with the requirements of Sri Lanka Accounting Standards and based on the Directions of the Central Bank. The Bank has identified the members of the Board, the Chief Executive Officer and the members of the Corporate Management and Compliance Officer to be Key Management Personnel of the Bank.

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	(g) Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel	Articles of the Bank stipulates the authority of Directors and matters specifically reserved for the Directors. Various polices, Terms of References, and operational delegation arrangements sets authority and responsibilities of Directors and Key Management Personnel.
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in by the Board and to Board Sub Committees to explain matters relating to their concerns.
	(i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (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;	Board has assessed the performance of the Board for the year 2013.  Summary of evaluations will be submitted to the Board for further action of required.
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Formal succession plan is in place for Corporate Management, which is submitted to the Board quarterly for evaluation.  Succession plan for CEO will be initiated during the year
	(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 make regular presentations to the Board on matters under their purview and are also called in by the Board and to Board Sub Committees explain matters relating to their concerns.
	(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.  On appointment to the Board, secretary provides relevant CBSL directions to members.
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	Terms of Reference of the Board Audit Committee (BAC) includes provisions to recomend External Auditors to be appointed at the AGM and oversight of External Auditors.
3(1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer (CEO) and define and approve the functions and responsibilities of the Chairman and the CEO in line with Direction 3(5) of these Directions	Positions of the Chairman and the Director/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.



## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
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.	The Board meets regularly at least on monthly intervals and special meetings are scheduled as and when the need arises.
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.	Monthly Board Meetings are scheduled and informed to the Directors notifying to include any proposals in the agenda and the procedure is included in the Code of Corporate Governance of the Bank.
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 seven 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 statues and other regulations and is also stipulated in the Code of Corporate Governance of the Bank.
3(1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	All the Directors have equal opportunity to access 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.

## CORPORATE GOVERNANCE CONTD.

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> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <p>(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;</p> <p>(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;</p> <p>(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</p> <p>(f) the decisions and board resolutions.</p>	<p>The Minutes of the meetings include:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <p>(c) the fact-finding discussions and the issues of contention or dissent</p> <p>(d) the testimonies and confirmations of relevant Executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the Board Risk Management Committee; and</p> <p>(f) the decisions and Board resolutions including reports of all Board Committees</p>
3(1) (xi)	<p>There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.</p> <p>The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.</p>	<p>Board of Directors can seek professional advice to assist the Directors to discharge their duties effectively and the procedure for such is stipulated in the Code of Corporate Governance.</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>Managing of conflicts of interest situations are stated in the Code of Corporate Governance and is implemented.</p>
3(1) (xiii)	<p>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.</p>	<p>Articles of the Bank stipulates the authority of Directors and matters specifically reserved for the Directors. Various polices, terms of references, and operational delegation arrangements sets authority and responsibilities of Directors.</p>

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
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.	The Board is aware of the requirements to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action. The Bank has not come across any situation as such during the year 2013
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.	Bank has set Internal Capital Adequacy Arrangements with the approval of the Board and the CBSL. These are being implemented to ensure the Bank is capitalised at all times adequately. Reports of such are submitted the Integrated Risk Management Committee and to the Board.
3(1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Corporate governance report is published in the Annual report.
3(1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessment.	Self assessment of Directors has been obtained for the year 2013 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 comprised of 12 Directors up to 1st November 2013 and reduced 11 thereafter.
3(2) (ii)	(a) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such periods in office shall be inclusive of the total period or service served by such Director up to 01 January 2008	Service period has not exceeded nine years for any of the Directors.
	(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	Not applicable.
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 CEO of the Bank.	There is only One-Executive Director on the Board; the number does not exceed one third of the Board.
3(2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 1,2010 onwards.  A Non Executive Director shall not be considered independent if he/she.	By the end of the reporting year 2013 the Board comprise of seven Independent Non Executive Directors which represents more than one third of the total number of Directors. Details of Independent and Non Independent Directors are given in page 70-73

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
3(2) (v)	In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Independent Directors had not appointed alternates during the year 2013.
3(2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Board Nominations Committee has a procedure in place to appoint Non-Executive Directors, who possess skills and experience.
3(2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Board meetings has been duly constituted as required by the direction.
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	Composition of the board is disclosed in the annual report 2013 in accordance with the direction
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.	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.
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 during the year are disclosed in the Annual Report. Please refer pg 135
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 Bank. Nominations Committee shall ascertain at the time of selection of Directors for such appointment of their fit and propriety in accordance with the Banking Act and other regulations by the CBSL

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
<b>3(3)</b>	<b>CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS</b>	
3(3) (i)	The age of a person who serves as Director shall not exceed 70 years	There are no directors who exceeds 70 years of age.
3(3) (ii)	A person shall not hold office as a Director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the Bank.	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>MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD</b>	
3(4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Directors are aware of the delegation arrangements that is stated in Section 98 of the Articles of the Bank.
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. Please refer 3.1.(i) g
3(4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	The delegated powers are reviewed periodically to ensure that they are remaining relevant to the needs of the Bank at Board Meetings, Sub Committee Meetings when reviewing polices and Terms of Reference
<b>3(5)</b>	<b>THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER</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 70
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.	Identity of the Chairman and the CEO are disclosed in the Annual Report Ref Page 70 Directors' interests in contracts with the Bank have been separately disclosed in the Annual report of 2013.  Please ref page 135  There are no financial, business, family or other material / relevant relationships between, Chairman, CEO and among Directors.
3(5) (iv)	The Chairman shall: provide leadership to the Board; ensure that the board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the board in a timely manner.	Functions & Responsibilities of the Chairman approved by the board includes the requirements stipulated and Chairman provides leadership to the Bank and to the Board in line with the Code of Corporate Governance of the Bank.



## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
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.	Chairman has delegated drawing of the agenda to the Company Secretary and is drawn in consultation with the Chairman.
3(5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Board Papers are circulated seven days prior to the meeting in order for Directors to request any other information if necessary.
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 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 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	Communication with shareholders are done in accordance with the Board approved Communication Policy
3(5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	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 p. 59 2. Integrated Risk Management Committee p. 60-61 3. Nomination Committee page 65 4. Audit Committee pages 57-58  All Committees have a secretary appointed. Report of each Board Committee is presented in the Annual Report Ref Pages 57-61, 65
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	Complied The Chairman of Audit Committee Mr. Imtiaz Muhseen is an Independent, Non Executive, Director who possesses qualifications and related experience.
	(b) All members of the Committee shall be Non-Executive Directors.	Complied. All members of the Committee are Non-Executive Directors

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	<p>(c) The Committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> <li>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(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.</li> </ul>	<p>The committee recommended following ;</p> <ul style="list-style-type: none"> <li>(i) the appointment of the external auditors</li> <li>(ii) implementation on CBSL guidelines</li> <li>(iii) Application of relevant accounting standards</li> <li>(iv) Reviewed and recommended the service period Audit fee, and rotation of the audit partner</li> </ul>
	<p>(d) Review and monitor external auditor's independence and objectivity and the effectiveness of the audit processes</p>	<p>The audit committee obtains representations from the external auditor on their independence and that the audit is carried out in accordance with SLAuS.</p> <p>External auditor is independent since they report directly to the Board Audit committee.</p>
	<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 form 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>Further , relevant information is obtained from External Auditors to ensure that their independence or objectivity is not impaired, as a result of providing any non-audit services.</p>

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	(f) The Committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit , including (i) an assessment of the Bank's compliance with the relevant Direction in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	The committee discussed and agreed on the nature and the scope of the audit to be performed in accordance with SLAuS
	(g) Check that the Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual Financial Statements the significant adjustments arising from the audit.	Committee has a process to review financial information of the Bank when the quarterly and annual Audited Financial Statement and the reports prepared for disclosure are presented to the Committee by the Chief Financial Officer.  Once the members of the Board Audit Committee have obtained required clarification in respect of all aspects included in the Financial Statements. Such Financial Statements are recommended for approval by the Board of Directors.
	(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary	The Committee met the External Auditors twice, independent of the Executive Directors and Corporate Management.
	(i) The Committee shall review the external auditor's management letter and the management's response thereto.	Committee has reviewed Management Letter with the management's responses thereto.

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	<p>(j) The committee shall take the following steps with regard to the internal audit function of the bank:</p> <p>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;</p> <p>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;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>V. Ensure that the committee is appraised of resignations of senior staff members of the Internal Audit Department</p> <p>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;</p>	<p>The Annual Audit Plan prepared by the Internal Audit Department is submitted to the Board Audit Committee for approval. The plan covers the scope and resources requirement relating to the Audit Plan.</p> <p>The Head of Audit updates the Board Audit Committee on states of the Audit Plan and actions taken by the Management on Internal Audit recommendations.</p> <p>The appraisal of the Head of Audit is undertaken by the Chairman, Audit Committee and performance appraisal of the senior staff carried out by the Head of Audit and reviewed by Board Audit Committee.</p> <p>The committee has appointed new Head of Internal Audit.</p> <p>Committee has appraised the resignation of the Head Internal Audit.</p> <p>Head of Internal Audit directly reports to the Audit Committee and the discussions are held with the Board Audit Committee independent to the Management.</p>
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto;	Committee has considered major findings of the internal investigations with the comments of the management.
	(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	<p>D/CEO attends meeting by invitation.</p> <p>Committee has met with the External Auditors twice without the Executive Director being present.</p>
	<p>(m) The Committee shall have:</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so;</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	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.	The Committee has met 13 times during the year



## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	(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 57, 58, 143
	(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, who is Secretary of the Committee, records and maintains all minutes of the meetings.
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the external auditor.	Board approved Whistle Blowing Policy covers process of dealing with the stipulated matters.
<b>3(6)(iii)</b>	<b>The following rules shall apply in relation to the Human Resources and Remuneration Committee:</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 & Directors respectively.
	(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Committee has set overall goals for Directors. Goals and Targets for Key Management Personnel are set annually and complied for 2013.
	(c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Evaluation has been performed for CEO and other KMP periodically.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	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>The following rules shall apply in relation to the Nomination Committee:</b>	
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Board approved Policy in place to select /appoint New Directors , CEO and Key Management Personnel
	(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. The Committee has considered and recommended the re-election of current Directors.

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	(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.	Board approved policy on selection criteria for Directors, CEO and Key Management Personnel' which includes the 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.	Board approved policy on selection criteria for Directors, CEO and Key Management Personnel' which includes the required criteria
	(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 for the retiring Directors will be done as and when the necessity arises. Succession plan for CEO will be initiated.
	(f) The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Chairman of Nomination Committee is an Independent Director CEO has attended Nomination Committee meetings by invitation.
<b>3(6)(v)</b>	<b>The following rules shall apply in relation to the Integrated Risk Management Committee:</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	The Board approved Terms of Reference for the IRMC is in place.  The Committee consists of five Non-Executive Directors and Key Management Personnel, who oversee different types of risks.
	(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 by IRMC on a monthly / quarterly basis through Risk Indicator Reports / Quality Reports together with Compliance Reports.
	(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	Committee reviews the functions of other relevant Committees through quarterly reports. The limits set are monitored and breaches, if any are reported to the Board for rectification.
	(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.	Committee has held quarterly meeting during the year.

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	(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.	Risk assessment reports are circulated to Board members within one week from the date of IRMC
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines and internal policies based on regulations on all areas of business operations. This function is headed by the Compliance Officer who reports direct to the Board Risk Management Committee.  Internal Audit Department and the Board Audit Committee monitor the internal controls.
<b>3(7)</b>	<b>RELATED PARTY TRANSACTIONS</b>	
3(7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, , identified as related parties as	Related Party Transaction Policy of the Bank has been approved by the Board and identifies the related parties as required.
3(7) (ii)	Related party transactions covered by the direction	Related Party Transactions Policy Defines the related party Transactions
3(7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	The Bank has taken steps to monitor the report and identify the transactions and to ensure that there is no favorable treatment offered to related parties. Additionally, the staff concerned are informed through operational circulars to refrain from granting accommodations with more favorable treatment as defined in the Banking Act Direction No.11 of 2007  This process will be further strengthen
3(7) (iv)	A Bank shall not grant Any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	Please refer 3.7 (i) All such accommodation has to be approved at the Board level meetings with not less than 2/3 of the number of Directors other than the Director concerned, voting for such accommodations granted.

## 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 did not 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.
<b>3(8)</b>	<b>DISCLOSURES</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>	Publications are made in the news papers accordingly.



## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Please ref pages 133, 134
	(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.	Please ref pages 62, 63
	(c) Assurance report issued by the auditors under "Sri Lanka Standard on Assurance engagements SLSAE 3050 – Assurance Reports for Banks on Directors statements for banks on Directors' statements on internal Controls	Board has obtained Assurance Report issued by the Auditors. Please ref Page 64
	(d) Details of Directors, i. including names, fitness and propriety, ii. transactions with the Bank and iii. the total of fees/remuneration paid by the Bank.	Please ref pages 130-142, 195-197
	(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.	Please ref pages 195-198 Please ref page 198
	(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	Details of the accommodations outstanding are disclosed in pages 195-197
	(g) The confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the "factual findings report" of the auditors issued under "Sri Lanka related Services Practices Statement 4750" have been incorporated in the Annual Corporate Governance Report ,provided that auditors confirm to the Director of Bank Supervision to this effect.	The Board has confirmed in the Annual Corporate Governance Report that all findings of factual finding report of auditors have been incorporated in the Corporate Governance Report. Please ref page 136
	(h) A report setting out details of the compliance with I. prudential requirements, regulations, laws and II. internal controls and III. Measures taken to rectify any material non-compliance.	

## CORPORATE GOVERNANCE CONTD.

Section	Rule	Level of Compliance
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There is no such non compliance issues pointed out by the Director of Bank Supervision to be disclosed to the public.

## AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) comprises of four Independent Non Executive Directors. The Committee is chaired by Mr. Imtiaz Muhseen who is a Fellow member of Chartered Management Accountants and possesses considerable experience in the field of finance management and auditing.

**The members of the Board appointed Audit Committee are:**

Mr. Imtiaz Muhseen – Chairman  
Mr. Sabry Ghouse  
Mr. Sunil Karunanayake  
Mr. Suren Madanayake

Brief Profiles of the members are given in page 70 to 73.

The following changes took place during the year in the Board Audit Committee. Mr. Sunil Karunanayake who was a member of the Board Audit Committee was the acting Chairman for the period from 1 January 2013 to 31 March 2013 and Mr. Imtiaz Muhseen was appointed as the Chairman of the BAC with effect from 1 April 2013. Mr. Suren Madanayake who was an Independent Non Executive Director of the Board, appointed as a member of BAC with effect from 01 January 2013.

The Head of Internal Audit functioned as the Secretary to the Committee for the year ended 31 December 2013. The Director/ Chief Executive Officer, Chief Financial Officer, Chief Operating Officer attended the meetings by invitation. Members of the Senior Management also attended meetings by invitation, in order to brief the Audit Committee on specific matters. The External Auditors were also met independently to the Management to discuss progress and conclusion of the audit during the year. The Board Audit Committee met thirteen times during the period under review and attendance of Committee members at each of these meetings is given above.

Name	Eligibility	Attendance	Excused
Mr. Imtiaz Muhseen – Chairman	9	9	0
Mr. Sunil Karunanayake	13	13	0
Mr. Sabry Ghouse	13	12	1
Mr. Suren Madanayake	13	8	5

### TERMS OF REFERENCE

The Charter of the Audit Committee, which is subject to review and revision periodically by the Board of Directors, clearly defines the Terms of Reference of the Committee. The Committee is responsible to the Board of Directors and reports on its activities regularly. It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit.

### THE ROLE OF THE AUDIT COMMITTEE

#### FINANCIAL REPORTING

The BAC reviews the effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders. The Committee reviewed and discussed with the management, the internal auditors and the external auditors on the following areas. The critical accounting policies, practices, 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.

### INTERNAL CONTROL

The BAC reviews the effectiveness of the Bank's internal controls through review and follow-up of the Bank's internal audit reports. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by management on the recommendations of the internal auditors.

### INTERNAL AUDIT

The BAC monitored and reviewed the scope, extent and effectiveness of the activities of the Bank's Internal Audit Department. During the year, BAC reviewed the internal audit plan and monitored the progress on a regular basis. Further during the year internal audit department moved to process auditing with the purpose of adding more value to the operations of the Bank. The process audit focuses on results or business objectives and it determines whether the activities, resources and behavior that cause them are being managed efficiently and effectively. This new concept was explained to the senior management of the bank and obtained their buy-in for the concept. In 2013 the BAC reviewed 108 audit reports including branches, departments, IS audits

## AUDIT COMMITTEE REPORT CONTD.

and special investigations. The Internal Audit Charter, Internal Audit Manual and Internal Audit Programs were reviewed during the year. Formats of presenting audit reports were also changed to give a meaningful idea for the auditee to understand the process audit concept. Further the risk grading system of the branch, pawning and department audits were also changed in order to be in line with the process audit concept.

The BAC had necessary interactions with the Head of Internal Audit throughout the year. The BAC advised the corporate management to take precautionary measures on significant audit findings. The Committee reviewed the structure, resources and performance of the Bank's internal audit department at the year end. The committee appraised the resignation of the former Chief Internal Auditor and recommended & approved the appointment of Assistant Vice President of Internal Audit during the year.

### 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. The BAC approved policy is in place on Non Audit Services provided by the External Auditors.

The BAC discussed with the Auditors their audit plan, scope and the methodology proposed to be adopted in conducting the audit prior to commencement of the Annual Audit. The Auditors were also provided with the opportunities of meeting the BAC separately, without the presence of Executive Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter and also for the Committee to have the assurance that the Management has fully-provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review management letter with the management's

responses. The rotation of the audit partner has taken place during the year complying with Governance requirements.

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 2014 subject to the approval of shareholders at the next Annual General Meeting.

### WHISTLE BLOWING POLICY

The Whistle Blowing Policy of the bank serves as a communication channel in order to take action about any genuine concern that the staff may have in relation to activities which they feel are wrongful or illegal or otherwise harmful to the interests of the bank, its employees, customers and all other stakeholders.

The policy was reviewed and certain amendments were effected during the year in order to further improve the effectiveness. The committee reviewed whether the fair and independent investigation of such matters had been carried out.

### EVALUATION OF THE COMMITTEE

An independent evaluation of the effectiveness of the BAC was carried out by the other members of the Board and the Committee has been found to be highly effective.



**Imtiaz Muhseen**  
*Chairman - Board Audit Committee*

28 February 2014



## HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

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

The Committee held 9 meetings during the year 2013. The minutes of these meetings were presented at subsequent monthly Board Meetings to the Board of Directors for their approval and ratification.

The Human Resource and Remuneration Committee which is governed by the Charter approved by the Board of Directors has set the following as its objectives:


- To establish and maintain performance and market oriented remuneration policies in relation to Chief Executive Officer, Key Management Personnel and Staff.
- To determine and recommend to the Board of Directors goals and measures for the Chief Executive Officer and Key Management Personnel of the Bank.
- To evaluate performance of the Chief Executive Officer and Key Management Personnel of the Bank, against the agreed goals and measures and make suitable recommendations to the Board.
- Advice on Corporate Governance matters in relation to the Committee.
- To prepare a Sustainable Succession Plan for all Key Management Positions.

In performing the above, the Committee strived to strengthen and develop skills of the human resource pool of the Bank. During the year under review the Committee evaluated the performance of the Chief Executive Officer and Key Management Personnel of the Bank against the agreed objectives and targets.

The Committee in an effort to encourage human resource implemented the following policies during the year:

- A policy on granting Awards on Service Recognition
- Grievance Policy

The Bank implemented the Human Resource Policy in 2011, to broad base its scope of activity. The policy emphasizes HR planning, Recruitment and Selection, Training and Development, Health, Safety and Welfare, Employee Services and Industrial Relations.



**Asoka De Silva**  
*Chairman - Human Resource Remuneration Committee*

28 February 2014

## 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 Karunaratne
- 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) – 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 Bank's balance sheet strategy by determining the policy and alignment of assets and liabilities of the Bank.
- Operational Risk Committee (ORMC) – ensures 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 – Committee approves credit proposals under delegated authority taking into account concerns raised by RMD
- The Risk Management Department (RMD)
- 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 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 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 the 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.
- Ensure the adequacy and effectiveness of all management level committees to assess the level of risk monitoring and management.
- Have had meetings four (4) times during the year
- 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 reported to the BOD on a quarterly basis.
- Business Continuity and Disaster Recovery policy was strengthened & reviewed in 2013.

During the year under review, the IRMC under its supervision witnessed several value additions to risk management such as establishing an Internal Capital Adequacy Assessment Process (ICAAP) with the assistance of an external consulting agency. The Bank is now capable of assessing other types of risks more scientifically in

## INTEGRATED RISK MANAGEMENT COMMITTEE REPORT CONTD.

addition to Credit, Market and Operational Risks e.g. Interest rate risk in banking book, Credit concentration risk, reputational risk, strategic risk etc.

The Bank also successfully implemented a sophisticated risk management system capable of advanced risk assessments.



Capital computation modules for Credit and Operations advanced approaches will be interfaced directly with the Bank's new Core Banking system during 1Q2014.

During the latter part of the year, a group level IRMC was established to oversee the risks management of group companies more closely. Risks identified would be reported to Bank's Board of Directors for information and advice.

Further, a Risk Matrix was developed during the latter part of the year with a view of providing a reference table for the Board of Directors to interpret the level of risks easily.

### PLANS FOR YEAR 2014

Plans for year 2014 would be to further strengthen the Group risk management activities as well as conduct more training and awareness sessions in pursuit of developing a conscious risk management culture within the group.

**Priyantha Fernando**

*Chairman - Risk Management Committee*

28 February 2014

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## 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 recognizes 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:

- 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.
- 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 highlight 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 Board Audit

Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the Management: and evaluates 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 the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 57 to 58.
- 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. The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the year 2013 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee. The Bank is in the process of updating relevant procedure manuals pertaining to these new requirements. The Bank has also recognised the need to introduce an automated financial reporting process in order to comply with the requirements of recognition,



## DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING CONTD.

measurement, classification and disclosure of the financial instruments more effectively and efficiently. The assessment did not include Subsidiary companies of the Bank.

- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2013 in connection with the internal control system over financial reporting will be dealt within the future.

### CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and

the preparation of financial statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs Ernst & Young, 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 2013 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. Their Report on the Statement of Internal Control over Financial Reporting is given on page 62 of this Annual Report.

By order of the Board



**Imtiaz Muhseen**

*Chairman - Board Audit Committee*



**Alexis Lovell, MBE**

*Chairman*



**Asoka De Silva**

*Deputy Chairman*



**Anil Amarasuriya**

*Director/Chief Executive Officer*



**Nirosha Kannangara**

*Secretary*

Colombo, Sri Lanka  
5 March 2014

## ASSURANCE REPORT ON INTERNAL CONTROL



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Chartered Accountants  
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Sri Lanka

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HMAJ/WDRT/DM

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

#### Introduction

We were engaged by the Board of Directors of Union Bank of Colombo PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2013.

#### 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 Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

#### Summary of work performed

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

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

SLSAE 3050 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.

5 March 2014  
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited

## NOMINATION COMMITTEE REPORT

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

- Dr. Harsha Cabral
- 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, CEO and Key Management Personnel according to the regulations and directions imposed by the Monetary Board.
- (2) The Committee shall consider and recommend or not recommend the re-election of current Directors, taking into account the performance and contribution made by the Directors concerned towards the overall discharge of the Board's responsibilities.
- (3) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.
- (4) The Committee shall ensure that Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and set out in the Statutes.
- (5) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

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

The Committee met 03 times during the year 2013.

At the beginning of the year the Committee recommended a Chartered Accountant to be appointed to the Board to strengthen the Board Audit Committee.

The Committee reviewed and recommended to re-elect the Directors who retire in terms of Article 88(i) read together with Article 89 of the Article of Association of the Bank to appoint them at the Annual General Meeting.

The members of the Committee also considered and recommended the prospective successors to fill the Key Management Positions as per the present requirements and it was decided to recommend to the Board to recruit new expertise and the succession arrangements in the absence of finding suitable successors within the Bank.

The Committee as usual worked closely with the Board of Directors and the Senior Management to achieve the Goals and Targets of the Committee and to implement and establish the Corporate Governance practices in the Bank.



**Dr. Harsha Cabral PC**  
*Chairman - Nomination Committee*

30th January 2014











## BOARD OF DIRECTORS



1. **ALEXIS LOVELL**, *MBE*, Chairman / Non-Executive Director
2. **ASOKA DE SILVA**, Deputy Chairman / Senior Director / Independent Non-Executive Director
3. **IMTIAZ MUHSEEN**, Independent Non-Executive Director
4. **SOW LIN CHIEW**, Alternate Director to Mr. Kin Leong Chong
5. **SUNIL KARUNANAYAKE**, Independent Non-Executive Director
6. **PRIYANTHA FERNANDO**, Independent Non-Executive Director

Not in picture

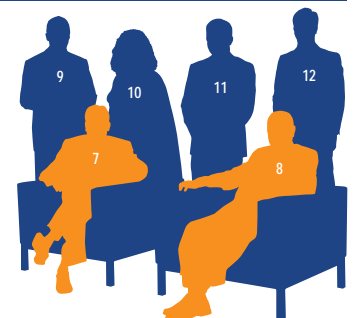
**H R H PRINCE FAISAL AL ABDULLA AL FAISAL AL SAUD**, Non-Executive Director  
**KIN LEONG CHONG**, Non-Executive Director



## BOARD OF DIRECTORS



7. **DR. HARSHA CABRAL**, Independent Non-Executive Director  
 8. **ANIL AMARASURIYA**, Chief Executive Officer / Executive Director  
 9. **SABRY GHOUSE**, Independent Non-Executive Director  
 10. **NIROSHA KANNANGARA**, Assistant Vice President - Legal / Board Secretary  
 11. **SUREN MADANAYAKE**, Independent Non-Executive Director  
 12. **NIGEL BARTHOLOMEUSZ**, Alternate Director to H R H Prince Faisal Al Abdulla Al Faisal Al Saud



## 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. Asoka 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 was 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 an Honorary Fellow of the Institute of Bankers, Sri Lanka. He was a Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board. Mr. Amarasuriya is 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 a former Chairman of the Sri Lanka Banks' Association. He also served as a Director of Sampath Surakum Ltd, SC



## PROFILES OF THE BOARD OF DIRECTORS CONTD.

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 ABDULLA AL FAISAL AL SAUD**

*NON-EXECUTIVE DIRECTOR*

H R H Prince Faisal Al Abdulla 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 holds a Bachelor of Science degree in Business Administration from American University, California State, and he also holds a diploma in Criminal Justice from California State University of Fullerton, United States of America.

### **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 five 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, UGC nominee on the Post Graduate Institute of Medicine 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 and serves as an Independent Non Executive Director of several other companies.

### **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, a listed company in Malaysia and the holding company of UBC's substantial shareholder, 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. PRIYANTHA DAMIAN JOSEPH 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 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 and the 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 in a number of committees at national level covering a range of subjects representing the Central Bank.

Presently, Mr. Fernando is the chairperson of the Golden Key Credit Card Company Ltd and holds directorships in Commercial Leasing and Finance Company Ltd, Taprobane Holdings Ltd, Ceylon Leather Holdings Ltd, Hambana Petrochemicals Private Ltd, Thomas Cook Sri Lanka and Commercial Insurance Brokers Ltd. He also serves as a Commission member in the Securities and

## PROFILES OF THE BOARD OF DIRECTORS CONTD.

Exchange Commission and a Member of the National Pay Commission.

### **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 counts 10 years' experience serving in overseas markets.

He was employed by American Express Bank, Standard Chartered Bank and Al Rajhi

Banking and Investment Corporation of Saudi Arabia, and was responsible for 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 joined American Express Bank Sri Lanka as Territory Manager in 1991 to launch the American Express card to the Sri Lankan market which was the first corporate card to be launched in the country. He was responsible for the card issuance and acquisition business in Sri Lanka and the Maldives. Thereafter he moved to Standard Chartered Bank as Head of Retail Banking. 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's global acquisition of Grindlays franchise.

He was actively involved in community development in working with the mentally challenged children in Jordan and won recognition from Standard Chartered Bank for his contribution to society and sustainable business.

He was appointed Director Retail Banking Al Rajhi Bank Malaysia by its parent Al Rajhi Banking and Investment Corporation, Saudi Arabia, to develop a retail banking model and set up operations, on their entry into the Malaysian market.

This was a first for the most profitable Bank among the top 50 banks in the Gulf Cooperation Council (GCC) at the time. Under his stewardship the Al Rajhi Bank Malaysia, was able to break even in the 4th year with a network of branches throughout Malaysia. Mr. Ghouse was a former Director of the Credit Information Bureau (CRIB) in Sri Lanka and holds a Master's Degree in

Business Administration (MBA) from the University of Western Sydney, Australia and is also an alumni of the London Business School and of Templeton, Oxford UK.

### **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. In 2003 he was appointed as the Deputy Chairman of Kelani Cables PLC. He also serves as the Managing Director of Ceylon Bulbs and Electricals Ltd. ACL Plastic PLC and Director of ACL Metals & Alloys (Pvt) Ltd., Ceylon Copper (Pvt.) Ltd., ACL Electric (Pvt) Ltd., ACL Polymers (Pvt) Ltd., ACL Kelani Magnet Wire (Pvt) Ltd., Fab Foods (Pvt) Ltd., SM Lighting (Pvt.) Ltd., EMJAY Group Holdings Company Private 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.

### **MR. NIGEL BARTHOLOMEUSZ**

#### *ALTERNATE DIRECTOR TO H R H PRINCE FAISAL AL ABDULLA AL FAISAL AL SAUD*

Mr. Bartholomeusz was appointed to the Board as an Alternate Director to H R H Prince Faisal Al Abdulla Al Faisal Al Saud in December 2008. He is also a Director of Associated Electrical Corporation Limited and AEC Properties (Pvt.) Limited.

## PROFILES OF THE BOARD OF DIRECTORS CONTD.

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Mr. Bartholomeusz is an Attorney-at-Law of the Supreme Court of the Democratic Socialist Republic of Sri Lanka. He practiced as an Attorney-at-Law in the Chambers of Mr. K. Kang-Isvaran President's Counsel for 14 years, prior to which he simultaneously completed a year of apprenticeship under Mr. 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 Ventures, Contracts and Shareholder Agreements etc. Mr. Bartholomeusz also acts as Counsel in Arbitrations including construction arbitrations, mediations and negotiations.

Management Accountant and has over 26 years of experience in Finance and Management, both locally and internationally, with specialized experience in General Management and Change Management. He was previously employed at Ceylon Tobacco Company and British American Tobacco, UK.

He is synonymous for his capabilities and experience in leading cross functional teams across diverse nationalities and cultures in driving global programmes of restructuring and the standardization of business functions. His key international achievements in the above areas include, spearheading the implementation of SAP across 25 international markets.

### **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. HUSSAIN IMTIAZ MUHSEEN**

*INDEPENDENT NON EXECUTIVE DIRECTOR*

Mr. Muhseen was appointed to the Board as an Independent Non Executive Director in February 2013. He is a Chartered



## EXECUTIVE COMMITTEE



Left to right

1. **ANIL AMARASURIYA**, Director/Chief Executive Officer 2. **RAJEEV MUNASINGHE**, Vice President - Information Technology 3. **THIROSHANI RATNAYAKE**, Assistant Vice President - Human Resource Development, 4. **RAVI DIVULWEWA**, Vice President - Credit 5. **RUSHIRA DE SILVA**, Assistant Vice President - Credit 1, 6. **NANDIKA NAWAGAMUWA**, Assistant Vice President - Risk Management



Left to right

7. **KUSAL PERERA**, Assistant Vice President - Finance 8. **A. N DE SILVA**, Chief Operating Officer 9. **NIROSHA KANNANGARA**, Assistant Vice President - Legal 10. **NED GOMEZ**, Assistant Vice President - Operations 11. **A. E. R. CANDAPPA**, Assistant Vice President - Treasury 12. **CHARITHA JAYAWICKREMA**, Assistant Vice President - Internal Audit 13. **MALINDA SAMARATUNGA**, Chief Financial Officer



## CHIEF MANAGERS

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Left to right

1. **JEEVAN JAYAWARDENE**, Chief Manager – Zone I 2. **ASANGA TENNAKOON**, Chief Manager – Zone II 3. **THISHANI DISSANAYAKE**, Chief Manager - Marketing 4. **MAHENDRA DAHANAYAKE**, Chief Relationship Manager - Corporate Banking 5. **SANJEV PERERA**, Chief Manager - International



Left to right

6. **HALANATHA HEWASILIYANGE**, Chief Manager – Operations 7. **CHAYA GUNARATNE**, Compliance Officer 8. **MANISHA FERNANDO**, Chief Manager – Strategic Planning 9. **MALINDA PERERA**, Chief Manager - Deposit Mobilisation 10. **SAMEERA WIJEGUNAWARDENE**, Chief Manager - Pettah Branch

## SENIOR MANAGERS



Minoli Fernando  
Senior Manager - Finance



Shiran Punchihewa  
Senior Manager - System Audit



Nilmini Weerasekera  
Senior Manager - Corporate Banking



Mangala Perera  
Senior Manager - Core Banking



Jayanath Kariyakarawana  
Senior Manager - Credit Administration



Janaka Iroshan  
Senior Manager - Electronic Banking



Asoka Pandithasekera  
Senior Relationship Manager



Asanka Ranasinghe  
Senior Manager - Zone II



Ayesha Naotunna  
Senior Manager - Finance



Udaya Bandara  
Senior Manager - Agriculture and Micro Finance



Niloufer Vandergert  
Senior Manager - Corporate Communications



Ramani Wijeratne  
Senior Manager, Wattala Branch



## SENIOR MANAGERS



Kumari Jayawardena  
Senior Manager – Horana Branch



Nishaaharan Kathirgamathamby  
Senior Manager - Zone III



Sanjeeva Pandithratne  
Senior Manager - Factoring



Deepal Edirisinghe  
Senior Manager - Premises



Chandani Perera  
Senior Manager - Nawala Branch



Deepal Liyanage  
Senior Manager - Zone IV



Niroscha Perera  
Senior Manager - Internal Audit



Prageeth Ramanayake  
Senior Manager - Quality Assurance & NP



Ruchira Perera  
Senior Manager - Piliyandala Branch



Jayanthi Jayasuriya  
Senior Manager - Nugegoda Branch



David Asirvatham  
Senior Manager - Pawning











## CORPORATE EVENT HIGHLIGHTS

### Launch of Promotions, Products and Services

#### JANUARY

**UNION BANK DOUBLE VAASI** - Launched in association with National Asset Management Limited, this product offers greater returns than a usual five year fixed deposit. 70% of the investment will be invested in a Union Bank Fixed Deposit for a period of five years and the balance 30% will be invested with the National Equity Fund which has recorded attractive returns for the past 20 years.

**UNION BANK 'KALIN AVURUDU' PROMOTION** - The first such savings promotion in Sri Lanka and enabled customers to save gradually and take away attractive gifts during the new year. This promotion generated a large number of new deposits and accounts.

#### FEBRUARY

**UNION BANK CALL 'N PAY** - For the first time in Sri Lanka, a convenient bill settlement service that enables customers to pay utility bills with just one phone call.

This service enables to pay water, electricity, telephone and a host of other bills. Union Bank will pay up to Rs.5,000/= in case of an emergency (red notice). An SMS alert will be sent on bill settlement. Service is offered free of charge on opening a current account.

#### APRIL

**'PUNCHI PATHUM' ART COMPETITION** - Provided minor savings account holders an opportunity to display their creative talents and win attractive cash rewards to their savings accounts. Large number of entries were received and the promotion generated many new accounts to the Bank.



#### JULY

**UNION BANK SAVINGS PROMOTION** - This promotion offered customers a chance to collect attractive gifts based on their savings account balances. The promotion ended on 31st December 2013.



## CORPORATE EVENT HIGHLIGHTS CONTD.

## Launch of Promotions, Products and Services

## AUGUST

**UNION BANK MOBILE APP** – First trilingual mobile app in Sri Lanka. Bringing banking convenience even closer, the app lets you access your account on any Android and Apple device.



**UNION BANK SME CLUB** - As a member of the Union Bank's "Viyaparika Saviya" SME Club, you can receive a host of benefits to develop your business as well as the opportunity to become a member of the Sri Lanka Chamber of Small and Medium Industries (SCSMI).

**UNION BANK SME WEB DIRECTORY** - This web directory is maintained on the Bank's corporate website and provides information and contacts on diverse industries. This is a free publicity tool offered to Union Bank SME club members.

**UNION BANK 'SERISARA' MOBILE BANKING** – This service enables banking at your door step. The pilot project was successfully implemented across selected branches.

## SEPTEMBER

**UNION BANK ON LANKAPAY** - Union Bank customers can now access their account via 1300 ATMS across the island including BOC and Peoples Bank ATMs. More Banks will join the network shortly. This CBSL approved initiative is in partnership with LankaClear.

## OCTOBER

**"INTEREST ON THE SPOT"** - This promotion was launched targeting the festive season with 3 months interest offered upfront for all 3 month deposits in addition to an attractive rate of interest.



## NOVEMBER

**TV BANKING BILL WIPE OUT** - The promotion offered PEOTV customers who sign up for Union Bank TV Banking a chance to wipe out their PEOTV bill for six months.



## CORPORATE EVENT HIGHLIGHTS CONTD.

## Branch Openings &amp; Relocations

## MARCH

The Kandy Branch relocated to 165 D. S. Senanayake Veediya, Kandy on 04th March. The branch was ceremonially opened by the Mayor of Kandy in the presence of Asoka de Silva, Deputy Chairman of UBC.



## APRIL

Anil Amarasuriya, Director/CEO of UBC opened the 37th branch in Narammala on 26th April 2013.



## MAY

Alexis Lovell, Chairman of UBC opened the 38th branch in Pelawatte on 07th May 2013.



Anil Amarasuriya, Director/CEO of UBC opened the 39th branch in Angunakolapelessa on 20th May 2013.



## CORPORATE EVENT HIGHLIGHTS CONTD.

## Branch Openings &amp; Relocations

## JULY

Anil Amarasuriya, Director/CEO of UBC opened the 40th branch in Kebithigollawa on 9th July 2013.



## AUGUST

Anil Amarasuriya, Director/CEO of UBC opened the 41st branch in Gampola on 14th August 2013.



Alexis Lovell, Chairman of Union Bank opening the new premises of the relocated Trincomalee branch on 23rd July 2013.



Alexis Lovell, Chairman of UBC opened the 42nd branch in Embilipitiya on 21st August 2013.





## CORPORATE EVENT HIGHLIGHTS CONTD.

## Branch Openings &amp; Relocations

Imtiaz Muhseen, Director of UBC opened the 43rd branch in Kegalle on 29th August 2013.



## SEPTEMBER

Nilanth de Silva, Chief Operating Officer of UBC opened the 44th branch in Warakapola on 6th September 2013.



Anil Amarasuriya, Director/CEO of UBC opened the 45th branch in Kekirawa on 23rd September 2013.



## OCTOBER

Anil Amarasuriya, Director/CEO of UBC opened the 46th branch in Horowpatahana on 23rd October 2013.





## CORPORATE EVENT HIGHLIGHTS CONTD.

## Branch Openings &amp; Relocations

Anil Amarasuriya, Director/CEO of UBC opened the 47th branch in Ambalantota 30th October 2013.



## NOVEMBER

Sabry Ghouse, Director of Union Bank, in the presence of The Mayor of Minuwangoda opening the 48th branch in Minuwangoda on 27th November 2013.



Anil Amarasuriya, Director/CEO of UBC opened the 49th branch in Balangoda on 29th November 2013.



## DECEMBER

50th branch was opened in Maharagama by Ananda Silva, Deputy Governor CBSL in the presence of Alexis Lovell, Chairman of UBC and Ms. Kanthi Kodikara Mayor of Maharagama on 19th Dec. 2013.



## CORPORATE EVENT HIGHLIGHTS CONTD.

## Branch Openings &amp; Relocations

## DECEMBER

Anil Amarasuriya, Director/CEO of UBC opened the 51st branch in Mathugama on 23rd December 2013.



## Sponsorships and other events

## FEBRUARY

**MOU WITH SILVERLAKE** - An agreement between UBC and Silverlake was signed in Sri Lanka, in the presence of Alexis Lovell, Chairman of Union Bank and Dr. Kwong Yong Sin, Managing Director of Silverlake Malaysia appointing Silverlake as the exclusive provider for the Bank's new state-of-the-art core banking system.



## APRIL

**MOU WITH GIZ** - UBC and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (formally known as the GTZ) entered into a partnership to improve access to finance for Small and Medium Enterprise (SME) customers under GIZ's SME Development Programme. Anil Amarasuriya, Director/ CEO of Union Bank, Wolfgang Flache Director -Finance and Administration GIZ, and German Mueller, Senior Advisor – SME Development GIZ, at the agreement signing.



## MAY

**UBC AGM** - The Annual General Meeting of Union Bank, attended by Alexis Lovell Chairman and the Board of Directors of the Bank was held on 22nd May 2013 at the Sri Lanka Foundation Institute, Colombo 07.





## CORPORATE EVENT HIGHLIGHTS CONTD.

## Sponsorships and other events

## JUNE

**INDUSTRIAL EXCELLENCE AWARDS** - Union Bank was the Principal sponsor for the 2013 Industrial Excellence Awards organised by the Sri Lanka Chamber for Small and Medium Industries which was held on 17th June 2013 at Waters Edge, Battaramulla to recognise and reward the outstanding achievements of small and medium industrialists in Sri Lanka. Presentation of 13 awards were made under different categories to reward the achievements of the sector. The Chief Guest at the event was Dr. Sarath Amunugama M.P., Senior Minister of International Monetary Co-operation and Deputy Minister of Finance and Planning and the Guests of Honour were Neomal Perera, Deputy Minister of External Affairs and Dr. Koshy Mathai, Resident Representative, Maldives and Sri Lanka, International Monetary Fund.





## CORPORATE EVENT HIGHLIGHTS CONTD.

## Sponsorships and other events

## JULY

**MOU WITH NEDA** - Ravi Divulwewa, Vice President – Credit of UBC and N. M Shaheid, Chairman and Director General National Enterprise Development Authority (NEDA) at the agreement signing ceremony where UBC entered in to a partnership with NEDA to facilitate and proactively support Union Bank's 'Viyaparika Saviya' advisory service initiative.



**INVESTMENT DAY** - Union Bank participated in the Investment Day exhibition held at the Sri Lanka Exhibition and Convention Center.



## AUGUST

**SME CLUB LAUNCH** - The first phase of the Union Bank "Viyaparika Saviya" SME club was launched to Piliyandala Branch SME customers with the participation of W K H Wegapitiya, Chairman LAUGFS Holdings Limited as the Chief Guest.



**PARTNERSHIP WITH SLCSMI** - UBC entered in to a partnership with Sri Lanka Chamber for Small and Medium Enterprises to provide regional representation for the Chamber in view of supporting the growth of the SME sector and also provide access to UBC SME Club members to the Chamber with a nationwide launch of the UBC Viyaparika Saviya SME Club.

**CRICKET SPONSORSHIP** - UBC became an official sponsor of the Credit Information Bureau annual cricket sixes.

## CORPORATE EVENT HIGHLIGHTS CONTD.

## Sponsorships and other events

## OCTOBER

**MOU WITH AIA** - UBC joined hands with AIA Insurance to bring bancassurance services to its customers. The agreement was signed by Shah Rouf, CEO of AIA and Anil Amarasuriya, Director/CEO of Union Bank.



## DECEMBER

**CA TRAINING PARTNER** - UBC partnered the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) as a training partner to facilitate practical training for current CA Sri Lanka students.



## NOVEMBER

**TMC SPONSORSHIP** - UBC became a corporate sponsor of The Management Club (TMC) to add value to members and business enterprises affiliated to the TMC in their endeavours to uplift management practices in the country by empowering Managers. The exchanging of the MoU between TMC's key representatives, Deepal Abeysekera, President, Board of Management and Fayaz Saleem, President Emeritus and Director / CEO of UBC, Anil Amarasuriya.





## CORPORATE EVENT HIGHLIGHTS CONTD.

## Staff activities

## MAY

An inter branch / department quiz was conducted to further enhance the SME focus and knowledge of staff.



Staff participated in Bakthi Gee & a Dansala celebrating Vesak.



## JUNE

Chandani Perera, Manager Nawala branch, received the award for the highest deposits for the period Jan-Jun 2013.



## AUGUST

A fun filled annual staff get-together was held at the Kandalama Hotel.





## CORPORATE EVENT HIGHLIGHTS CONTD.

## DECEMBER

Sameera Wijegunawardane, Manager Pettah branch, Nilini Karunasekera, Manager Ja-ela branch and Ruchira Perera, Manager Piliyandala branch received the best performance Bi-annual award on ROA.



Staff participated in an evening of Christmas carols at the St Andrews Church, Colombo 03 on 13th December.



## NOVEMBER

A colourful event was staged by UBC staff at the second consecutive annual Talent Show held on 9th November at the Royal College Nawarangahala.



The annual staff dance was held at Water's Edge, Battaramulla on 28th December 2013.





CORPORATE EVENT HIGHLIGHTS CONTD.

Media Highlights

Union Bank, NEDA in partnership to support SME development

Union Bank of Colombo entered into a partnership with the National Enterprise Development Authority (NEDA) to facilitate and proactively support the development, growth and competitiveness of the Sri Lankan Enterprises.

business activities and endeavors of new and existing enterprises. It provides free advice in managing business operations and provides a platform for budding entrepreneurs to access a comprehensive portfolio of financial products that are customized for the SME sector with competitive benefits.

This partnership will facilitate both financial assistance and guidance by NEDA to enable Union Bank to carry out successful entrepreneurship development programmes.

The National Enterprise Development Authority is established under the purview of the Ministry of Industry and Commerce to promote, support, encourage and facilitate Enterprise Development within Sri Lanka with special emphasis to the Small and Medium Enterprise sector of the country.

Union Bank has evolved as one of Sri Lanka's fastest growing Bank's focusing on the Small and Medium enterprises and retail sectors. Union Bank and NEDA partnership will help further strengthen the Bank's focus in the SME sector and continue to aggressively develop a robust structure to absorb new opportunities in the SME sector.



Ravi Divulwewa, Vice President - Credit, Union Bank and N. M. Shaheed, Chairman and Director General, NEDA at the signing of agreement.

Union Bank appoints new Director

Union Bank of Colombo PLC (UBC) announced the appointment of Imtiaz Muhsen as an Independent Non Executive Director to the Bank's Board of Directors with effect from 19 February 2013.



Imtiaz Muhsen

Imtiaz Muhsen is a former bank's future growth and development. Appointment of independent directors is an integral part of the bank's good governance practices that ensuring further commitment to the protection of shareholder interest.

The Board of Director consists of a blend of high profile local and international Directors from diverse fields, among whom are some of the world's best known investors.

Union Bank is one of Sri Lanka's fastest growing banks focusing on Small and Medium Enterprises and retail sectors with a rapidly expanding branch network.

Financial Services 3

Union Bank launches Viyaparika Saviya SME Club

Union Bank of Colombo PLC (UBC) has launched the Viyaparika Saviya SME Club, a unique initiative to support Small and Medium Enterprises (SMEs) in Sri Lanka.



Union Bank awards Piyawara art competition winners

Union Bank awarded the first prize of the Piyawara art competition in Galle in 2012 with the objective of nurturing budding creativity and talents of children.



De Silva Chief Operating Officer of Union Bank, Vyasara Gamapala, 1st place of the age category 3-6 years was won by Master Ashwika Kinanika Kubertika JES.

Union Bank partners SLCSMI to enhance SME reach

UNION Bank of Colombo PLC announced that the bank has partnered with the Sri Lanka Chamber of Small & Medium Industries (SLCSMI) to add value to the SME sector.



Union Bank Chief Manager Marketing.



Union Bank Chief Manager.

Union Bank Further Consolidates Its SME Focus In Q1 - CEO Anil Amarasinghe

At an Executive Director / Chief Executive Officer of Union Bank of Colombo PLC (UBC) meeting, it was announced that the Bank has consolidated its primary focus on the SME sector.



Anil Amarasinghe, CEO of Union Bank.

This expansion has been broad and focused and geared specially to gain Union Bank's SME portfolio.

Union Bank introduces 'Double Vasi'

Union Bank of Colombo PLC announced the launch of 'Double Vasi', a unique savings product for customers.



Product is managed by National Savings and Investment Corp. with its security. This Medium Enterprise Bank services, Union Bank of Colombo PLC.

Monday February 18, 2013 www.ft.lk. Daily 1 logo.

Union Bank Call'nPay the easiest way to make Utility Bill payments

FOR the first time in Sri Lanka, Union Bank of Colombo PLC (UBC) launched Union Bank Call'nPay, an unique and convenient bill settlement service offering customers a whole new banking experience.



With Union Bank Call'nPay, customers can now pay all utility bills with just one phone call. It is as easy as dialing 0115 800 800 and informing Union Bank the bill amount and supplier.

Union Bank conducts SME workshop in Trinco

THE 38th SME 'Viyaparika Saviya' customer training workshop organized by Union Bank of Colombo PLC was held at the District Secretariat Office, Trincomalee recently.



Union Bank reports strong performance in Q2

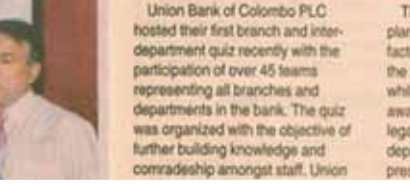
Union Bank of Colombo PLC reported strong performance in the second quarter of 2013.



Union Bank executive.

Union Bank inter-departmental quiz

Union Bank of Colombo PLC hosted its first branch and inter-departmental quiz recently with the participation of over 45 teams representing all branches and departments in the bank.



Union Bank of Colombo PLC hosted its first branch and inter-departmental quiz recently with the participation of over 45 teams representing all branches and departments in the bank.



CORPORATE EVENT HIGHLIGHTS CONTD.

Union Bank of Colombo partners SLCSMI for Industrial Excellence Awards 2013

By DAVID EBERT

THE Sri Lanka Chamber of Small and Medium Industries announced Union Bank of Colombo PLC as the principal sponsor of the 11th Industrial Excellence Awards 2013 to be held in May later this year which will recognise outstanding performers in the small and medium industry sector.



The sponsorship cheque for the 2013 Industrial Excellence Awards

by Aloy Jayawardena speaking at the ceremony on the chamber's illustrious history and the changes planned for this year's awards stated: "The last 50 years have seen the Small Industries Association growing from strength."

"We are no longer an association, but now recognised as a chamber that is supported and driven by a number of the nation's reputed industrialists and we are proud to

would be incorporated by country and accordingly gold, silver and bronze awards will be awarded to the three outstanding performers from each country.

It was also announced that applications are now available exclusively at all of Union Bank's 36 branches, the Union Bank head office in Colombo 3 as well as the SLCSSMI office

Pic by Ujaj Abayasekara

UNION BANK EXPANDS BRANCH NETWORK TO KEGALLE



UNION Bank of Colombo PLC opened its 33rd branch in Kegalle on 28 August 2013 at 348, Kandy Road, Kegalle. The new branch was ceremonially opened by Imtiaz Mullaasen, Director of Union Bank in the presence of Anil Amarasekiriya, Director/CEO of Union Bank and customers of the bank. Union Bank's entry into Kegalle further reiterates the bank's robust expansion plan that is currently underway to grow

Union Bank launches new savings promotion

With the objective of rewarding customers who save with Union Bank, the Bank announced the launch of a new saving promotion that offers a range of attractive gifts. The promotion is applicable for the Bank's savings accounts Ultra Saver, Regular Savings accounts and the women's savings account Jiweththi. In addition to the attractive gift offer, customers also receive up to 7.5 percent p.a. interest on their savings, which is the highest rate offered by any commercial bank in Sri Lanka. The promotion is valid up to 31st December 2013.

The gift scheme is applicable for new and existing customers who make deposits over Rs. 10,000. A customer who makes a deposit between Rs. 10,000 to Rs. 25,000 will receive an attractive Lunch Bag, deposits between Rs. 25,001 and Rs. 50,000 will receive a branded wall clock and deposits of Rs. 50,000 and above will receive a travelling bag. The complete range of gifts will be offered for deposits of Rs. 100,000 and above.

This new saving promotion is available through the 40 Union Bank branches across the country. More information on this promotion is available on the Bank's website [www.unionbank.lk](http://www.unionbank.lk)



Bimsara Jothirathna, Branch Manager - Union Bank Head Office with the first depositor of the saving promotion - D. P. Wickramasingha.

Union Bank's newest branch opens in Pelawatta

Union Bank of Colombo PLC opened its 33rd branch in Pelawatta on May 7. The new branch was ceremonially opened by Chairman Alex Lovell.



Chairman Alex Lovell at the opening of Union Bank's Pelawatta branch



Chairman Alex Lovell opening the Pelawatta branch, July

Chairman Alex Lovell, speaking at the opening ceremony said that the Bank has in a short period of time evolved as one of Sri Lanka's fastest growing financial service groups.

He also stated that the Bank has a solid financial foundation and has already met the 2013 capital adequacy requirements of Central Bank. In its continuous efforts to deliver superior service to customers, the Bank has recently invested in excess of rupees 400 million on a state of the art core banking system, placing Union Bank at the helm of IT capabilities in the banking industry in Sri Lanka.

Union Bank gets state-of-the-art core banking system

UNION Bank of Colombo PLC (UBC) entered into a strategic agreement with GlobalLogic to implement the bank's new state-of-the-art core banking system including the trade, wealth and treasury systems.



Union Bank Chairman Alex Lovell (left) and GlobalLogic CEO Joseph Shrestha (right) at the signing ceremony

to meet to deliver sophisticated technology solutions to customers.

Chairman Alex Lovell, Chairman of Union Bank and Anil Amarasekiriya, Director/CEO of Union Bank stated: "The new state-of-the-art core banking system places Union Bank at the helm of technological capabilities in Sri Lanka. It will support the bank's rapid expansion and development plans."

GlobalLogic will provide a comprehensive suite of solutions for the bank's core banking system, including trade, wealth and treasury systems.

The new system will support the bank's rapid expansion and development plans, including the launch of new branches across the country.

Union Bank Trinco branch relocates

UNION Bank of Colombo PLC has relocated its Trincomalee branch to a new premises located at No. 306, Central Road, Trincomalee on 23 July 2013.



Chairman Alex Lovell at the opening of the new Union Bank premises in Trincomalee

The new premises were ceremonially opened by Chairman of Union Bank Alex Lovell in the presence of the management of Union Bank and many distinguished invitees.

Advertisement for TMC (The Management Centre) featuring the logo, text 'SINCE 2002', and 'Update'.

Union Bank takes SME focus to Kebithigollewa

Union Bank of Colombo PLC (UBC) opened its 40th Branch in Kebithigollewa on July 9 adding to its rapidly expanding branch network.



Union Bank of Colombo PLC (UBC) opened its 40th Branch in Kebithigollewa on July 9

The new branch is located at Padaviya Road, Kebithigollewa and was ceremonially opened by Anil Amarasekiriya, Director / Chief Executive Officer of Union Bank in the presence of Ven.



Union Bank joins TMC as Principal Sponsor

TMC is proud to inform its members that Union Bank of Colombo PLC (UBC) has joined its Small and Medium Enterprises with a branch network nearing 50 branches and has established



## REVIEW ON HUMAN RESOURCES

The year 2013 saw us take many steps to revalidate, consolidate and build on the key elements that will help the Bank to stand out as one of the most preferred employers in future.

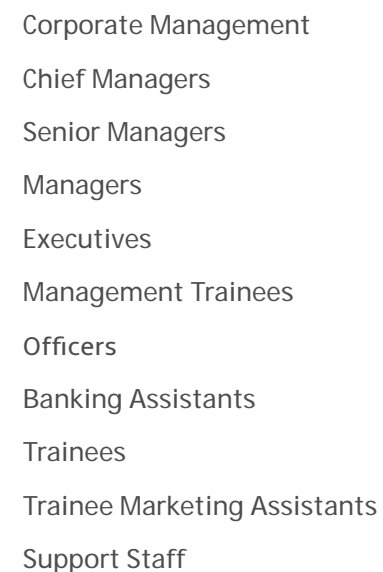
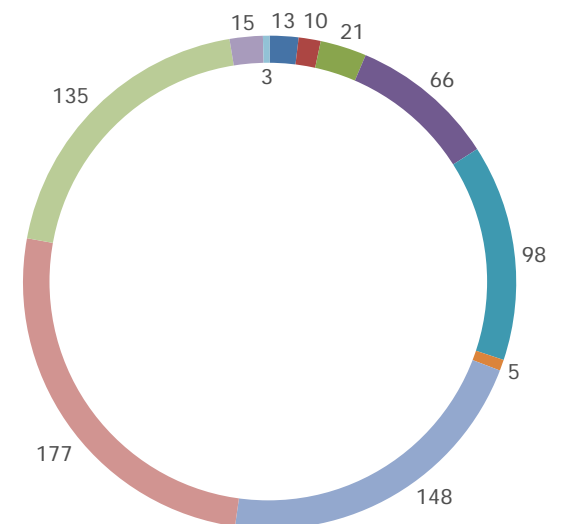
During the early part of the year a dipstick survey was carried out to gauge the levels of engagement of staff. This home grown survey which was conducted on an e-platform to all employees, enabled

the Bank to assess, diagnose and analyse engagement levels of staff. The survey results were an input for policy makers to devise and strategies action plans for creating a more engaged workforce.

The workforce as at 31st December 2013 totaled to 691. The numbers set out in the chart below contains the breakdown of same grade wise.

We endeavored to inculcate in our staff the notion that every staff member is responsible for making the Bank more than "just a work place" and that all staff together makes the Bank what it is and what it will be. With this end in mind the year saw the staff participating in many events including an inter department and branch Quiz, Bakthi geetha, Talent show, Annual Trip, Year end dance and Christmas carols. Thus we created challenge and inclusivity, staff in return displayed innovative excellence.

Grade wise staff break down	
Staff Grade	No of Employees as at 31.12.2013
Corporate Management	13
Chief Managers	10
Senior Managers	21
Managers	66
Executives	98
Management Trainees	5
Officers	148
Banking Assistants	177
Trainees	135
Trainee Marketing Assistants	15
Support Staff	3



Number of employees increased by 36 percent during the reporting year.

Of the total new recruits 79 Percent have been below the age of 30 while 20 Percent were between the age of 30 - 50 and 1 percent over the age of 50.

Opening of 15 new branches during the year saw a significant increase in the staff carder. Expansion roll out enabled the existing hi-performers to be elevated to the next level

thus giving them a better opportunity at getting recognised and promoted.

The Bank's attrition stands at 12.5 Percent. Continuous engagement with staff resulted in attrition coming down significantly over the last few years. This remains a focus area and also remains a key result area of the HR Department.

## REVIEW ON HUMAN RESOURCES CONTD.

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As another aspect of employee engagement, all staff of the Bank underwent regular appraisals to receive feedback on their performance. Biannual feedback was also conducted. Going forward the appraisal system will be conducted on an e-platform and staff are undergoing training for same.

As part of fostering work life balance the Bank ensures that the Annual leave is availed by all staff, with this end in mind a policy for same is in place.

Aside from ongoing staff engagement activities the Bank firmly believes in improving the skill levels of staff to benefit both the individual and the institution. With this in mind the Bank places great emphasis on capacity and skill development. Training was intensive and provided on a daily basis at all levels during the year. The Bank's internal training facility continues to cater for entry level as well as specialised trainings with respect to competencies required across all grades. The pool of internal trainers consist of staff from many disciplines.

Our staff have undergone a total of 67,327 hours training averaging 39 hours per staff member. This is an increase of 27 percent over the previous year.

The Bank ensures all people related decisions are made by committees and not by individuals. Decisions relating to promotions, hiring, compensation management and talent management are also made in this manner.

The Bank places highest value on ethics. The Board approved Whistle Blowing Policy acts as a main control mechanism in upholding ethical practices. The Bank's training department conducts a module on the Whistle Blowing Policy for all new inductees. During the session all inductees are informed regarding the remedial actions available and disciplinary action that would be taken in the event of a contravention. Staff are encouraged and expected to report any breach with the guarantee that they would not be penalized for the disclosure of that information. Multiple channels of communication have been established to report on any such breach.

# SUSTAINABILITY REPORT



# SUSTAINABILITY REPORT

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## Positive Impact; Empowered People; Healthy Planet

For a Bank that has always inculcated an ethos of partnering our stakeholders in their journey ahead, ensuring that our decisions and actions impact positively on them is a priority in our sustainable development agenda. We also remain cognizant that our business must remain a going concern if we are to have a positive impact on our customers, valued business partners, communities, industry and the nation. As a corporate steward, we also have a responsibility in conserving and preserving the environment, as with a healthy planet, all other factors of sustainable development will fall into place, whether it is in improving and developing our business or our stakeholders. For us, it's about ensuring that our business remains a positive dynamic in the macro scheme of things, where our influence paves the way for future generations to live in a healthy environment.

Our business has always been about prompting stories of success. And these success stories are many, because our philosophy is founded on continuity through the nurturing of long term relationships. We recognise the imperative role played by our stakeholders in our success and that mutual understanding we have constructed on a strong base, helps us to create an empowering milieu for each of our stakeholder segments to develop and grow. This growth naturally permeates to national growth as communities that have hitherto remained on the sidelines of the national development agenda become mainstream contributors and resultant to this, we feel humbled to have played an integral role in empowering these citizens.

Our focus on developing the micro and SME sectors of this country has also spurred a buoyancy in entrepreneurial spirit, adding fillip to local industries that may have not gained as much focus in the past. These are entrepreneurs who are now established, creating for themselves business opportunities that are sustainable. They in turn are now employers, spurring growth among their own communities, changing lives, aiding development and most of all, being role models to future generations.

While sustainable development remains ingrained in our philosophy, this also means that as an industry steward, we must be a maven of corporate responsibility. We must amalgamate our vision into a strong and sustainable business foundation that espouses governance, ethics, values and most of all transparency and accountability. This will demonstrate our sincerity of action and the commitment we have to maintaining focus on the triple bottom line. We exert stringent vigilance on adhering to diktats and regulations prevalent for and within our industry, while constant attentiveness to germane global and local paradigms that may or could have an impact on our business and our stakeholders is asserted.

At Union Bank of Colombo, our business is about caring, sharing and giving hope and each action in that triad ensures that our stakeholders will tangibly benefit with our presence among them. We want to engender an environment where all beings that inhabit the earth will have better prospects in the present and the future, than when we began our business. We want our customers and valued business partners to continue having confidence in us and become fundamental trusses in sustaining our business, while we in turn, create a partnership that will be mutually beneficial. We want our communities to be empowered, to have dignity, to be creative and innovative and become an integral facet in the country's progress. And into this equation, we want to grow a team that will lead and win, powered by their ambitions and driven by their aspirations, becoming a collective that will be upheld as the best global citizens ever produced.

This then, is our business; impossible as it may seem to others, it remains fundamental to our existence. This is the sustainable foundation we have constructed with strength, stability and vision. We believe in progress, we believe in partnership and we believe in power; the power to come together and make a difference. This then, is what our business is all about!

# SUSTAINABILITY REPORT CONTD.

This sustainability report offers an integrated view of Union Bank's commitment and performance for the period 1st January 2013 to 31st December 2013.



## ENVIRONMENT

### Energy Saving Measures

Union Bank, mindful of its carbon footprint, has taken measures to neutralise and minimise its adverse impact on the environment.

The Bank has consciously developed environmentally responsible methods to reduce both the direct and indirect environmental impact of our services. As a service oriented organisation, reduction of energy consumption could be identified as being the most significant contribution towards reducing the Bank's Carbon Footprint.

During the year under review the following initiatives were carried out:

New branches	
Introduction of a technical study to ascertain the required BTU and LUX capacities	This has resulted in more precise implementation of equipment and better usage of electricity
Replacement of florescent lighting with LED lighting	Up to 40% reduction in electricity consumption
Conversion from Split type AC units to Inverter Type AC units	Up to 60% reduction in electricity consumption
New / selected existing Branches	
Branch Signage (Main Fascia) lighting converted from internally illuminated florescent lights to a maximum of 4 externally lit LED lights	Up to 60% reduction in electricity consumption

## Waste Reduction

Union Bank continues to promote a paperless culture where employees are encouraged to familiarise and be efficient within a more electronic based work environment. As such with the objective of minimising the usage of paper following initiatives were carried out which have resulted a highlighted impact on the reduction of paper usage within the organisation.

e document - memo management system	This has resulted in a paperless system in the circulation on internal memos
e document system - Board Papers	Circulation of monthly Board Papers and Board Sub-Committee papers electronically reducing the amount of printed material being circulated.
Electronic Mail Register	Elimination of a paper based mail management system and transition to a systematic electronic system
HR System	Introduction of a new HR management system including performance evaluation, attendance and leave monitoring management.
Central Processing Unit (CPU)	The establishment of the CPU has resulted reduction of credit documentation at branch level.
Video conferencing	This process has resulted the requirement of visiting branches and the level of documentation.
e-Annual Reports	Over 35,000 annual reports are required. Circulation of over 95% of the Annual Reports on Compact Disks (CDs) has resulted in lean resource consumption with printing being at a minimum level

## EMPLOYEE RELATIONS

At Union Bank, people are an integral part of its success. Union Bank is committed to creating a healthy, safe and fulfilling work environment that supports personal growth, encourages individuality and instigates team spirit. (refer Review on Human Resources – page 92)

## SUSTAINABILITY REPORT CONTD.

### Occupational Health & Safety

We maintain a zero accident work environment due to measures taken to provide a safe work environment for our team members. These include:

- Business Continuity Plan that addresses potential emergencies with coordinators at branches and each floor at Corporate Office responsible for creating awareness of safety.
- Maintaining a hazard free environment and good housekeeping practices

### Work – Life Balance

We ensure a healthy work-life balance by encouraging staff and their family members to take part in our special events such as the Union Bank Family weekend, Vesak Bakthi Gee , Christmas carols, UB Dance and the 'inter branch and department quiz'. The Bank also provide the staff a fully equipped gymnasium for better health and fitness.

### Employee Communication

We encourage an open dialogue with our staff, while several channels of communication are also open to disseminate knowledge and foster mutual resolution of issues. The Banks Whistle Blowing Policy provides a channel for direct communication with regard to any unethical practices.

### Work ethics and Human Rights

We are an equal opportunity employer that encourages and has evolved a work culture that conforms to local labour laws, internationally accepted best employment practices and human rights and respects the guidelines of the International Labour Organisation (ILO). We follow a non-discriminatory approach to managing our employees as we do with our stakeholders. Contributing to develop local communities , the Bank's rapid expansion initiatives provide employment in diverse areas across the country.

## CUSTOMER RELATIONS

Delivering service excellence is embedded in the Bank's way of business in becoming the Bank of choice for the SMEs. Continuous research and process improvements are carried out to ensure high service quality and retention levels. Value addition to existing products and launch of several new products has enabled the Bank to provide a comprehensive portfolio of financial solutions to its customers. (refer page 78)

## CORPORATE GOVERNANCE

Union Bank's goal is to carry out business with the highest integrity, responsibility and accountability by building on the trust earned and established over the years. The Bank makes every effort to maintain strong due diligence procedures in all activities and ongoing transactions. As such, the Bank is committed to upholding the highest standards of corporate governance and complies with the regulations on Corporate Governance issued periodically by The Central Bank of Sri Lanka and the Colombo Stock Exchange (Listing Rules) and is guided by the Code of Best Practice on Corporate Governance, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, in 2008 (refer page 36).

## COMMUNITY RELATIONS AND CORPORATE SOCIAL RESPONSIBILITY



As the Bank of choice for the SMEs the Bank strongly believes that its CSR efforts should deliver to further develop the SMEs and all associated stakeholders. As such its vision of implementing a knowledge and guidance hub to benefit this segment has been delivered through the conceptualisation of its "Viyaparika Saviya " free advisory service initiative.

To educate entrepreneurs in facilitating their development and to ensure that they have adequate knowledge to make informed choices, the "Viyaparika Saviya" - Free Advisory Service was pioneered and launched in 2011 by Union Bank to support entrepreneurs for better business growth. Under the "Viyaparika Saviya" programme, entrepreneurs can gain 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.

### Free Workshops

"Viyaparika Saviya" has supported many new and existing entrepreneurs for better business growth. Businesses from diverse industries have benefited from the expertise and advice of the service. During 2013, the Bank organised several workshops across the island with over 2500 entrepreneurs participating free of charge to avail themselves of advice on better business practices.



## SUSTAINABILITY REPORT CONTD.

	BRANCH	DATE	PARTICIPANTS
1	Dambulla	24 January	62
2	Gampaha	15 February	52
3	Kadawatha	18 February	42
4	Wennappuwa	27 February	40
5	Kotahena	21 March	41
6	Wattala	27 March	22
7	Piliyandala	28 March	38
8	Jaffna	02 April	22
9	Chunnakkam	03 April	120
10	Atchuvvely	04 April	70
11	Mannar	28 May	150
12	Vavuniya	29 May	39
13	Gampaha	31 May	27
14	Narammala	13 June	20
15	Trincomalee	21 June	290
16	Badulla	25 June	29
17	Ratnapura	26 June	32
18	Anuradhapura	18 July	287
19	Embilipitiya	14 August	78
20	Negombo	16 August	35
21	Warakapola	23 August	43
22	Panadura	29 August	27
23	Kebithigollewa	09 September	64
24	Horana	12 & 13 September	30
25	Marawila	13 & 14 September	30
26	Chilaw	24 September	157
27	Gampaha	10 & 11 October	30
28	Horowpathana	15 October	152
29	Ambalantota	25 October	59
30	Ambalangoda	28 October	33
31	Minuwangoda	12 November	62
32	Kandy	26 November	62
33	Kurunegala	30 November	85
34	Angunakolapelessa	12 December	148
35	Galle	18 December	30

## Dambulla



## Trincomalee



## Anuradhapura



## Chilaw – (50th Viyaparika Saviya Workshop)



## SUSTAINABILITY REPORT CONTD.

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### Financial Support for development

The “Viyaparika Saviya” workshops also provide a platform for budding entrepreneurs to access a comprehensive portfolio of financial products. 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.

### Nurturing Relationships

Nurturing personalised relationships and working together is focal within the Bank. The free advisory service goes beyond workshops and strategic development of entrepreneurs to encompass long-term relationships between the Bank and business entrepreneurs through business guidance and personalised support to broadening horizons for business growth.

### Partnerships

To enable Union Bank create greater agility in catalysing growth for SME’s, the Bank forged partnerships with several reputed organisations. These partnerships enable the Bank to enhance the scope of products and services, improve channel strategy as well as support and fund value added services and CSR strategy.

### GIZ (Gesellschaft für Internationale Zusammenarbeit)

The Bank has partnered the former GTZ to improve access to finance for SME customers under GIZ’s SME Development Programme. This programme will help generate employment, impact income, reduce poverty and enhance regional development.

### National Enterprise Development Authority (NEDA)

This partnership facilitates and proactively supports the development, growth and competitiveness of the Sri Lankan Enterprises. NEDA will support Union Bank’s “Viyaparika Saviya” initiatives which provides expertise and advisory services to existing and growing entrepreneurs. Financial assistance and guidance will be provided by NEDA to enable the Bank to carry out successful entrepreneurship development programmes.

### Sri Lanka Chamber of Small and Medium Industries (SLCSMI)

Union Bank partners the SLCSMI in their objectives of developing and growing business partnerships. It provides member’s a platform to network with SMEs and facilitate opportunities for Union Bank’s SME customers to work with local and international organisations

and government authorities to further support international business initiatives of these small and medium industrialists.

### International Finance Corporation (IFC)

IFC funded SME toolkit book developed by Union Bank will add further value to SME customers through information and training offered on cash flow management. The toolkit is distributed to participants at the “Viyapaika Saviya” workshops free of charge to sustain training in this area for business success. IFC is a member of the World Bank Group.

### SME Club

Adding further value to SME initiatives, the Union Bank SME Club was introduced through the “Viyaparika Saviya” programme. As member of the SME club, customers will receive access to the Sri Lanka Chamber of Small and Medium Industries who is a catalyst in upholding the welfare of SMEs in the country.









## SUBSIDIARY UPDATE



### KEY HIGHLIGHTS

- 155% growth in AUM from Rs. 5.1 bn to Rs13.1 Bn.
- Market share increased to 19% in FY13, Making NAMAL the second largest player in Unit trust Business.
- Flagship National Equity Fund's was ranked No 1 in the industry (46 funds) in performance in FY13 for the second consecutive year.
- Awarded "the Best Investment Management Company in Sri Lanka" by World Finance.

### A YEAR OF MILESTONES

NAMAL recorded an impressive 155% growth in assets under management (AUM) from Rs. 5.1 bn to Rs13.1 Bn for 12 months ending FY13. The company returned to second place in terms of AUM in the unit trust industry for the first time since it came under the wings of Union Bank. Market share in unit trust business increased to 19% in FY13 (14% in FY12) with AUM in unit trust business reaching a milestone of Rs10.1bn. The company secured key private portfolio management mandates from two leading international financial institutions to increase the private portfolio business by 282% to Rs3bn in FY13. The company opened its first branch in Jaffna in addition to having the largest direct sales force in the Unit trust industry covering in excess of 25 Union Bank branches island wide.

### DELIVERING FUND PERFORMANCE

Superior fund performance is our priority and has underpinned the increase in AUM. NAMAL's flagship National Equity funds

was once again ranked No 1 in the industry (out of 46 funds) in performance with total returns of 17.1% in FY13. NAMAL's other equity funds namely, NAMAL Growth Fund and NAMAL Acuity Value Fund have outperformed the All Share Price Index (ASPI) bringing stability and superior fund performance to investors. In Debt funds, NAMAL High Yield Fund which was launched in 2012, exceeded Rs. 6.5Billion in assets and has provided attractive tax adjusted returns to investors during the year. As a direct result of the above achievements, the company was awarded the Best Investment Management Company in Sri Lanka and received the "Investment Management Award, 2013" by World Finance.

### FUTURE GROWTH IN RETAIL BUSINESS

We strongly believe the retail business has substantial untapped potential as the country moves towards middle income status. As result, NAMAL launched its first ever monthly investment plans (MIP's), namely, NAMAL Retirement Savings Plan and the NAMAL Parents Savings Plan, which gives flexibility to retail investors to save a small investment in regular intervals to benefit from medium to long term capital appreciation. The product has been a great success and our focus is on delivering this product islandwide in FY14. NAMAL is very optimistic of the future growth potential of the economy and the capital markets of Sri Lanka and remains committed to delivering long term capital appreciation and income to all our investors.

### BOARD OF DIRECTORS

Alexis Indrajit Lovell, *MBE* – Chairman  
 Chithrupa Premalal Ajith Wijeyesekera - Deputy Chairman  
 Anil Suneetha Amarasuriya  
 Dishan Amrit Jitendrakumar Warnakulasuriya  
 Tyrone Wilfred de Silva  
 Harold Avancka Herat - Chief Investment Officer  
 Khoo Siew Bee



**SUBSIDIARY UPDATE** CONTD.

The year under review has been a challenging yet rewarding year for UB Finance Company Limited in which the Company successfully made significant inroads into the financial services market. A concentrated effort was made to build and align the Company with its three year Strategic Business Plan which has been produced to compliment and leverage on the 5+1 Hub Strategy introduced in the "Mahinda Chinthanaya" document.

The strategy is focused towards accelerated growth by building the "UB Finance" Brand, offering more comprehensive financial solutions by expanding product portfolio and extending its footprint; this progression was supported by strengthening the UB Finance Team, tightening up processes and procedures, improved systems, controls, corporate governance and transparency.

The Company made steady progress in terms of business volumes which grew by 131% over the preceding financial period to LKR 1,146Mn from LKR 497Mn, resulting in a portfolio growth of 122% from LKR 882Mn to LKR 1,956Mn. The Company NPL ratio was 1.97% on the post acquisition portfolio. New fixed deposits for the year totaled LKR 752Mn which is an indication of the confidence gained by the Company in a short span of time.

### **STRENGTHENING THE UB FINANCE TEAM**

As in any service related business the key to success is it's people. UB Finance made a cognisant effort to recruit the best people from the industry as a knowledgeable and experienced team with a sizeable portfolio would ensure that the Company is profitable from year one and greatly reduce operating and credit risk.

### **BUILDING THE UBF BRAND**

Much of the Companies attention was focused on re-branding the Company as UB Finance Company Limited utilizing a host of above-the-line and below-the-line techniques to build and reinforce the brand. The UB Finance logo is now prominently displayed throughout the city and its suburbs as well as in many outstation towns, strategically placed press and electronic media advertisements, a revamped website, frequent street promotions etc. constantly remind its customers & the general public of its growing presence.

### **IMPROVED SYSTEMS, PROCESSES AND DOCUMENTATION**

A complete review and restructuring of all processes and related documentation was done during the year along with the compilation of new procedure manuals in line with the restructured processes. A new software system was also implemented; enhancing reporting capabilities, enabling effective & efficient decision making & follow up.

Corporate Governance and Transparency; The Company is compliant with Central Bank directions and other statutory guidelines and has appointed M/s. Ernst & Young as external auditors & M/s. KPMG as internal auditors. A software compliance security policy was also set up in line with the new software & IT security compliance requirements. Board sub-committees were setup for Integrated Risk Management, Audit, ALCO, Credit, Strategic Planning, HR & Remuneration, Real Estate & IT. Furthermore the Company successfully produced its first set of IFRS compliant financials.

### **ENHANCING PRODUCT LINES**

The Company embarked on a product development strategy, its main lines of business include Investments in terms of fixed deposits and savings accounts, asset backed financing in terms of leasing hire purchase and loans, working capital

financing in terms of factoring and invoice discounting and real estate solutions. UB Finance serves as a vehicle to better cater to the Small and Medium sized Enterprises which is in line with the overall Business Strategy of the Union Bank Group. UB Finance also offers its customers a wide range of prime real estate options from its extensive development portfolio.

### **BUILDING STRATEGIC ALLIANCES**

Alliances were forged with vehicle & machinery dealers, brokers, insurance companies and other such organisations connected to the finance industry.

### **EXPANDING BRANCH NETWORK**

UB Finance relocated its head office to a spacious and easily accessible building in Colombo 4. It has also rebranded its existing branches and opened several new branches during the year steadily expanding its reach throughout the country. UB Finance currently operates through a network of 7 locations including Colombo, Ambalangoda, Galle, Kadawatha, Kurunegala, Negombo and Tissamaharama.

### **ENHANCING PROFITABILITY**

In addition to the above the Company also looked at increasing profitability through the sourcing of cost effective funding from external sources such as savings, fixed deposits, debt instruments and its parent Company as well as negotiations with other commercial banks, foreign funding agencies, funding arrangers etc. It also concentrated on managing its overheads by lowering its fixed & operating costs, introducing performance based incentive schemes, facilitating a paperless culture, energy saving office equipment and using cost effective methods of advertising.

### **THE WAY FORWARD**

As Sri Lanka moves towards a US\$ 100Bn economy and a US\$ 4,000 per capita income the Company is confident that it can further



## SUBSIDIARY UPDATE CONTD.

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build on its positive growth trajectory and has articulated its aggressive expansion plan in its three year Strategic Intent document. The plan includes a progressive expansion of its footprint to cover the entire Island, introduce new and innovative financial solutions to the market to enhance its volumes and market share, further improved systems and processes for faster, high quality service delivery.

As the Central Bank of Sri Lanka moves towards a stronger, more efficient and better regulated finance sector through financial reform, the Company looks forward to support and play its part in this transformation while working towards a successful listing in 2014, provided that the regulatory and business climate is conducive.

### **BOARD OF DIRECTORS**

Alexis Lovell, MBE - Chairman  
Ananda Atukorala - Deputy Chairman  
Jit Warnakulasuriya  
Upali Wijeyesekera  
Malinda Samararatunga  
Davis Golding  
Ajith Wijeyesekera  
Daman Panditaratne  
Rohendra Wijeyesekera  
Chandrakumara Ramachandra

Ransith Karunaratne - Chief Executive Officer  
Suresh Kandiah - Chief Operating Officer

## RISK MANAGEMENT AT UNION BANK

### KEY HIGHLIGHTS

- Formation of Group Integrated Risk Management Committee
- Pillar II risk assessment and stress testing using ICAAP framework
- Introduced a New risk management system capable of measuring risks and analytics at advanced levels
- Introduced a comprehensive Loan Origination System with a sophisticated borrower risk rating

### ENTERPRISE WIDE RISK MANAGEMENT

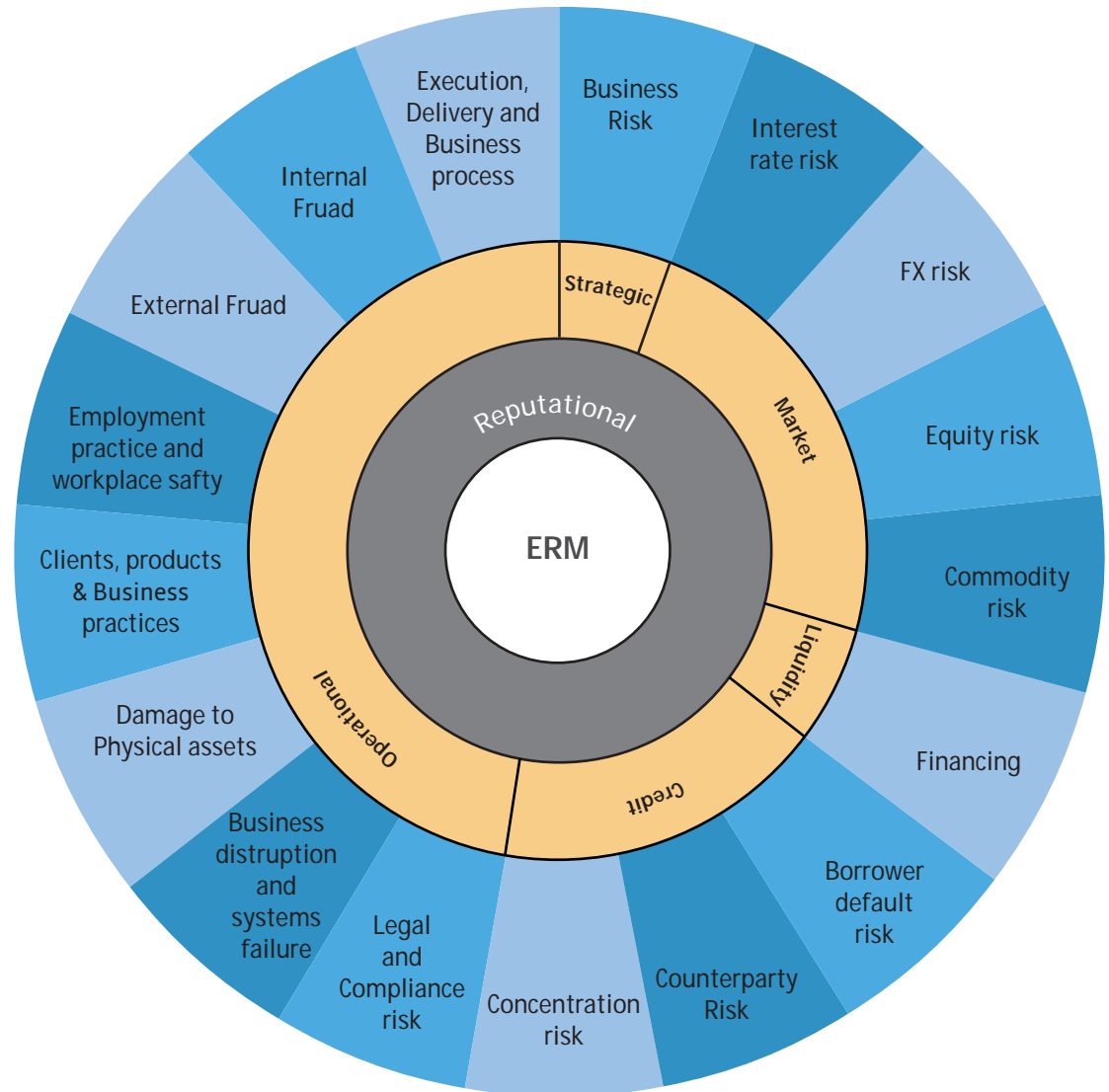
Risk management is an increasingly important business driver in today's context with shareholders becoming increasingly concerned about risk measurements and controls. Thus, risk has become a driver of strategic decisions. An enterprise-wide approach to risk management (ERM) enables an organization to consider the potential impact of all types of risks on all processes, activities, stakeholders, products and services. Figure 1 below gives a quick overview of the current ERM of the Bank.

In accordance to the group's strategic direction, the Bank continuously enhances its integrated risk management approach towards the effective management of enterprise-wide risks. The Bank views the overall risk management process with a structured and disciplined approach to align strategies, policies, processes, people and technology with the specific purpose of evaluating all risk types, for greater shareholder value.

The Bank's risk management approach is to combine the specialised knowledge of the business units and risk professionals with the experience of the corporate oversight functions. The "risk takers" consisting of business lines with clear responsibilities and authorities are identified as the "1st line of defence". "2nd line of defence" is the Compliance and Risk Management Department (RMD), an independent unit

whose function is to assess, measure, monitor, control and report risks arising from all business/service units across the organization. The Internal and External Audit functions constitute the "3rd Line of defence".

Figure 1: Enterprise Risk Management wheel



## RISK MANAGEMENT AT UNION BANK CONTD.

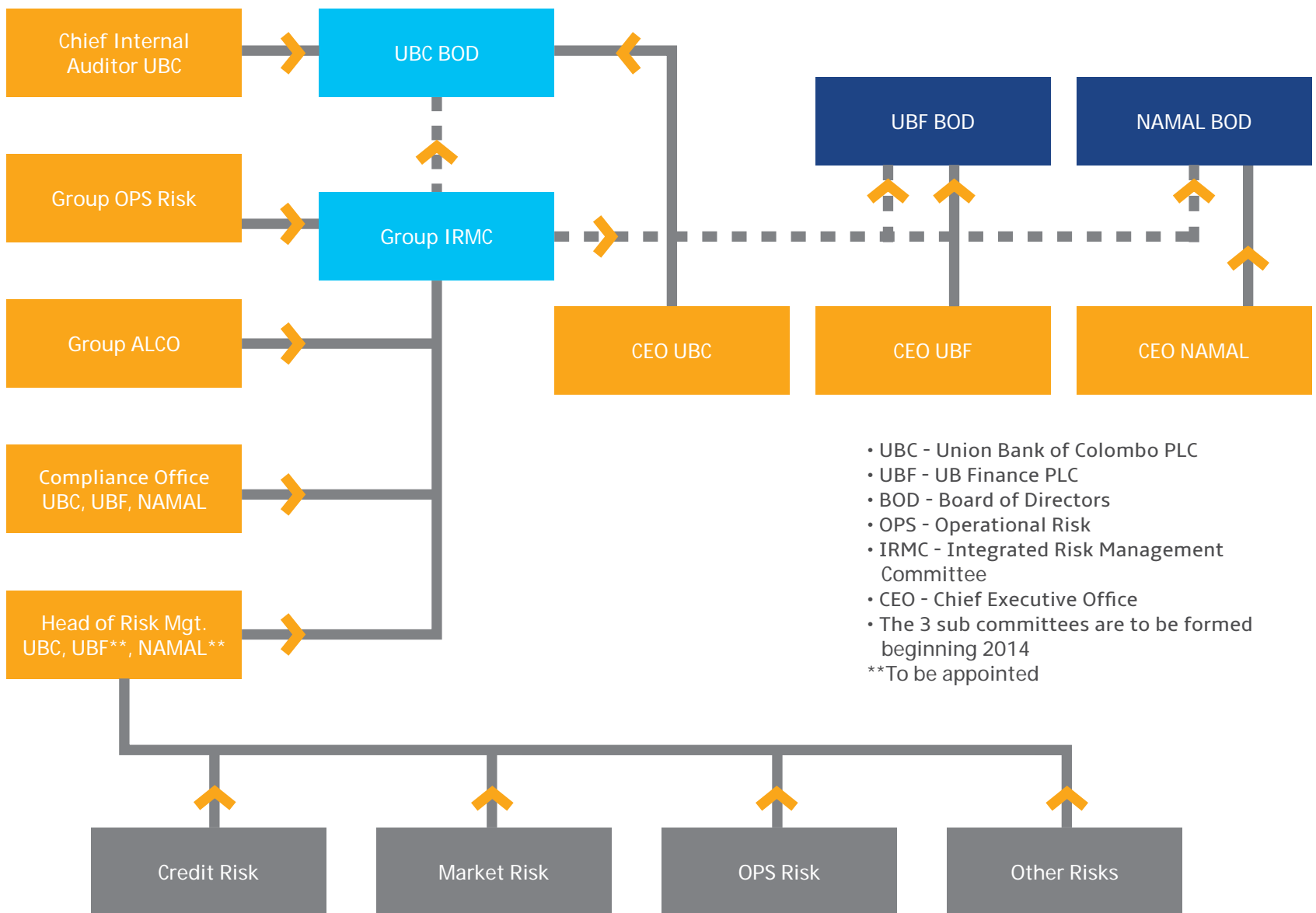
The integrated Risk Management Framework (IRMF) more fully described in the 2012 Annual report has two main parts, risk management at Bank level and at Group level. The Bank computes risk capital for Credit, Market and Operational risk using the regulatory Pillar 1 standards. For other types of risks such as Interest rate risk in

banking book, credit concentration risk, reputation risk, strategic risk etc. internal capital is computed using regulatory Pillar 2 directions. At Group level risk management, the framework requires assessment of risks using coordinated risk reporting procedure. The Group level risk management has further expanded this year with the

formation of a Group IRMC representing Non Executive Directors of all companies. It is mandated to oversee risk related matters of all companies and update Bank's director board at least on a quarterly basis. The governance structure of the Group IRMC is given below:

### GROUP RISK MANAGEMENT STRUCTURE

Figure 2: Group Risk Management structure





**RISK MANAGEMENT AT UNION BANK** CONTD.**GROUP WIDE RISK APPETITE**

More risk tolerance limits were added during this year for effective monitoring and controlling of risks. Table 1 below shows the various risk tolerance limits stipulated by the Bank / Group. There were no exceptions reported against the below tolerance limits during the year.

**Table 1: Risk Tolerance limits**

	<b>Credit</b>	<b>Market</b>	<b>Operations</b>
Bank	Preferred Capital Adequacy limits	Net Open Position limit	Heat map analysis – low risk acceptance
	Single borrower limits	Statutory Reserve ratio	Key Risk Indicator bursting limits
	Large accommodation limit	FX loss limits	
	Sector exposure limits	Counterparty limits	
	Margin trading limits	TBs and Bonds MtM loss limits	
	Related party limits	A&L maturity gap limits	
	Product limits	Interest rate reprising gap limits	
Limits for share trading			
Value at Risk (VaR) limits			
NAMAL	Investment limits and criteria	Various per product limits	
UB Finance	Capital Adequacy limits	Statutory Reserve ratio	Heat map analysis – low risk acceptance
	Single borrower limits	Liquidity ratios	
	Related party limits		
	Large accommodation limit		



## RISK MANAGEMENT AT UNION BANK CONTD.

### 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. Borrower risk is generally assessed through careful credit approval process described below, while Counterparty credit risk exposures in the trading book is mainly assessed through counterparty risk limits approved by the Board depending on the performance of the counterparty.

The Bank assesses Credit Risk at the portfolio level as well as at the exposure / counterparty level. Given the scale and materiality of the Bank's loan book, managing the credit quality of the lending portfolio is a key focus area with the objective of minimising probable losses and maintaining credit risk exposure within acceptable parameters.

#### 1. Managing Counterparty credit risk

Counterparty credit risk emanating from the Bank's trading book is managed by fixing limits against the counterparties and in certain trade transaction, against an approved underlying transaction. Bank can also reduce the counterparty risk by its ability to offset trading positions of a Counterparty. At present, Union Bank's counterparty credit risk is minimal due to the relatively small volumes in the trading book, mainly consisting of government securities.

#### 2. Managing Borrower credit risk

Bank's Credit Risk Management Policy and the Credit Manual can be described as the rules and parameters within which the Bank's credit officers manage daily business activities. These documents define the principles encompassing client selection, early warning reporting, tolerable levels of concentration risk and portfolio monitoring in line with the Bank's risk appetite. Apart from a clearly defined Credit risk policy and the Credit Manual, the Bank has a comprehensive credit approval process which is fully automated using the Kalypto

system.

**Figure 4: Credit facilities flow**

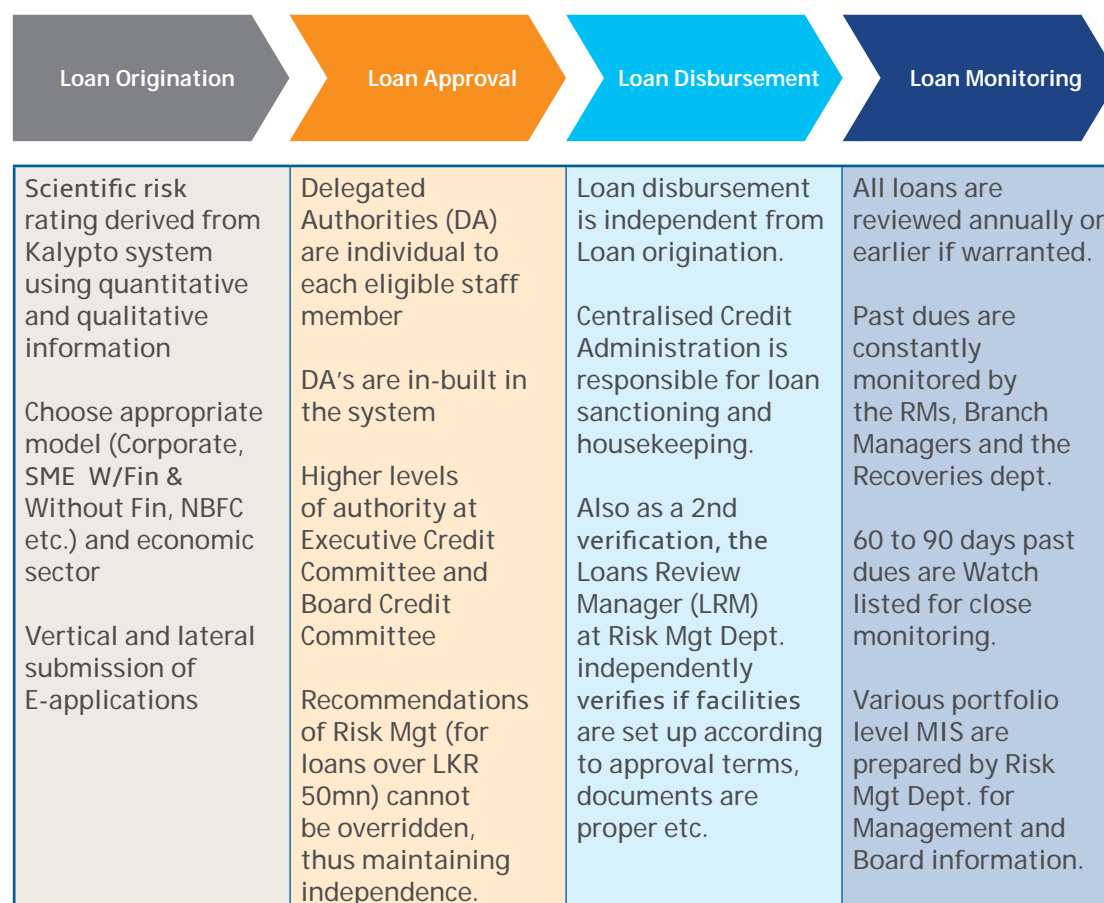


Table 4 above describes the important controlling functions at each level. Reference to the 'Loan Approval' column, the percentage of facilities recommended by Risk Management department compared to the total facilities reviewed is 98.8% (RMD as a further filtering unit)

#### 3. Managing Credit Concentration Risk

Disproportionate concentration to one area or segment creates a potentially high risk since there are borrowers with similar characteristics within such groups e.g. unexpected drought or heavy rains will affect the Agriculture sector etc.

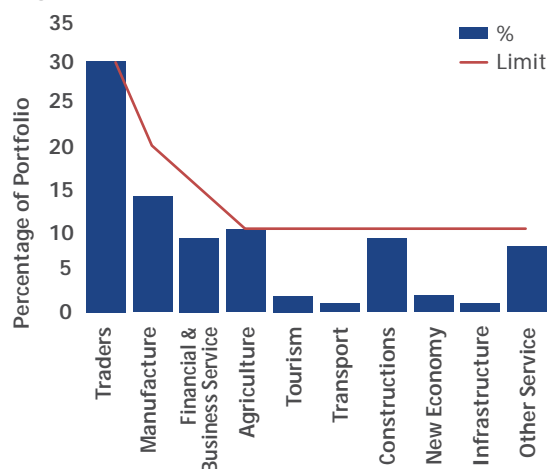
Bank measures credit concentration risk using economic sector groups and large names group. The economic sector concentration risk is monitored against

Board approved limits and stress tests are done using the HHI (Herfindhal-Hirshman Index) method. Bank's sector wise concentrations are within the Board approved limits, as shown in Figure 5. A well diversified portfolio will have a relatively lower HHI number. As at 31.12.2013, Bank's HHI number is 0.1575 compared to the industry HHI of 0.152. The Traders sector limit was raised to 30% during year 2012 considering the lower level of delinquencies and diversified nature of business activities in this sector.



# RISK MANAGEMENT AT UNION BANK CONTD.

Figure 5: Sector concentration



The following stress test table indicates marginal impact on Capital Adequacy Ratio (CAR).

Stress Test on Concentration Risk			
Summary	Low	Medium	High
Stress Test - Sacle up by	10%	20%	30%
Net Impact on CAR	-0.15	-0.17	-0.19

## 4. Managing Portfolio Credit Risk

Effective discussions take place at various forums to mitigate risks of the credit portfolio. Apart from the economic sector and name concentration mentioned above, the Bank reviews Borrower rating distributions, Age analysis, Geographical distribution, country risk exposures etc for portfolio level monitoring. Figure 6A & 6B below indicates most ratings under grade 'B' (BB-BBB) and 'C', while Figure 7 shows the geographical distribution of the portfolio. Though Western province accounts for 79% of the portfolio, factories / warehouses of some Corporate customers / businesses are located outside Western province.

Figure 6A: Borrower Rating Distribution as at 31.12.2013 - previous BRRS system (94% of the Portfolio)

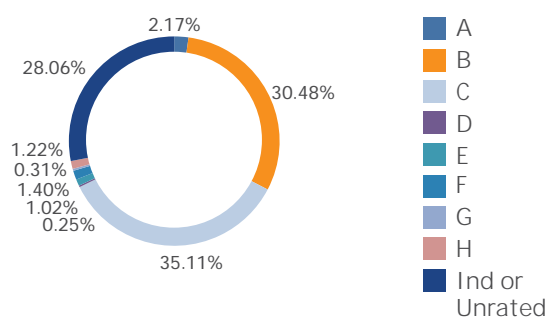


Figure 6B: Borrower Rating Distribution as at 31.12.2013 - New Kalypto system (6% of the Portfolio)

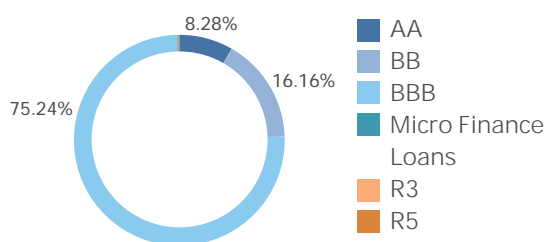
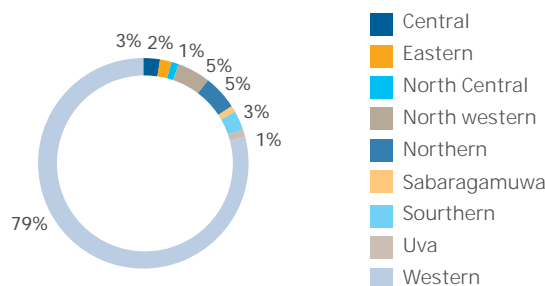


Figure 7: The Geographical Distribution as at 31.12.2013



According to Figure 8 below most of the loans are repayable within one year. The Figure 9 gives the direct / indirect exposures of other countries e.g. Bank discounts an export bill of an importer in India.

Figure 8: Age-wise distribution as at 31.12.2013

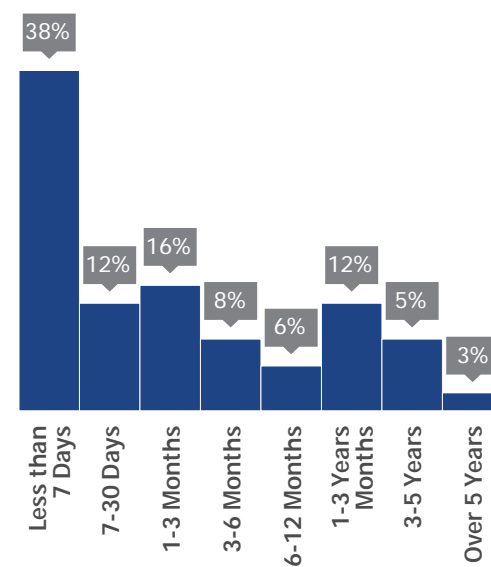
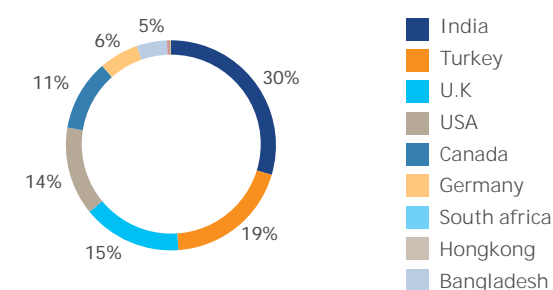


Figure 9: Country Risk Exposures as at 31.12.2013

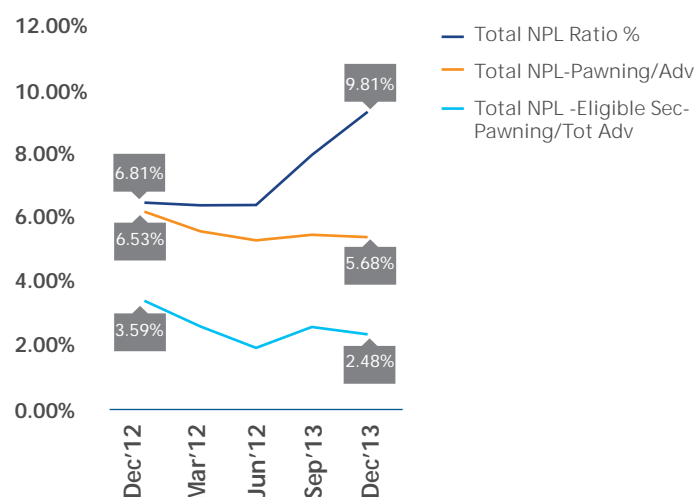


## RISK MANAGEMENT AT UNION BANK CONTD.

### 5. Managing Delinquent Loans

Bank's non-performing portfolio is monitored on a proactive basis through regular follow up with clients; and restructuring of facilities on a need basis. Risk Management Department monitors the watch listing of accounts by recommending action plans and close monitoring to prevent such borrowers falling in to non-performing. As the banking industry was badly affected by the decline in gold prices, the overall non performing advances (NPA) have risen compared to the previous year. However, the NPA excluding pawning has declined indicating the health of the general credit portfolio. Following chart attempts to demonstrate the efforts taken by the Bank to manage the NPA.

Figure 10: Total NPL movement with/ without Pawning and Eligible Security



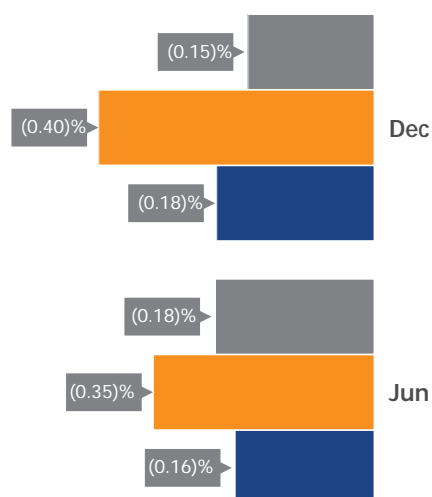
Above data illustrate the efforts taken by the Bank to manage the NPAs. Though the total portfolio with pawning NPAs have risen, the NPA excluding pawning has

declined to 5.68% and if eligible collateral (without any haircuts) is considered, the ratio is only 2.48% of the total advances. The total numbers computed based on CBSL Guidelines are inclusive of interest.

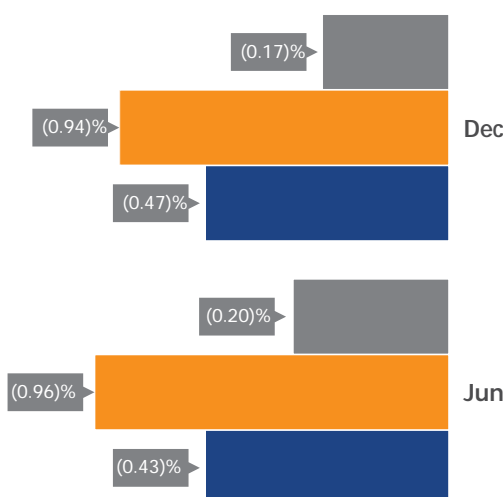
### STRESS TESTS ON CREDIT PORTFOLIO

In all three types of tests using low (5%), medium (10%) and high (15%) shocks, the resultant effect on Capital is manageable.

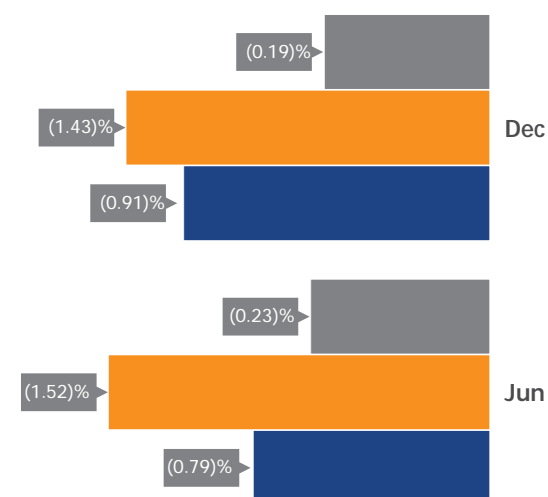
#### Low Scenarios



#### Medium Scenarios



#### High Scenarios



- Asset quality downgrade and Net impact on CAR
- Large Borrowers Defaults and Net impact on CAR
- Credit Concentration Risk – Name and Sector concentration net impact on CAR

## RISK MANAGEMENT AT UNION BANK CONTD.

### OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. The Bank uses heat maps to assess the risks. Figure 11 illustrates the operating model of Operational risk management while Figure 12 gives the governance structure.

Figure 11: Operating model

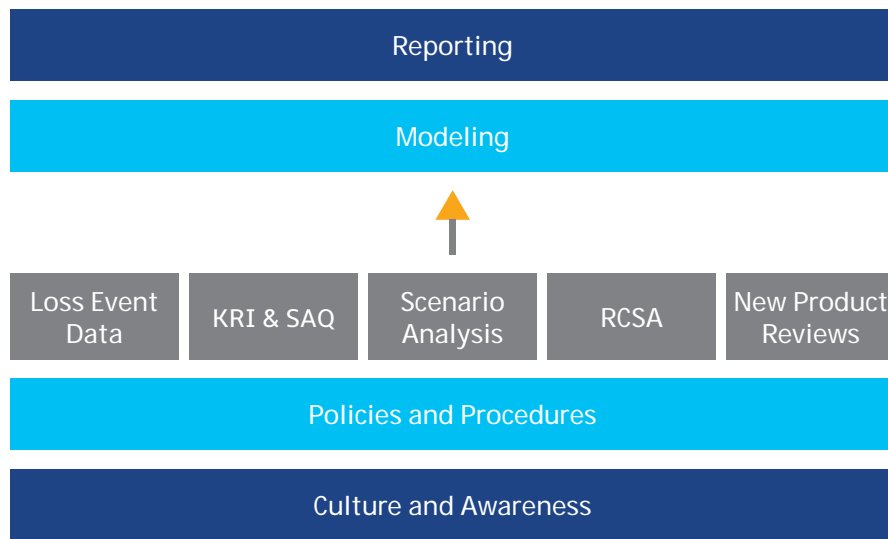
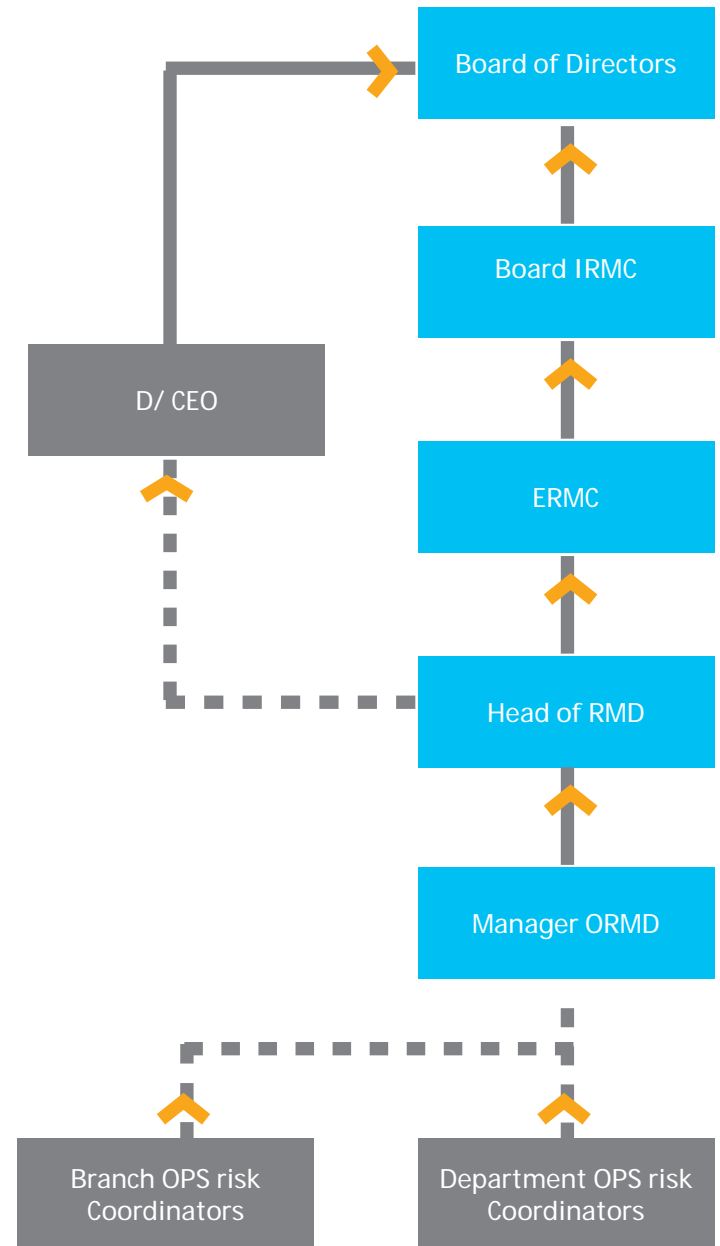


Figure 12: Governance structure



### METHODS OF DATA CAPTURING

#### a. Loss Events

Loss event data are historic and backward looking which provides valuable insights into current operational risk exposures. Data gathered are segregated into seven risk types (excluding legal and compliance

risk) for advanced capital computation in the future. All staff members are responsible to report risks as soon as they incur or perceived. They should log an actual loss, near miss or a potential loss using the fully automated operational risk management system. Once an event is input, they are evaluated by the central operations, and

submitted to Operational risk management department for causal and impact analysis and closure. Reports from Audit department or any other department can be obtained using the inbuilt action management module.

There are various dashboards at Unit



## RISK MANAGEMENT AT UNION BANK CONTD.

level and Management level useful for determining trends and potential areas to avoid, mitigate and control.

The losses incurred during the year amounts to 1.12% of the three year average gross profit of the Bank.

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

Detailed KRI and SAQ programs are scheduled every month to capture the changing environment. Answers to KRIs will be number driven whilst for SAQs, users will chose from a drop down of answers. The information gathered is then analyzed to see if there are growing trends.

### c. Scenario Analysis

Along with KRIs and SAQs, users are required to complete a scenario analysis on a monthly basis. In this, users are free to report any potential risks they envisage within their area of work, whether internal or external. In addition, scenarios of potential events, which are infrequent, but have severe impact to the Bank when they occur would be identified and analysed by the Risk Management Department (RMD).

### d. Risk & Control Self Assessment (RCSA)

In a RCSA program, branches and departments takes the ownership of its own risks & controls and assess the risks that may exist in its area. RCSA programs are done annually or more frequently to assess the risky areas of the Bank and apply controls where necessary. Information so gathered will also be used for capital computation purposes under score card method in the Advanced Measurement Approach in the future. Bank is planning to commence this program in 2014 once adequate KRI, Loss event data and external data are received to formulate RCSA templates for each business unit / service units.

There are three types of RCSAs: Questionnaire approach, Workshop approach and Hybrid (mix of above two) approach. Bank will initially use the questionnaire based approach to assess risks under RCSAs.

### e. Ad-hoc incident reporting (“Whistleblowers”)

Bank encourages staff to report any operational lapses or potential frauds directly to designated Senior Management officials as described in the Bank’s Whistleblower Policy, if the staff member is fearful of routing the concerns through the line management. Bank views this as a useful method of communication to reduce potential losses.

### f. New Product, Service or Process launch

Prior to launching new products, services or processes, the owners must evaluate the risks using the new product module in the Kalypto system. The detailed product paper inclusive of a heat map should be signed off by all key unit heads (presently nine).

## MARKET RISK

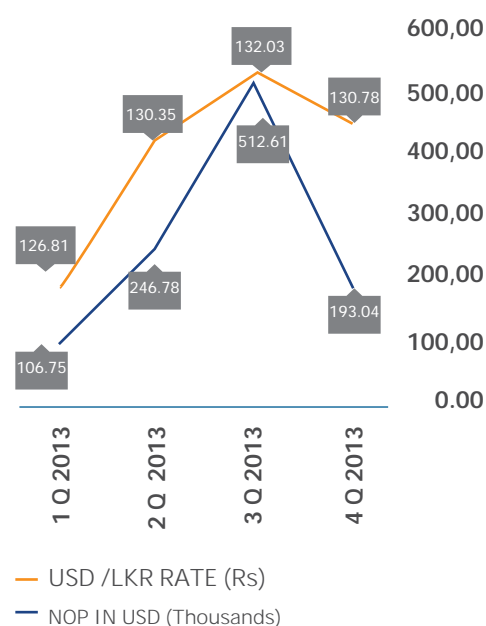
Market risk is defined as the risk of losses in On / Off balance sheet positions arising from movements in market prices. It comprises of Interest Rate Risk (IRR), Foreign Exchange Risk (FX), Equity Price Risk and Commodity Price Risk. Treasury functions

are divided into three areas viz Front Office reporting to the Head of Treasury, the Back Office reporting to the Head of Operations and the Mid Office whose responsibility is to assess / monitor market risks reports independently and directly to the Head of Risk Management.

## 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 & in line with the CBSL requirements. Limits include Net Open Position (NOP), Trading Limits, Intra Day limits, Dealer Limits, Counter party Limits & Gap Limits. These limits are monitored by Treasury Middle Office & reported to ALCO, IRMC and to the Board (where significant NOPs are held). Figure 13 below shows the NOP and USD/LKR rate movements over time. The table adjoining shows the impact on capital at stressed levels which is significantly low.

Figure 13: NOP VS U/LKR Rate



### Stress test – impact on CAR with changes in FX rates

Shock level	Impact on CAR		Stress Tolerance Limit (CAR)
	Rates moves up by	Rates moves down by	
5%	16.626%	16.619%	11%
10%	16.630%	16.615%	11%
15%	16.634%	16.611%	8.25%

## RISK MANAGEMENT AT UNION BANK CONTD.

Figure 14: VAR on fx portfolio as % Capital Funds

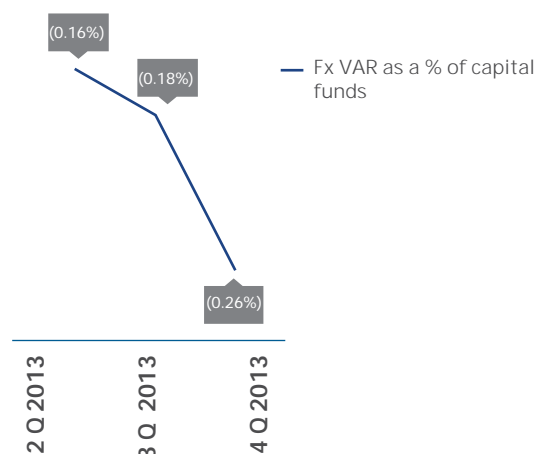


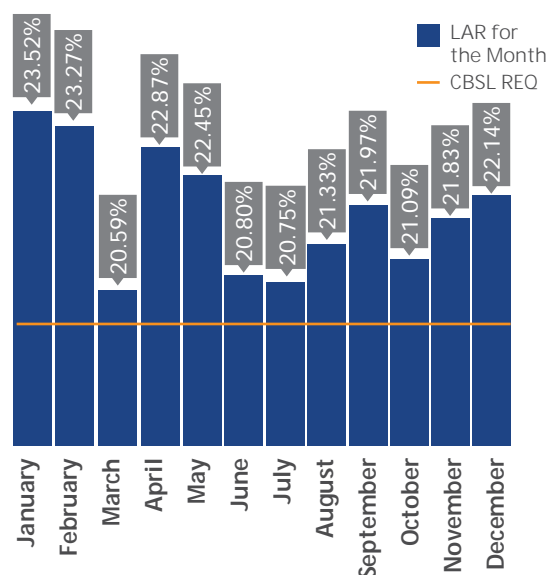
Figure 14 above shows that the risk of the FX portfolio (value at risk as a % of the capital funds) is minimal. The rise in 4Q2013 is due to increase in the portfolio size.

## MANAGING LIQUIDITY

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected & unexpected current & 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, rolling funding plan etc. In addition, ALCO also discusses in detail the effective strategies for Balance Sheet management.

The Statutory Reserve Ratio was reduced from 8% to 6% by the regulators in July 2013. Bank has maintained this ratio judiciously with no exceptions reported during the year.

Figure 15: Average LAR for UBC (2013)



Banks are also required to maintain Liquid Assets Ratio (i.e. 20% of Liabilities should be in liquid assets). Figure 15 shows the LAR management of the Bank.

In addition, Bank also prepares a Maturity Assets and Liabilities report both in actual terms and on behavioral method to assess the liquidity gaps. Figure 16 and 17 shows the gaps between assets and liabilities. All the Gaps are within the Board approved limits. They are stress tested monthly.

Bank also possess a detailed contingency funding plan together with a contingency funding agreement signed with another bank to be used in an emergency.

Liquidity Risk is also measured using the Stock approach. In this, benchmark limits are set against a stock of ratios useful to assess liquidity. During the year, there were marginal declines in the Advances to Deposits ratio due to lower credit demand in the market.

Figure 16: Maturity Gap-behaviour Study (Rs. Mn)

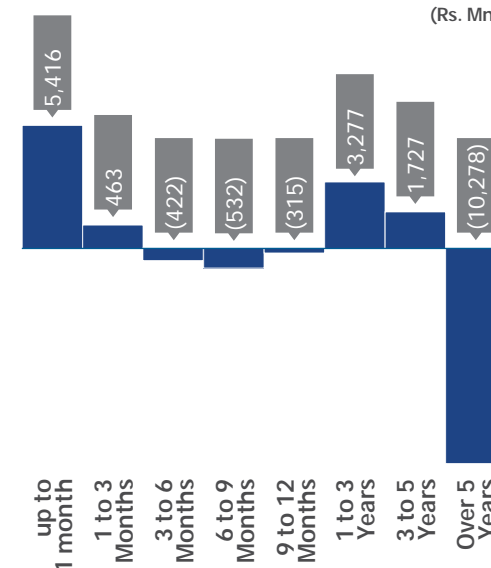
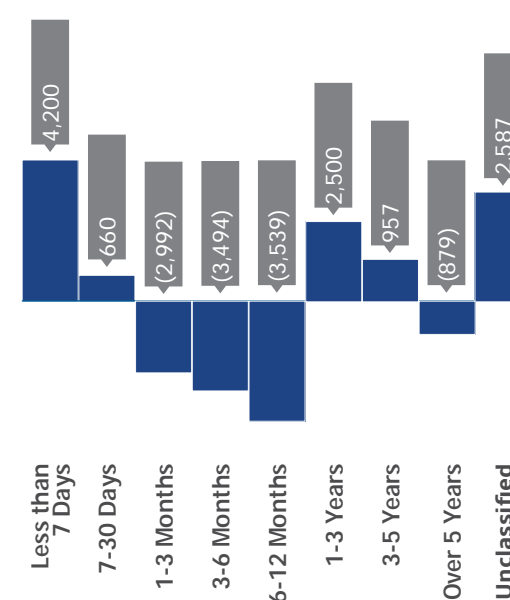


Figure 17: Maturity Gap - Actual (Rs. Mn)



## MANAGING FIXED INCOME SECURITIES

Treasury Bills, Bonds and units are traded within the Trading Book, as well as invested in the Banking Book. Board approved limits are in place for both trading book and investments with sub limits for treasury bills and bonds within Trading and Investments. These are monitored by the Treasury Mid Office daily.

## RISK MANAGEMENT AT UNION BANK CONTD.

Figure 18: VAR on FI portfolio as % Capital Funds

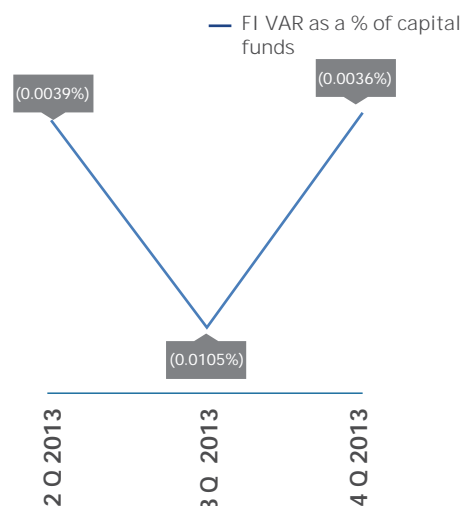


Figure 18 above shows that the risk of the Fixed Income portfolio (value at risk as a % of the equity funds) is minimal.

## 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 2012, 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 Value (Rs.Mn)	Cost (Rs.Mn)	Amount and description of loss
Portfolio as at 01.01.2013	110.15	146.38	Mark to market loss of 36mn
Amount sold	41.49	55.50	Actual loss by selling shares of 14mn
Amount purchased	0.00	0.00	
Portfolio as at 31.12.2013	65.40	89.13	Mark to market loss of 23.7mn

## MANAGING INTEREST RATE RISK IN BANKING BOOK (IRRBB)

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings or economic value of equity as a consequence to movement in interest rates. Since the Banking Book is not marketed to market similar to the Trading Book, the economic value of such assets and liabilities is generally not ascertained on a regular basis and thus, can be a significant source

of risk due to changes in market interest rates. Interest Rate Risk arises due to the difference in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses produced by relevant gap positions and an impact on Bank's Net Interest Income (NII) compared to the level of NII expected from current interest rate levels. Gap analysis on RSA and RSL are prepared and

presented to ALCO monthly to decide on suitable strategies to be adopted based on future interest rate forecasts. In addition to EVE analysis, Bank also prepares interest sensitivity reports which are reviewed by ALCO monthly. The impact of interest rate movements is stress tested as shown in Figures 19,20 & 21. The impact on earnings and EVE is low and acceptable.

Figure 19: Impact on Earnings if Rates Moves Down (Rs. Mn)

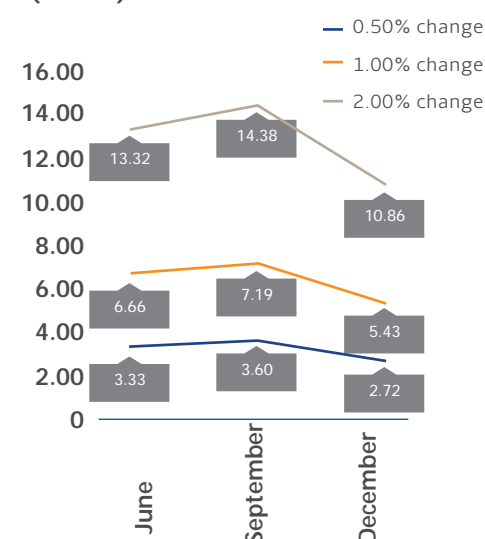
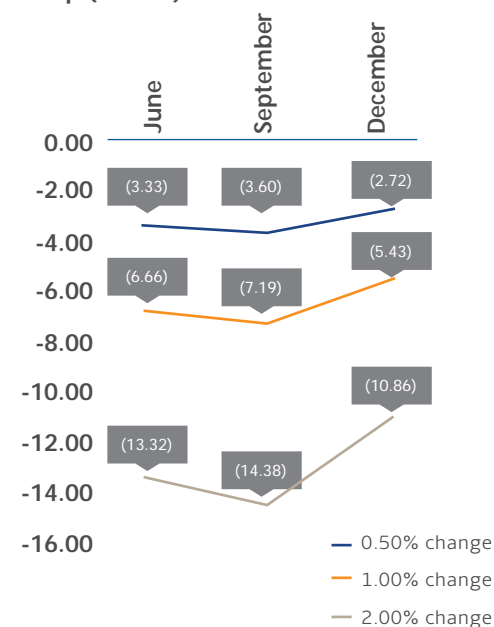


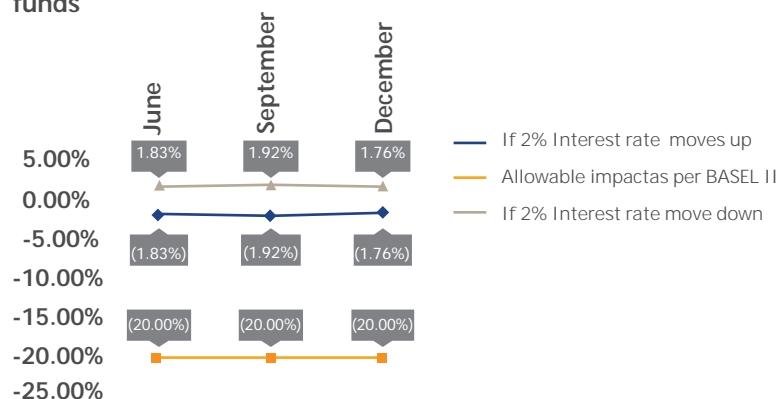
Figure 20: Impact on Earning if Rates Moves Up (Rs. Mn)





## RISK MANAGEMENT AT UNION BANK CONTD.

Figure 21: Change in the EVE as a% capital funds



As indicated by Figure 21, EVE variation for a 2% change in interest rates is fairly small. According to BASEL II, Banks should consider setting aside additional capital if EVE variation is more than 20%

### CONSOLIDATING ALL RISKS AND EFFECT ON CAPITAL

After consolidating all risks that could potentially impact the Bank, it is essential to see its impact on the capital funds of the Bank. For this purpose, the Bank with

the assistance of an external consulting company developed an Internal Capital Adequacy Assessment Process (ICAAP). Table 3 below shows the levels of capital required to compensate each type of risk category.

Table 3: Capital Adequacy Ratio for Pillar 1 and Pillar II risks

Particulars	Regulatory Capital - Pillar 1 (Rs.000)	Regulatory Capital - Pillar I & Internal Pillar II (Rs.000)
Credit Risk	2,564,156	2,564,156
Market Risk	62,241	62,241
Operational Risk	227,434	227,434
Residual Risk	0	0
Credit concentration risk	0	22,803 *
Interest Rate Risk in Banking Book	0	0
Reputation Risk	0	0
Strategic Risk	0	0
Aggregated Capital Requirement	2,853,831	2,876,635
Risk Weighted Assets	28,538,314	28,766,346
Available Eligible Capital	4,820,464	4,820,464
Internal Capital (Pillar I and II) - %	16.89%	16.76%
Change in CAR - %	-0.13%	

Conclusion: the Overall risk assessment shows that the Capital Adequacy Ratio (CAR) is at a healthy level of 16.76% indicating Bank's ability to expand further within the present level of risk appetite. \*Based on draft financials

### COMPLIANCE FUNCTION AT UNION BANK

Recent financial turbulence has caused and continues to cause extensive changes in regulatory landscape of each country with the objective of making respective financial systems immune to failures. Regulatory failures, influence from the international communities, development of technology, channels and products has influenced each countries regulatory framework. As a result, Banks being the key player in the financial system in any country has been set down with extensive number of rules and regulations.

One of the biggest challenges of local Banks is to face its obligation of ensuring its business comply with the applicable laws and regulations domestically and internationally both. Non compliance laws or non adherence regulations and standards may expose the Bank to legal fines, sanctions or reputational damage resulting in losing depositor confidence and thereby causing deposit run that would damage the entire financial system stability. Necessity to interpret and monitor compliance to each of these rules and regulations, maintain continuous communication with the regulator. These developments has forced financial sectors to be vigilant of its regulatory environment. It is in this context, compliance to laws should be monitored in a systemic methodology in the modern banking peers is therefore essential in modern banking.

Internationally, under the Basel recommendations, the Compliance function has become one of the three defense lines of banking the other two being the conventional Audit function and the recently developed Risk Management Function. In a Sri Lankan context, the Compliance Function become mandatory through number of circulars and imposed responsibilities on the Board of Banks to ensure formation of an independent compliance function.

Union Bank keeping in line with the statutes, regulations and best practices

## RISK MANAGEMENT AT UNION BANK CONTD.

recommendations has established an independent compliance function where the objective of such function according to the Charter is to

- a) Ensure that the Bank's business activities are conducted in accordance with the laws and regulations pertaining to the industry.
- b) Ensure that all employees of the Bank follow accepted ethical standards in discharging their duties
- c) Be able to interpret regulations constructively so as to facilitate business but not to breach the spirit of such regulation or to endanger the bank's reputation with its stakeholder.
- d) Protect the Bank's tangible and intangible assets, the Financial Security of the business and the good reputation of the Bank.
- e) Provide regular updates to staff when there have been changes in legislation/ regulations pertaining to the Banking Business, so as to ensure compliance awareness at all times.
- f) Ensure that there is an effective Corporate Governance culture across all levels of the Bank
- g) Align the Banks corporate activities and behavior to ensure that it operates in a safe and sound manner maintaining the public trust and confidence.

Scope of the compliance function broadly includes ensuring compliance to external and internal laws, rules, regulations , circulars , policies , guidelines , etc. Based on the above objectives compliance function has placed its compliance programme under several strategies that includes following

- Identification of Compliance risk and assessment of compliance risk
- Confirmations from Heads of Departments on the status compliance

to key rules and regulations applicable to the respective department

- Conducting of planned independent reviews based on a risk based approach
- Testing on accuracy of returns submitted to the regulators
- Guidance and advice to all staff on day to day activities and through training programs
- On line monitoring for AML compliance
- Compliance risk assessment on new products and services
- Maintaining and coordinating relationships with regulators
- Reporting on frequent basis to respective board sub committees on identified non compliances and rectification actions
- Monitoring of group compliance

Compliance Department of the Bank is resourced with four staff members presently , who possess qualifications in the fields of legal, finance and banking operations. Union Bank Compliance department on an on going basis is developing and enhancing the compliance strategies , systems and process in order to inculcate a compliance regime within the bank and the group as a whole, in order to detect and avoid compliance risks and to negate any damages of financial and reputation.

## INVESTOR RELATIONS

Dear Shareholder,

We are proud to present this section in our Annual Report in appreciation of your continued support extended to us and in line with the Listing Rules issued by the Colombo Stock Exchange.

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 will respond to individual letters received from shareholders.

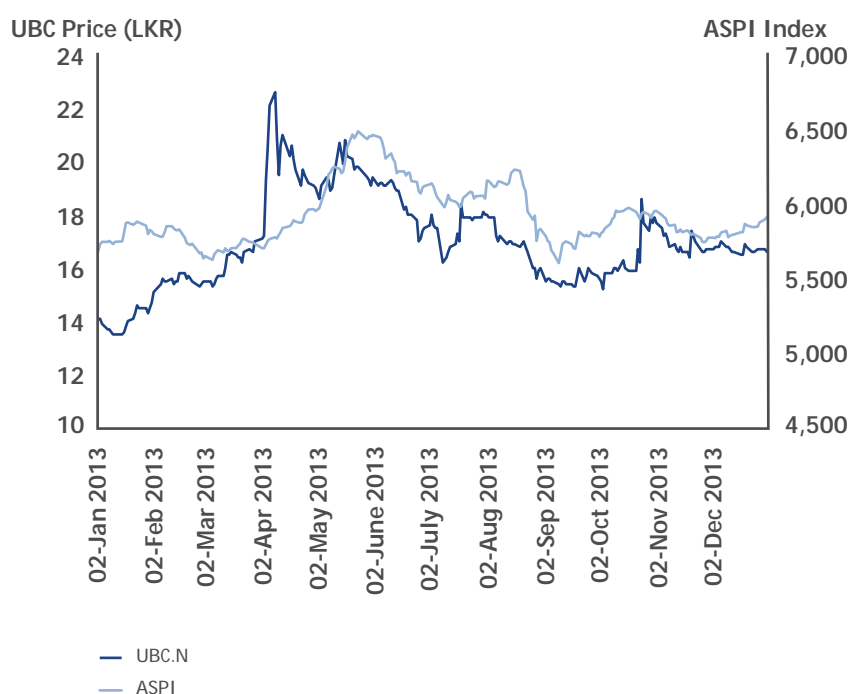
There is a continuous dialog with institutional shareholders through such means as the participation in investor forums, the publication of general press releases after the preliminary year-end and interim results etc. The Board is advised of any specific comments from institutional investors to enable 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 2013.

Index/Price Movement



Indexed Price Movement





**INVESTOR RELATIONS** CONTD.**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 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.	134
7.6(ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein.	Notes to the Financial Statements and Annual Report of the Board of Directors on the State of Affairs of the Bank.	130 - 132
7.6(iii)	The names and the number of voting and non-voting shares held by the 20 largest shareholders and the percentage of such shares held.	Item 2 of the Investor Relations	123
7.6(iv)	The Public Holding percentage.	Item 2 and 7 of the Investor Relations	123
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.	Item 6 of the Investor Relations	124
7.6(vi)	Information pertaining to material foreseeable risk factors of the Bank.	Item 9 of the Investor Relations	125
7.6(vii)	Details of material issues pertaining to employees and industrial relations of the Bank.	Item 10 of the Investor Relations	125
7.6(viii)	Extents, locations, valuations and the number of buildings of the Bank's land holdings and investment properties.	Note 28 to the Financial Statements on "Property, Plant and Equipment"	180 - 181
7.6(ix)	Number of shares representing the Bank's Stated Capital	Note 36 to the Financial Statements on "Stated Capital" and Annual Report of the Board of Directors on the State of Affairs of the Bank	185 & 134
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 8 of the Investor Relations	125
7.6(xi)	Ratios and market price information		

## INVESTOR RELATIONS CONTD.

	Dividend per share, Dividend payout, Net Asset Value per share, Market Value per share (highest and lowest value recorded during year 2013 and value as at end of year 2013)	Items 3 and 4 of the Investor Relations	124
	Any changes in credit rating	Item No. 5 of the Investor Relations	124
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 a Public Issue, Rights Issue 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, Human Resources and Remuneration Committee Report.	130 - 143 38 - 56 70 - 73 150 - 222 57 - 59
7.6(xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Bank's as per Audited Financial Statements, whichever is lower.	The Bank did not have any related party transaction exceeding this threshold as at end 2013.	

## 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 first three quarters of 2013 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 Stock Exchange ticker symbol for Union Bank is "UBC".

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

## INVESTOR RELATIONS CONTD.

## 2. Twenty Major Shareholders as at 31/12/2013

Sequence	Name of the Shareholder	Total No. of Shares issued as at 31/12/2012	Percentage (%)	Total No. of shares issued as at 31/12/2013	Percentage (%)
1	Vista Knowledge Pte Ltd	64,677,973	18.5191	64,677,973	18.5191
2	Sampath Bank PLC	26,347,027	7.5439	26,347,027	7.5439
3	Associated Electrical Corporation Limited	26,101,489	7.4736	26,101,489	7.4736
4	Select Gain Limited	23,369,409	6.6913	23,369,409	6.6913
5	Alexis Lovell	22,743,780	6.5122	22,743,780	6.5122
6	C P A Wijeyesekera	18,508,468	5.2995	18,508,468	5.2995
7	Exsab International Holding Company for Trading Development	15,000,000	4.2949	15,000,000	4.2949
8	D A J Warnakulasuriya	11,306,709	3.2374	14,842,730	4.2499
9	Rosewood(Pvt) Limited- Account No. 2	9,493,698	2.7183	9,493,698	2.7183
10	S P Khattar	9,337,124	2.6735	9,337,124	2.6735
11	Ashyaki Holdings (Pvt)Ltd	7,792,506	2.2312	7,792,506	2.2312
12	I S Ong	-----	-----	7,550,000	2.1618
13	Commercial Agencies (Ceylon) (Pvt) Ltd	4,320,888	1.2372	4,320,888	1.2372
14	Ajita de Zoysa & Company (Pvt) Limited	4,320,887	1.2372	4,320,887	1.2372
15	Seylan Bank PLC/Malik Devapriya Samarawickrama	4,000,000	1.1453	4,000,000	1.1453
16	Malik Devapriya Samarawickrama	3,660,582	1.0481	3,660,582	1.0481
17	Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	3,655,900	1.0468	3,655,900	1.0468
18	T Nadesan	2,799,757	0.8016	2,799,757	0.8016
19	HSBC INTL NOM LTD – UBS AG SINGAPORE BRANCH (EX SBC)	2,623,451	0.7512	2,623,451	0.7512
20	Sampath Bank PLC/Capital Trust Holdings (Private) Limited	78,656	0.0225	2,048,190	0.5865
	<b>Sub Total</b>	<b>260,138,304</b>	<b>74.4848</b>	<b>273,193,859</b>	<b>78.2230</b>
	<b>Other Shareholders</b>	<b>89,111,696</b>	<b>25.5152</b>	<b>76,056,141</b>	<b>21.7770</b>
	<b>Total</b>	<b>349,250,000</b>	<b>100</b>	<b>349,250,000</b>	<b>100</b>

As per the Rule No. 7.6(iv) of the Colombo Stock Exchange, percentage of Public Holding as at 31st December 2013 is 70.4847%



**INVESTOR RELATIONS** CONTD.**3. Information on Share Trading**

	Year 2013
Number of Shares Traded	74,471,397
Value of Shares Traded (Rs.)	1,344,657,776.90

**4. Information on Market Prices**

	Market Price	Date
Highest Price	Rs.23.70	08.04.2013
Lowest Price	Rs.13.40	17.01.2013
Year end Price	Rs.16.60	31.12.2013

**5. Credit Rating**

Fitch Rating BB(Ika)  
RAM Rating BBB/P3

**6. Directors' Shareholdings including Chief Executive Officer**

The Directors' shareholdings as at 31st December 2013 were as follows;

Name of the Director	No. of Ordinary Shares	
	Beginning of Year 2013	End of Year 2013
1. Mr. Alexis Lovell	22,743,780	22,743,780
2. Mr. Asoka de Silva	8,900	8,900
3. Mr. Anil Amarasuriya - Chief Executive Officer	63,552	63,552
4. Mr. Nigel Bartholomeusz	80,100	90,000

**7. Public Shareholding**

The public holding of the Bank as at 31st December 2013 was approximately 70.4847%

## INVESTOR RELATIONS CONTD.

### 8. Shareholder Base

#### Ordinary Voting Shares

SHARE RANGE	NO OF SHARE HOLDERS	%	NUMBER OF SHARES	SHARE HOLDING
1-1,000	33,454	90.60	4,738,400	1.36
1,001-10,000	2,758	7.47	8,575,418	2.46
10,001-100,000	590	1.60	14,671,710	4.20
100001-1000000	87	0.24	28,143,689	8.06
1000001-10000000	27	0.07	85,065,928	24.36
10000001-& ABOVE	8	0.02	208,054,855	59.57
TOTAL	36,924	100	349,250,000	100

9. 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 107 to 119

10. 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 Holding was defined as follows until 31st December 2013

"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.

As per the recent direction issued by the Colombo Stock Exchange, Public Holding shall be defined as shares of a Listed Entity held by any person other than those directly or indirectly held by;

- a) Its parent, subsidiary or associate entities or any subsidiaries or associates of its parent entity;
- b) Its Directors who are holding office as Directors of the entity and their close family members
- c) Chief Executive Officer, his/her close family members;
- d) Key Management Personnel and their close family members; and;
- e) any party acting in concert with the parties set out in (a), (b), (c) and (d) above;
- f) shares that are in a locked account with the Central Depository Systems (CDS) due to a statutory or regulatory requirement other than those which have been subject to a voluntary lock-in at the instance of the shareholder; and
- g) shares that have been allotted to

- h) employees whereby the shares of a Listed Entity are, directly or indirectly controlled by the management or the majority shareholder of the Entity; any Entity or an individual or individuals jointly or severally holding 5% or more of the shares of the Listed Entity if it's a DiriSavi Board Entity and 10% or more of the shares if the Listed Entity is a Main Board Entity except where such shareholder is;
  - i. a statutory institution managing funds belonging to contributors or investors who are members of the public; or
  - ii. an entity established as a unit trust or any other investment fund approved by the SEC or
  - iii. not a related party declared in terms of Sri Lanka Accounting Standards or a party acting in concert declared in terms of the Takeovers and Mergers Code (ToM Code).







# FINANCIAL REPORTS

## FINANCIAL REPORTS

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Annual Report of the Board of Directors on the State of Affairs of the Bank	130
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### Financial Calender 2013 and Proposed Financial Calender 2014

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

	2013 Submitted on	2014 to be submitted on or before
For the 3 months ended March 31, (unaudited)	May 14, 2013	May 15, 2014
For the 3 and 6 months ended June 30, (unaudited)	August 14, 2013	August 15, 2014
For the 3 and 9 months ended September 30, (unaudited)	November 13, 2013	November 15, 2014
For the 3 months and year ended December 31, (unaudited)	March 03, 2014	February 28, 2015



## 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 2013 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 5th March 2014.

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 changed from Union Bank of Colombo Limited to Union Bank of Colombo PLC.

### THE SUBSIDIARIES OF THE BANK

National Asset Management Limited (NAMAL) and UB Finance Company Limited (UBF) are the two subsidiaries of the Bank.

### 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, hire purchase, bancassurance, pawning, ATM facilities, telebanking, internet banking facilities and factoring.

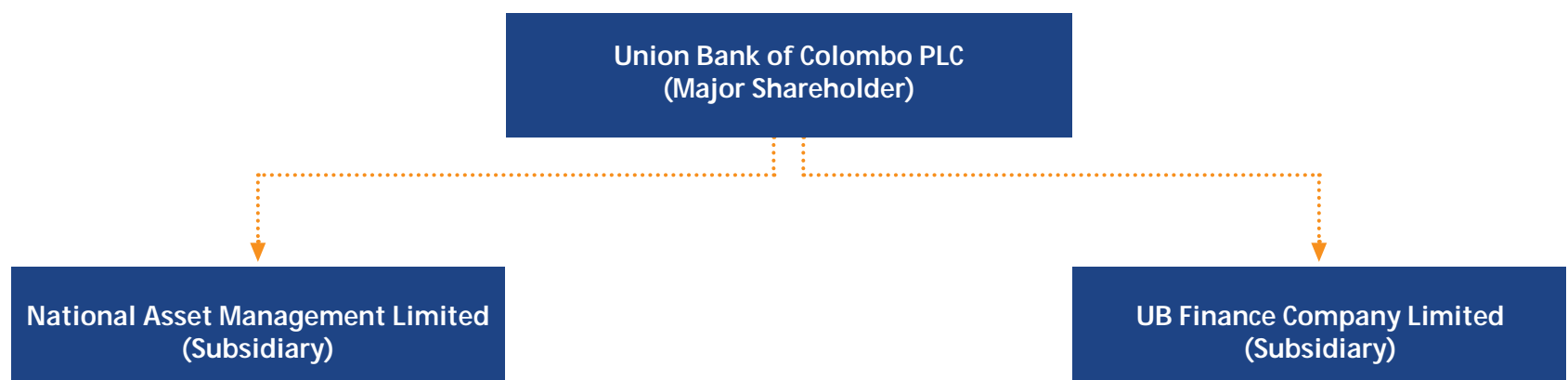
#### THE NATURE OF THE BUSINESS OF NATIONAL ASSET MANAGEMENT LIMITED (NAMAL), A SUBSIDIARY OF THE BANK

NAMAL is engaged in the fund management business in Sri Lanka. The principal activities of NAMAL are managing unit trust funds and private portfolios for both retail and institutional investors who are focused on equity and fixed income markets in Sri Lanka.

#### THE NATURE OF THE BUSINESS OF UB FINANCE COMPANY LIMITED (UBF), 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.

### THE BANK AND THE SUBSIDIARIES



ANNUAL REPORT OF THE BOARD OF DIRECTORS  
ON THE STATE OF AFFAIRS OF THE BANK CONTD.

	National Asset Management Company Limited (NAMAL)	UB Finance Company Limited (UBF)
Legal status and Registered office	<p>A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007.</p> <p>Registered office and principal place of business at No. 64, Galle Road, Colombo 03, Sri Lanka.</p>	<p>A company formed as a Limited Liability Company in 1961 and re-registered under the Companies Act No.7 of 2007.</p> <p>Registered office and principal place of business at No. 10, Daisy Villa Avenue, Colombo 04, Sri Lanka.</p>
Shareholding	<p>Union Bank of Colombo PLC holds 51% of the Stated Capital of the Company whilst and other shareholders include DFCC Bank and Ennid Capital (Pvt) Ltd.</p>	<p>Union Bank of Colombo PLC holds 66.17% of the Stated Capital of the Company. Further, the Bank holds 75.61% out of the total voting shares of the Company and the balance voting shares are held by 806 other shareholders.</p>
Board of Directors	<p>Mr. Alexis Lovell – Chairman</p> <p>Mr. Chithrupa Premalal Ajith Wijeyesekera - Deputy Chairman</p> <p>Mr. Anil Suneetha Amarasuriya</p> <p>Mr. Dishan Amrit Jitendrakumar Warnakulasuriya</p> <p>Mr. Tyrone Wilfred de Silva</p> <p>Mr. Harold Avancka Herat</p> <p>Ms. Khoo Siew Bee</p>	<p>Mr. Alexis Lovell – Chairman</p> <p>Mr. Ananda Wijetilaka Atukorala – Deputy Chairman</p> <p>Mr. Dishan Amrit Jitendrakumar Warnakulasuriya</p> <p>Mr. Davis Golding</p> <p>Mr. Chithrupa Premalal Ajith Wijeyesekera</p> <p>Mr. Malinda Namal Samaratunga</p> <p>Mr. Kenneth Kusinath Upali Wijeyesekera</p> <p>Mr. Daman Upul Panditaratne</p> <p>Mr. Rohendra Ajith Wijeyesekera</p> <p>Mr. Nalin Fernando</p> <p>Mr. Chandrakumar Ramachandra Alternate Director to Mr. Davis Golding</p>

ANNUAL REPORT OF THE BOARD OF DIRECTORS  
ON THE STATE OF AFFAIRS OF THE BANK CONTD.

	National Asset Management Company Limited (NAMAL)	UB Finance Company Limited (UBF)
Directors and related party Shareholdings in the Company as at 31st December 2013.	Mr. Alexis Lovell, Chairman, Mr. Anil Amarasuriya, Mr. Chithrupa Premalal Ajith Wijeyesekera and Mr. Dishan Amrit Jitendrakumar Warnakulasuriya were appointed to the Company by the Bank. The Company is under the direct supervision of Mr. Anil Suneetha Amarasuriya, the Group Chief Executive Officer of the Bank.	<p>Mr. Dishan Amrit Jitendrakumar Warnakulasuriya holds 4,251,114 Voting Shares in the Company.</p> <p>Mr. Davis Golding represents Shorecap II Limited and the said Company holds 275,000,000 Voting Shares in the Company.</p> <p>Mr. Kenneth Kusinath Upali Wijeyesekera and related party hold 6,665,043 Non Voting Shares with 114 Voting Shares in the Company.</p> <p>Mr. Ajith Wijeyesekera and related party hold 5,072,085 Voting Shares in the Company.</p> <p>Mr. Ananda Wijetilaka Atukorala and related party hold 510,010 Voting Shares in the Company.</p>



# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

## CHANGES TO THE GROUP STRUCTURE

During the year 2013 there are no impairments to the Balance Sheet of the Bank from both the subsidiaries.

However, the Bank transferred 40Mn ordinary voting shares held by Union Bank of Colombo PLC in UB Finance Company Limited in receipt of Rupees One Hundred and Twenty Million (Rs.120,000,000/=) from Mr. Ong Long Sheunn, a Singaporean national.

## 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 NETWORK

As at 31st December 2013, the Bank had 51 branches. This is given on pages 233 and 234 of this Annual Report.

## VISION AND MISSION

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

## FUTURE GOALS AND EXPANSIONS

The leadership has commented on future goals and expansions in the Leadership Forum on page 22 to 35 of this Annual Report.

## FINANCIAL REPORTING & RESPONSIBILITY FOR THE ACCOUNTS

The Directors are satisfied that the financial statements, presented on pages 144 to 228 give a true and fair view of the state of affairs of the Bank as at 31st December 2013 and the Profit and Loss Account for the year ended 31st December 2013. 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 195 to 197.
- The Company has made all endeavors to ensure the equitable treatment of shareholders refer page 195.
- The business is a 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 as per the requirements of Colombo Stock Exchange comply with the (LKAS/SLFRS) and include Group and company results separately with regard to the subsidiaries of the Bank. The Directors ensure that the Bank has maintained proper books of accounts and records. The Directors have taken reasonable measures to safeguard the assets of the Bank and to establish appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

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

The Gross turnover of the Bank & the Group was Rupees 4,792,751 & Rupees 5,191,189,668 respectively.

Profit before taxation and VAT on financial services for the year ended 31.12.2013 for the Bank was Rupees 148,693,932 & Rupees 150,569,745 for the Group.

Retained profit for the year ended 31.12.2013 for the Bank & the Group was Rupees 203,207,583 & Rupees (351,932,868) respectively.

Property, plant and machinery expenditure and leasehold improvements during the year amounted to Rupees 594,661,007 for Bank & Rupees 672,456,186 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 2013 are given on pages 144 to 228 of this Annual Report.

## ACCOUNTING POLICIES

The significant accounting policies used by the Bank in preparation of the Financial Statements are given on pages 150 to 163 of this Annual Report.

## DONATIONS

The donations given by the Bank during the year 2013 are in total Rupees 655,000.

## PAYMENTS MADE TO DIRECTORS

The Directors fees and Remunerations made to the Board of Directors are disclosed in pg 195 of this Annual Report.

## DIVIDEND

A final dividend was paid on 349,250,000 ordinary voting shares of the Bank at Rs.0.35 per share amounting to Rupees

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

One Hundred and Twenty Two Million Two Hundred and Thirty Seven Thousand Five Hundred (Rs.122,237,500/=) 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 2013.

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

### POST BALANCE SHEET EVENTS

There are no information to be disclosed on the captioned heading.

### SHAREHOLDER REGISTER

As at 31st December 2013, the total number of Ordinary Voting Shares issued by the Bank were 349,250,000. The said shareholding was held 36,924 voting shareholders. The 20 largest shareholders list is given on page 123 of this Annual Report.

### DIRECTOR'S & OFFICER'S LIABILITY POLICY

The Board granted approval to obtain the Director's & Officers Liability Policy for a cover of Rupees 300,000,000 from CHARTIS Insurance Limited in compliance with amended Articles of Association of the Company. The National Asset Management Limited and UB Finance Company Limited, the subsidiaries of the Bank are additionally insured under this policy up to 31st March 2014.

### DIRECTORATE

Name of the Director	Position	Alternate Director	Date of appointment	Age
Mr. Alexis Lovell	Chairman		30/03/2007	61
Mr. Asoka de Silva	Senior Director / Deputy Chairman		30/05/2008	65
HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud	Director	Mr. David Nigel Bartholomeusz (43 years old)	Initially appointed on 28/09/2007 and Re-appointed on 04/12/2008. Alternate Director was appointed on 04/12/2008	37
Dr. Harsha Cabral PC	Director		30/05/2008	53
Mr. Anil Amarasuriya	Executive Director		01/01/2009	60
Mr. Kin Leong Chong	Director	Ms. Sow Lin Chiew (54 years old)	29/10/2010 and Alternate Director was appointed on 27/01/2011	55
Mr. Piyantha Fernando	Director		02/11/2011	62
Mr. Sunil Karunanayake	Director		08/05/2012	62
Mr. Sabry Ghouse	Director		30/08/2012	51
Mr. Suren Madanayake	Director		31/10/2012	45
Mr. Imtiaz Muhseen	Director		19/02/2013	59

### THE NATURE OF DIRECTORATES

Mr. Alexis Lovell, Chairman of the Board, HRH Prince Faisal Al Abdulla Al-Faisal Al-Saud, Mr. Kin Leong Chong are the Non Executive Non Independent Directors of the Bank. Mr. Asoka de Silva, Deputy Chairman and the Senior Director of the Bank and Dr. Harsha Cabral PC, Mr. Piyantha Fernando, Mr. Sunil Karunanayake, Mr. Sabry Ghouse, Mr. Suren Madanayake, Mr. Imtiaz Muhseen are the Independent Non-Executive Directors of the Board. Mr. Anil Amarasuriya serves as the Executive Director and also acts 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 and Ms. Sow Lin Chiew serves as the Alternate Director to Mr. Kin Leong Chong.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

### NEW APPOINTMENTS AND RESIGNATION OF DIRECTORS

Mr. Imtiaz Muhseen was appointed as a Non Executive Independent Director to the Board of the Bank on 19th February 2013.

Mr. Gerard Ewe Keng Lim resigned from the Board of the Bank with effect from 01st of November 2013 and Ms. Goh Lee Sian, ceased to be his Alternate Director with effect from the said date.

The Central Bank of Sri Lanka discontinued the service of Mr. Edgar Gunatunge and Mr. Jit Warnakulasuriya, the two Advisors of the Board.

### RE-APPOINTMENTS

In terms of Article 88(i) read together with Article 89 of the Articles of Association of the Bank Mr. Priyantha Damian Joseph Fernando, Dr. Liyanamohottige Joseph Sri Harsha Cabral, H.R.H. Prince Faisal Al Abdulla Al Faisal Al Saud and Mr. Kin Leong Chong retire by rotation at the forthcoming Annual General Meeting and being eligible are recommended by the Directors for re-election in terms of Article 89 of the Articles of Association of the Bank.

### APPRAISAL OF BOARD PERFORMANCE

The Nomination Committee approved a procedure for the Selection and Appointment of Directors, CEO and Key Management Personnel at the meeting held on 25th March 2011. The said policy was required to be reviewed annually and accordingly it was reviewed at the Board meeting held on 27th September 2013.

Further, the Nomination Committee approved a questionnaire for Executive and Non Executive Directors to evaluate the Board performance independently by all Directors on individual basis.

The Human Resources and Remuneration Committee set goals and targets for the Board of Directors at the meeting held on 15th October 2013 and the Board of Directors approved the same at the meeting held on 01st November 2013.

### REGISTERS OF DIRECTORS AND SECRETARIES

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

### COMMUNICATION

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

### DIRECTORS' 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. David Nigel Barholomeusz, Alternate Director to H.R.H. Prince Faisal Al Abdulla Al Faisal Al Saud purchased 9,900 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 on page 195 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.

There are no restrictions on the approvals of loans to Directors in the Bank's ordinary course of business subject to compliance with all applicable regulations.



## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

### 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 & 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 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 Accountants 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, CEO and among Directors.

For and on behalf of the Board of Directors



Chairman



Director/Chief Executive Officer



Company Secretary

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

### BOARD APPOINTED COMMITTEES

The following Board Committees were constituted 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 31st December 2013 was as follows;

Name of the Committee	Name of the Committee Members
<b>Audit Committee</b> (Date established - 26th January 2007)	Mr. Imtiaz Muhseen - Chairman * Mr. Sabry Ghouse Mr. Suren Madanayake Mr. Sunil Karunanayake
<b>Remuneration Committee</b> Date established - 03rd December 2007 Renamed as Human Resources and Remuneration Committee on (29th January 2009)	Mr. Asoka de Silva - Chairman Dr. Harsha Cabral Mr. Suren Madanayake Mr. Priyantha Fernando
<b>Board Strategic Committee</b> (Date established - 26th September 2008)	Mr. Alexis Lovell - Chairman Mr. Asoka de Silva Mr. Priyantha Fernando Mr. Anil Amarasuriya Mr. Chong Kin Leong or his alternate Ms. Sow Lin Chiew
<b>Nomination Committee</b> (Date established - 28th January 2009)	Dr. Harsha Cabral - Chairman Mr. Alexis Lovell Mr. Asoka de Silva
<b>Board Credit Committee</b> (Date established - 27th February 2009)	Mr. Alexis Lovell - Chairman Mr. Asoka de Silva Mr. Sabry Ghouse HRH Prince Faisal Al Abdulla Al Faisal Al Saud or his alternate Mr. Nigel Bartholomeusz Mr. Anil Amarasuriya
<b>Integrated Risk Management Committee</b> (Date established - 28th January 2009)	Mr. Priyantha Fernando - Chairman Mr. Asoka de Silva Dr. Harsha Cabral Mr. Sunil Karunanayake Mr. Suren Madanayake

\* Mr. Aslam Omar, former Chairman of the Audit Committee resigned on 31st December 2012 from the Board of the Bank. Mr. Sunil Karunanayake was appointed as the interim Chairman of the Audit Committee with effect from 1st January 2013 and Mr. Suren Madanayake was appointed as an interim member to the Audit Committee with effect from 1st January 2013 at the Board meeting held on 30th November 2012.

Mr. Imtiaz Muhseen was appointed to the Board of the Bank on 19th February 2013 and appointed as the Chairman of the Board Audit Committee on 1st April 2013 and also re-confirmed the appointment of Mr. Suren Madanayake as a member to the Committee.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

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### **OTHER BOARD COMMITTEES APPOINTED FOR SPECIAL TASKS**

A Steering Committee was appointed at the Board Meeting held on 30th March 2012 to provide guidance and to address issues on Core Banking System to enable IT strategies to be aligned with the business model of the Bank. The following members of the Board were appointed to the said Committee.

Mr. Asoka de Silva - Chairman

Mr. Priyantha Fernando

Mr. Suren Madanayake

### **GROUP INTEGRATED RISK MANAGEMENT COMMITTEE**

During the end of second quarter of year 2013, the Integrated Risk Management Committee (IRMC) of the Bank decided to form a Group IRMC with the participation of Board Members of the two subsidiaries and Key Management Personnel. As a result the Term of Reference for the Group IRMC Committee was approved at the Board Meeting held on 25th June 2013.

The following are the Board Members of the Group IRMC Committee as at 31st December 2013;

Mr. Priyantha Fernando - Chairman of the Union Bank IRMC Committee.

Mr. Ananda Atukorala or in his absence any Non Executive Director of UBF.

Mr. Ajith Wijesekara or in his absence any Non Executive Director of NAMAL.

Mr. Asoka de Silva, Independent Non Executive Director of Union Bank.



# 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 other directorships held by the Directors in other Institutions as at 31st December 2013.

Name of the Director	Other Directorships Held
Mr. Alexis Lovell	<ol style="list-style-type: none"> <li>1. Associated Electrical Corporation Limited</li> <li>2. Access Engineering PLC</li> <li>3. UB Finance Company Limited</li> <li>4. National Asset Management Limited</li> <li>5. JI Capital Limited</li> <li>6. Sathosa Motors PLC</li> <li>7. Lake Leisure Holdings (Pvt) Ltd</li> <li>8. Real Investment Holdings Pte Ltd</li> <li>9. One Resort World Colombo (Private) Limited</li> </ol>
Mr. Asoka de Silva	None
Dr. Harsha Cabral	<ol style="list-style-type: none"> <li>1. DIMO PLC</li> <li>2. Tokyo Cement PLC</li> <li>3. Hayleys PLC</li> <li>4. Lanka Orix Finance PLC</li> <li>5. Tokyo Power (Lanka) Ltd</li> <li>6. Commercial Leasing and Finance PLC</li> <li>7. Hambana Petrochemicals Ltd</li> <li>8. Fuji Lanka Cement (Pvt) Ltd</li> <li>9. Tokyo Super (Pvt) Ltd</li> <li>10. Richard Peiris Distributors (Pvt) Ltd</li> </ol>
Mr. Anil Amarasuriya	<ol style="list-style-type: none"> <li>1. National Asset Management Limited</li> <li>2. Sri Lanka Bank's Association (Guarantee) Limited</li> <li>3. Financial Ombudsmen Sri Lanka (Guarantee) Limited</li> </ol>

ANNUAL REPORT OF THE BOARD OF DIRECTORS  
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<p>H.R.H. Prince Faisal Al Abdulla Al Faisal Al Saud</p>	<ol style="list-style-type: none"> <li>1. Exsab Investments – Saudi Arabia</li> <li>2. Tasheel Modern Support Services Company Ltd – Saudi Arabia</li> <li>3. VFS Tasheel International JLT – Dubai, UAE</li> <li>4. Advanced Steel Works Co. – Saudi Arabia</li> <li>5. Safood International Catering Ltd – Saudi Arabia</li> <li>6. Hajeej for Umrah and Transportation Services Company Ltd. – Saudi Arabia</li> <li>7. Al Faisaliah Modern Aviation Company Ltd – Saudi Arabia</li> <li>8. Al Faisaliah Travel &amp; Tourism Co. Ltd – Saudi Arabia</li> <li>9. Altaadud International Investment Holding Company– Saudi Arabia</li> <li>10. Mabna Modern Mining Company Ltd – Saudi Arabia</li> <li>11. Shining Gulf for Marketing and Business Solutions Limited– Saudi Arabia</li> <li>12. Vasco Worldwide JLT – Dubai, UAE</li> <li>13. Multiple Investment Co. for Medical Services – Saudi Arabia</li> <li>14. Ibra Finance - France</li> <li>15. Al Khozama Management Company – Saudi Arabia</li> <li>16. Al Faisaliah Group – Saudi Arabia</li> </ol>
<p>Mr. Kin Leong Chong</p>	<ol style="list-style-type: none"> <li>1. Genting Hotel &amp; Resorts Management Sdn Bhd</li> <li>2. Genting Oil &amp; Gas Sdn Bhd</li> <li>3. Phoenix Spectrum Sdn Bhd</li> <li>4. GB Services Berhad</li> <li>5. Genting Power (India) Limited</li> <li>6. Genting Power China Limited</li> <li>7. Genting Energy Property Pte Ltd (formerly known as Genting Oil Salawati Pte Ltd)</li> <li>8. Genting Oil Kasuri Pte Ltd</li> <li>9. Jana Pendidikan Malaysia Sdn Bhd (Alternate Director to Mr. Tan Kong Han)</li> <li>10. Prime Holdings (Labuan) Limited</li> <li>11. Peak Avenue Limited</li> <li>12. Genting Assets, Inc</li> <li>13. Genting Intellectual Property Pte Ltd</li> <li>14. Vista Knowledge Pte Ltd</li> <li>15. DNA Electronics Limited (Alternate Director to Tan Sri Lim Kok Thay)</li> <li>16. CIMB (Private) Limited</li> <li>17. GP Wind (Jangi) Private Limited</li> <li>18. Genting Capital Berhad</li> <li>19. Dragasac Limited</li> </ol>

ANNUAL REPORT OF THE BOARD OF DIRECTORS  
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Mr. Priyantha Fernando	<ol style="list-style-type: none"> <li>1. Hambana Petrochemicals Ltd</li> <li>2. Commercial Leasing and Finance PLC</li> <li>3. Securities and Exchange Commission</li> <li>4. Thomas Cook Sri Lanka Ltd</li> <li>5. Taprobane Holdings Ltd</li> <li>6. Lanka Leather (Former Leather Corporation)</li> <li>7. Golden Key Credit Card Company Ltd</li> <li>8. Commercial Insurance Brokers Ltd</li> </ol>
Mr. Sunil Karunanayake	<ol style="list-style-type: none"> <li>1. Alliance Finance PLC</li> <li>2. Ceylon Grain Elevators PLC</li> <li>3. Three Acre Farms PLC.</li> </ol>
Mr. Sabry Ghouse	<ol style="list-style-type: none"> <li>1. Baywatch Eco Resort Ltd</li> <li>2. Westagro Property Dev (Pvt) Ltd</li> </ol>
Mr. Suren Madanayake	<ol style="list-style-type: none"> <li>1. ACL Cables pLC</li> <li>2. Kelani Cables pLC</li> <li>3. ACL Plastics pLC</li> <li>4. ACL-Kelani Magnet Wire (Pvt) Ltd</li> <li>5. ACL Metals &amp; Alloys (Pvt) Ltd</li> <li>6. ACL Polymers (Pvt) Ltd</li> <li>7. Ceylon Copper (Pvt) Ltd</li> <li>8. Ceylon Bulbs &amp; Electricals (Pvt) Ltd</li> <li>9. Lanka Olex Cables (Pvt) Ltd</li> <li>10. SM Lighting (Pvt) Ltd</li> <li>11. Fab Food (Pvt) Ltd</li> <li>12. Ceylon Tapioca (Pvt) Ltd</li> <li>13. E Commerce Technologies (Pvt) Ltd</li> <li>14. Destination Ceylon (Pvt) Ltd</li> <li>15. Emjay Group Holdings Company Private Ltd</li> <li>16. ACL Electric (Pvt) Ltd (Manufacturing Switches)</li> </ol>



## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK CONTD.

Mr. Imtiaz Muhseen	1. Asian Finance Company Ltd
Mr. Nigel Bartholomeusz	1. Associated Electrical Corporation (Pvt) Ltd 2. AEC Properties (Pvt) Ltd
Ms. Sow Lin Chiew	1. Genting Management and Consultancy Services Sdn Bhd 2. Sri Highlands Express Sdn Bhd 3. Genting Risk Solutions Sdn Bhd 4. Genting International Industries (Singapore) Pte Ltd 5. Genting Bhd (Hongkong) Limited 6. Resorts World Limited 7. Resorts World Bhd (Hong Kong) Limited 8. Genting Power Holdings Limited 9. Genting (Singapore) Pte Limited 10. Oxalis Limited 11. Web Energy Limited 12. Genting Power International Limited 13. Awana Hotels & Resorts Management Sdn Bhd 14. CIMB (Private) Limited (Alternate Director to Mr. Kin Leong Chong) 15. Genting Management (Singapore) Pte Ltd 16. Vista Knowledge Pte Ltd 17. Capax Trading Sdn Berhad

## NUMBER OF MEETINGS HELD AND ATTENDANCE

Name of Directors	Board Meetings*		Audit Committee Meetings		Risk Management Committee		Nomination Committee		Human Resources & Remuneration		Strategic Planning & Review		Credit Committee		IT Steering Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Mr. Alexis Lovell (Chairman of the Board)	14	13					03	03			02	02	11	10		
Mr. Asoka de Silva (Deputy Chairman/Senior Director)	14	13			04	03	03	03	09	09	02	02	11	08	03	03
HRH Prince Faisal Al Abdulla Al Faisal Al Saud or his alternate Mr. Nigel Bartholomeusz	14	11											11	06		
Dr. Harsha Cabral	14	11			04	04	03	03	09	06						
Mr. Anil Amarasuriya (Director/CEO)	14	14			04	04			09	09	02	02	11	11	03	03
Mr. Gerard Ewe Keng Lim or his alternate Ms. Lee Sian Goh (Resigned W.E.F. 01/11/2013)	11	05														
Mr. Kin Leong Chong or his alternate Ms. Sow Lin Chiew	14	08									02	01				
Mr. Priyantha Fernando	14	12			04	04			09	07	02	01			03	02
Mr. Sunil Karunanayake	14	13	13	13	04	03										
Mr. Sabry Ghouse	14	13	13	12									11	10		
Mr. Suren Madanayake	14	11	13	08	04	01			09	05					03	01
Mr. Imtiaz Muhseen (Appointed on 19/02/2013)	13	10	09	09												

\*12 Regular Board Meetings were held with 2 special Board Meetings during the year 2013

# INDEPENDENT AUDITOR 'S REPORT ON FINANCIAL STATEMENTS



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HMAJ/WDRT/DM

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION BANK OF COLOMBO

### 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 2013, and the income statements and 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 2013 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2013 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 2013 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.

5 March 2014  
Colombo.

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited



## INCOME STATEMENT

Year ended 31 December 2013

	Note	BANK		GROUP	
		31.12.2013 Rs.	31.12.2012 Rs. Restated	31.12.2013 Rs.	31.12.2012 Rs. Restated
Interest income	4	4,129,391,151	3,444,113,712	4,413,132,705	3,644,536,803
Less: Interest expenses	4	2,973,676,442	2,211,052,866	3,127,200,010	2,234,110,170
<b>Net interest income</b>	4	1,155,714,709	1,233,060,846	1,285,932,695	1,410,426,633
Fee and commission income	5	148,873,536	134,315,536	240,626,527	201,289,813
Less: Fee and commission expenses	5	40,452,545	34,452,668	47,768,852	36,180,861
<b>Net fee and commission income</b>	5	108,420,991	99,862,868	192,857,675	165,108,952
Net trading income	6	120,951,779	10,162,500	120,951,779	3,698,546
Other operating income (net)	7	393,535,217	335,576,747	416,478,656	339,918,111
<b>Total operating income</b>		1,778,622,696	1,678,662,961	2,016,220,805	1,919,152,242
Less: Credit loss expense	8	328,904,830	(8,154,538)	292,427,388	71,927,471
<b>Net operating income</b>		1,449,717,886	1,686,817,499	1,723,793,417	1,847,224,771
Less:					
Staff costs	9	527,388,114	450,699,992	632,062,449	518,799,707
Depreciation of property, plant & equipment	28	163,288,882	132,794,681	180,541,567	142,572,122
Amortisation of intangible assets	27	5,497,627	2,485,659	22,292,847	18,827,349
Other expenses	10	604,849,311	541,599,913	738,326,809	618,415,739
<b>Operating profit before value added tax (VAT) on financial services</b>		148,693,932	559,237,254	150,569,745	548,609,854
Less: Value added tax (VAT) on financial services		42,268,878	96,262,603	42,881,302	98,793,941
<b>Profit before tax</b>		106,425,054	462,974,651	107,688,443	449,815,913
Less: Taxation	11	(8,747,158)	149,330,531	6,162,618	(35,076,055)
Crop Insurance Levy		2,458,017	-	2,458,017	-
<b>Profit for the year</b>		112,714,195	313,644,120	99,067,808	484,891,968
<b>Attributable to:</b>					
Equity holders of the parent		112,714,195	313,644,120	103,927,579	430,127,161
Non controlling interest		-	-	(4,859,771)	54,764,807
<b>Profit for the year</b>		112,714,195	313,644,120	99,067,808	484,891,968
Basic/ Diluted Earnings per share	12			0.30	1.23

The notes to the Financial Statements from pages 150 to 222 form an integral part of these Financial Statements.

Certain amounts shown here do not correspond to the Financial Statements - 2012 and reflect adjustments made in accordance with the amended LKAS 19 (Employee Benefits).

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	BANK		GROUP	
		31.12.2013 Rs.	31.12.2012 Rs. Restated	31.12.2012 Rs.	31.12.2012 Rs. Restated
<b>Profit for the year</b>		112,714,195	313,644,120	99,067,808	484,891,968
<b>Other comprehensive income/(expenses)</b>					
Gains and losses on re-measuring available-for-sale financial assets	38	3,092,818	2,802,851	4,096,762	17,208,127
Actuarial gains and losses on defined benefit plans	35.1	(968,863)	485,201	(1,613,591)	1,606,328
Less: Deferred Tax effect on actuarial gains/(losses) on defined benefit plans		271,282	(135,856)	271,282	(135,856)
<b>Other comprehensive income for the year, net of taxes</b>		2,395,237	3,152,196	2,754,453	18,678,599
<b>Total comprehensive income for the year</b>		<b>115,109,432</b>	<b>316,796,316</b>	<b>101,822,261</b>	<b>503,570,567</b>
<b>Attributable to:</b>					
Equity holders of the parent		115,109,432	316,796,316	106,352,213	441,583,371
Non-controlling interest		-	-	(4,529,952)	61,987,196
		115,109,432	316,796,316	101,822,261	503,570,567

The notes to the Financial Statements from pages 150 to 222 form an integral part of these Financial Statements.

Certain amounts shown here do not correspond to the Financial Statements - 2012 and reflect adjustments made in accordance with the amended LKAS 19 (Employee Benefits).

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	BANK			GROUP		
		31.12.2013 Rs.	31.12.2012 Rs. Restated	01.01.2012 Rs. Restated	31.12.2013 Rs.	31.12.2012 Rs. Restated	01.01.2012 Rs. Restated
<b>Assets</b>							
Cash and balances with central bank	14	2,134,479,401	2,445,611,385	1,887,571,088	2,182,003,137	2,469,680,650	1,906,983,640
Sri Lanka government securities	15	2,442,111,038	1,632,053,657	1,006,065,002	2,443,884,920	1,632,053,657	1,125,225,768
Reverse repurchased agreements	16	1,349,743,147	601,312,663	245,126,821	1,442,352,168	616,317,592	245,126,821
Placements with banks	17	314,544,739	1,481,997,639	1,951,977,627	1,809,800,221	2,851,883,164	3,207,004,862
Derivative financial instruments	18	1,457,949	-	148,409	1,457,949	-	148,409
Financial assets held-for-trading	19	312,149,656	431,054,402	149,622,004	312,149,656	433,044,850	158,076,406
Loans and receivables to banks	20	-	-	-	15,020,000	-	-
Loans and receivables to other customers	21	23,461,925,446	20,024,729,288	17,292,929,045	25,365,782,911	20,907,215,277	17,834,959,587
Deep Discounted Bond	22	2,375,110,753	2,283,760,340	2,195,923,404	-	-	-
Financial investments – Available-for-sale	23	1,530,000	1,530,000	1,530,000	92,853,725	140,188,723	39,663,364
Other Financial investments – Held-to-maturity	25	109,698,992	-	-	109,698,992	-	-
Investments in subsidiaries	24	892,364,489	912,364,489	912,382,009	-	-	-
Investment in Real Estate	26	-	-	-	340,146,834	352,066,765	348,020,737
Goodwill and intangible assets	27	53,951,100	39,995,579	10,670,522	407,575,625	405,865,804	387,771,381
Property, plant and equipment	28	1,025,087,918	614,440,620	465,108,037	1,147,115,377	687,212,641	524,967,072
Current tax asset		94,514,640	-	-	94,514,640	-	-
Deferred tax assets	29.2	-	-	-	520,773,803	525,668,427	328,867,001
Other assets	30	442,293,016	354,025,008	272,268,915	539,622,822	610,633,882	511,710,652
<b>Total assets</b>		<b>35,010,962,284</b>	<b>30,822,875,070</b>	<b>26,391,322,883</b>	<b>36,824,752,780</b>	<b>31,631,831,432</b>	<b>26,618,525,696</b>
<b>Liabilities</b>							
Due to banks	31	163,448,473	911,898,460	380,999,451	192,429,486	924,093,226	424,206,362
Derivative financial instruments	18	-	2,057,759	1,912,522	-	2,057,759	1,912,522
Repurchased agreements	33	129,449,986	499,494,690	128,288,554	127,154,017	394,164,303	63,746,072
Due to other customers	32	28,339,687,162	23,142,801,872	19,754,596,560	29,462,270,834	23,725,595,501	19,845,291,770
Other Borrowed Funds	34	-	-	-	668,154,102	323,603,729	338,078,671
Current tax liabilities		-	36,134,098	21,534,610	163,604,295	190,551,625	168,777,314
Deferred tax liabilities	29.1	23,963,712	37,703,479	20,073,739	24,517,986	38,353,861	20,114,732
Other liabilities	35	897,127,471	728,371,164	883,912,715	992,903,484	823,101,108	1,023,811,589
<b>Total liabilities</b>		<b>29,553,676,804</b>	<b>25,358,461,522</b>	<b>21,191,318,151</b>	<b>31,631,034,204</b>	<b>26,421,521,112</b>	<b>21,885,939,031</b>
<b>Equity</b>							
Stated Capital	36	4,979,791,113	4,979,791,113	4,979,791,113	4,979,791,113	4,979,791,113	4,979,791,113
Statutory reserve fund	37	58,927,764	53,298,847	37,616,641	63,271,620	53,298,847	37,616,641
Investment fund reserve	38	213,716,852	146,322,124	53,371,307	214,888,840	147,494,112	53,371,307
Available-for-sale-reserve	40	1,642,168	(1,450,650)	(4,253,501)	14,174,007	10,600,522	(3,319,115)
Retained earnings	39	203,207,583	286,452,114	133,479,172	(351,932,868)	(255,131,248)	(534,932,278)
Total shareholders' equity		5,457,285,480	5,464,413,548	5,200,004,732	4,920,192,712	4,936,053,346	4,532,527,668
Non-controlling interests		-	-	-	273,525,864	274,256,974	200,058,994
<b>Total equity</b>		<b>5,457,285,480</b>	<b>5,464,413,548</b>	<b>5,200,004,732</b>	<b>5,193,718,576</b>	<b>5,210,310,320</b>	<b>4,732,586,662</b>
<b>Total equity and liabilities</b>		<b>35,010,962,284</b>	<b>30,822,875,070</b>	<b>26,391,322,883</b>	<b>36,824,752,780</b>	<b>31,631,831,432</b>	<b>26,618,525,696</b>
Net asset value per share		15.63	15.65	14.89	14.09	14.13	12.98
Commitment & Contingencies	43.1	20,811,864,868	15,539,589,813	13,942,982,879	20,811,864,868	15,539,589,813	13,942,982,879

The notes to the Financial Statements from pages 150 to 222 form an integral part of these Financial Statements.

Certain amounts shown here do not correspond to the Financial Statements - 2012 and reflect adjustments made in accordance with the amended LKAS 19 (Employee Benefits).


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

  
Kusal Perera  
Assistant Vice President - Finance

  
Malinda Samarathunga  
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 MBE  
Chairman

  
Anil Amarasuriya  
Director/CEO

  
Nirosha Kannangara  
Secretary

## STATEMENT OF CHANGES IN EQUITY

## As at 31 December 2013

BANK	Stated Capital Rs.	Statutory Reserve Fund Rs.	Investment Fund Reserve Rs.	Available-for- -sale reserve Rs.	Retained Earnings Rs.	Total Rs.
<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
Changes in accounting policies	-	-	-	-	1,060,422	1,060,422
<b>Balance as at 1 January 2012 (Restated)</b>	4,979,791,113	37,616,641	53,371,307	(4,253,501)	133,479,172	5,200,004,732
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	349,345	3,152,196
<b>Balance as at 31 December 2012 (Restated)</b>	4,979,791,113	53,298,847	146,322,124	(1,450,650)	286,452,114	5,464,413,548
Net Profit for the year	-	-	-	-	112,714,195	112,714,195
Transfers during the year	-	5,628,917	67,394,728	-	(73,023,645)	-
Dividend	-	-	-	-	(122,237,500)	(122,237,500)
Other Comprehensive Income	-	-	-	3,092,818	(697,581)	2,395,237
<b>Balance as at 31 December 2013</b>	4,979,791,113	58,927,764	213,716,852	1,642,168	203,207,583	5,457,285,480

GROUP	Stated Capital Rs.	Statutory Reserve Fund Rs.	Investment Fund Reserve Rs.	Available-for- -sale reserve Rs.	Retained Earnings Rs.	Total Equity Rs.	Non Controlling Interest Rs.	Total Rs.
<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
Changes in accounting policies	-	-	-	-	2,314,416	2,314,416	568,142	2,882,558
<b>Balance as at 1 January 2012 (Restated)</b>	4,979,791,113	37,616,641	53,371,307	(3,319,115)	(534,932,278)	4,532,527,668	200,058,994	4,732,586,662
Net Profit for the year	-	-	-	-	430,127,161	430,127,161	54,764,807	484,891,968
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	1,117,653	15,037,290	352,819	15,390,109
<b>Balance as at 31 December 2012 (Restated)</b>	4,979,791,113	53,298,847	147,494,112	10,600,522	(255,131,248)	4,936,053,346	274,256,974	5,210,310,320
Net Profit for the year	-	-	-	-	103,927,579	103,927,579	(4,859,771)	99,067,808
Additions to Non controlling interest due to change in ownership interest	-	-	-	-	-	-	14,148,629	14,148,629
Transfers during the year	-	9,972,773	67,394,728	-	(77,367,501)	-	-	-
Dividend	-	-	-	-	(122,237,500)	(122,237,500)	(9,800,000)	(132,037,500)
Other Comprehensive Income	-	-	-	3,573,485	(1,124,198)	2,449,287	(219,968)	2,229,319
<b>Balance as at 31 December 2013</b>	4,979,791,113	63,271,620	214,888,840	14,174,007	(351,932,868)	4,920,192,712	273,525,864	5,193,718,576

The notes to the Financial Statements from pages 150 to 222 form an integral part of these Financial Statements.

Certain amounts shown here do not correspond to the Financial Statements - 2012 and reflect adjustments made in accordance with the amended LKAS 19 (Employee Benefits).



## STATEMENT OF CASH FLOWS

As at 31 December 2013

	BANK		GROUP	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
<b>Cash Flow from Operating Activities</b>				
Interest Receipts	3,923,242,279	3,081,938,112	4,197,110,552	3,069,811,204
Fee and Commission Receipts	108,420,991	134,315,536	192,857,675	201,919,745
Interest Payments	(2,697,818,642)	(1,991,826,546)	(2,851,342,210)	(2,192,026,291)
Receipts from Other Operating Activities	354,784,654	318,119,147	387,048,742	453,308,038
Payments on Other Operating Activities	(1,165,944,791)	(1,092,925,936)	(1,693,144,573)	(1,242,160,592)
<b>Operating Profit before changes in Operating Assets &amp; Liabilities</b>	522,684,491	449,620,313	232,530,185	290,852,104
<b>(Increase)/Decrease in Operating Assets:</b>				
Balance with Central Bank of Sri Lanka	510,039,807	(286,171,603)	510,039,807	(286,171,603)
Funds Advanced to Customers	(3,651,601,704)	(2,478,920,006)	(4,385,911,413)	(2,802,840,387)
Others	(89,725,954)	(61,475,686)	81,473,044	441,474,153
	(3,231,287,851)	(2,826,567,295)	(3,794,398,562)	(2,647,537,837)
<b>Increase / (Decrease) in Operating Liabilities:</b>				
Due to banks & other customers	4,914,662,845	3,171,164,086	5,454,452,889	3,517,712,000
Repurchased agreements	(368,694,476)	370,018,554	(265,660,058)	370,018,554
Others	170,328,039	(160,202,211)	167,804,791	(298,209,195)
	4,716,296,408	3,380,980,428	5,356,597,621	3,589,521,359
<b>Net Cash from Operating Activities</b>	2,007,693,048	1,004,033,447	1,794,729,244	1,232,835,626
Retiring Gratuity paid	(2,155,519)	(4,344,166)	(4,114,173)	(7,104,926)
Income Tax Paid	(148,859,725)	(98,189,028)	(148,859,725)	(112,251,295)
<b>Net Cash flow from Operating Activities</b>	1,856,677,804	901,500,253	1,641,755,348	1,113,479,405
<b>Cash Flow from Investing Activities</b>				
Dividends Received	12,882,548	13,071,974	3,602,078	(2,177,676)
Net increase in investments - Sri Lanka Government Securities	(173,643,688)	(1,022,717,382)	(175,417,570)	(903,556,617)
Net Proceeds from Sale/Purchase of shares	161,487,330	105,124	161,487,330	105,124
Investment in Other Financial Assets held for trading	120,902,973	(267,576,367)	122,893,421	(351,789,983)
Investment in Financial Assets available-for-sale	3,092,818	-	50,908,483	-
Other Financial investments – Held-to-maturity	(103,270,000)	-	(103,270,000)	-
Purchase of Property & Equipment	(575,207,858)	(282,291,293)	(643,403,811)	(309,253,793)
Purchase of Intangible Assets	(19,453,148)	(31,810,716)	(29,052,374)	(34,007,746)
Proceeds from Sale of Property & Equipment	3,580,803	254,466	3,580,804	3,422,466
<b>Net Cash Flow (used in) Investing Activities</b>	(569,628,223)	(1,590,964,193)	(608,671,639)	(1,716,418,990)
<b>Cash Flow from Financing Activities</b>				
Increase/Decrease in Borrowings	(791,517,032)	529,901,150	(446,966,108)	507,494,676
Dividend Paid	(122,237,500)	(52,387,500)	(132,037,500)	(63,104,636)
<b>Net Cash Flow from / (used in) Financing Activities</b>	(913,754,532)	477,513,650	(579,003,608)	444,390,040
Net Increase/(Decrease) in Cash and Cash Equivalents	373,295,049	(211,950,290)	454,080,101	(158,549,545)
Cash and Cash Equivalents at Beginning of the year	2,934,847,538	3,146,797,828	2,965,214,781	3,123,764,326
<b>Cash and Cash Equivalents at end of the year</b>	3,308,142,587	2,934,847,538	3,419,294,882	2,965,214,781
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand and at Bank	1,016,608,552	817,700,729	1,064,132,288	841,769,994
Placements with banks	314,544,739	1,597,823,824	314,544,739	1,624,934,383
Due to Banks	(48,081,462)	(119,624,784)	(77,061,923)	(155,442,293)
Sri Lanka Government Securities held for trading	676,031,060	37,945,889	676,031,060	37,945,889
Reverse repurchased agreements	1,349,039,698	601,001,880	1,441,648,718	616,006,809
<b>Cash and Cash Equivalents at end of the year</b>	3,308,142,587	2,934,847,538	3,419,294,882	2,965,214,781

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

#### 1.1 General

Union Bank of Colombo PLC ("Bank") is a Public Limited Liability Company listed on the Colombo Stock Exchange, incorporated on 02 February 1995 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 7 of 2007. The registered office of the Bank is 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 for the year ended 31 December 2013 comprise the Bank (parent company), two subsidiaries National Assets Management Limited and UB Finance Company Limited and the Special Purpose Entity, Serandib Capital (Pvt) Ltd. (Together referred to as the "Group")

National Asset Management Limited was incorporated on 28 September 1990 as a Limited Liability Company under the Companies Act No.17 of 1982. The company 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

Serandib 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 2.2.7, management determined that, in substance, the Bank controls this entity. Consequently, Serandib 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 & 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)

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

#### 1.3 Date of Authorization for Issue

The Financial Statements of the Group and the Bank for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 5 March 2014.

### 2.0 BASIS OF PREPARATION

#### 2.1 Statement of Compliance

The Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statements of Changes in Equity and Statement of Cash Flows together with Accounting Policies and notes (Financial Statements), i.e. Consolidated Financial Statements and Separate Financial Statements, as at 31 December 2013 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereafter referred as SLFRS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies

Act No. 07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 amendments thereto.

#### 2.1.2 Basis of Measurement

The Financial Statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale financial investments and other financial assets and liabilities held for trading that have been measured at fair value and liabilities for defined benefit obligations is recognised as the present value of the defined benefit obligation.

#### 2.1.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, except when otherwise indicated.

#### 2.1.4 Presentation of Financial Statements

The Group presents their 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 49.

#### 2.1.5 Materiality & Aggregation

In compliance with LKAS 01 (Presentation of Financial Statements), each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard and as specifically disclosed in the accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

### 2.1.6 Comparative Information

The Financial Statement of the Group and the Bank provide comparative information in respect of the previous period. In addition, the Group and the Bank present an additional Statement of Financial Position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in Financial Statements. An additional Statement of Financial Position as at 1<sup>st</sup> January 2012 is presented in these Financial Statements of the Group and the Bank due to retrospective application of certain accounting policy.

### 2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards (SLFRSs) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised on and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements of the Group are as follows;

#### 2.2.1 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 and they do not intend either to liquidate or to cease operations of the Bank. Therefore, the financial statements continue to be prepared on the going concern basis.

#### 2.2.2 Impairment Losses on Loans and Receivables

The Group review their individually significant loans and receivables at each reporting 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 impairment allowance made.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively by categorising them into groups of assets with similar risk characteristics, to determine whether a 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, inflation, interest rates and sovereign rating rates etc). The impairment loss on loans and receivables is disclosed more detail in Note 8 and Note 21.4.

#### 2.2.3 Impairment of Available for Sale Investments

The Group review their investment 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 receivables.

The Group 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. The Group generally treat 'significant' as 20% or more and 'prolong' as greater than six months. In addition the Group 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 23.

#### 2.2.4 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 such tax 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.

#### 2.2.5. Define Benefit Plan

The cost of the defined benefit plan and the present value of its obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

### 2.2.6 Useful lives of Property, Plant and Equipment and Intangibles

The Group and the Bank review the assets' residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

### 2.2.7 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 2.3.1.3

### 2.2.8 Commitment and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

### 2.2.9 Taxation

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

### 2.3 Summary of Significant Accounting Policies

The significant accounting policies applied by the Group and the Bank in preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Group and the Bank, unless otherwise indicated.

#### 2.3.1 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2013 in terms of LKAS 27 (Consolidated and Separated Financial Statements). The Financial Statements of the Bank's Subsidiaries for the purpose of consolidation (including special purpose entity that the Bank consolidates) are prepared for the same reporting year as Union Bank of Colombo PLC using consistent accounting policies.

#### 2.3.1.1 Business Combination and Goodwill

Business combinations are accounted for using the acquisition method as per the requirement of Sri Lanka Accounting Standards - SLFRS 03 (Business Combinations)

The Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any

non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative a bargain purchase gain is recognised immediately in profit or loss.

The Group elect on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### 2.3.1.2 Subsidiaries

Subsidiaries are entities that are controlled by the Bank. The control is presumed to exist when the Bank owns, directly or indirectly through other subsidiaries, more than half of the voting power of an entity. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefit from activities.

The Financial Statements of subsidiaries are fully consolidated from the date on which control is transferred to the Bank and continue to be consolidated until the date when such control ceases.

The cost of an acquisition is measured at fair value of the consideration including contingent consideration, given on the date of transfer of title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in subsidiaries at cost.



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

The total assets and liabilities of the Subsidiaries as at the reporting date are included in the Consolidated Statement of Financial Position. The total profit or loss for the year of the subsidiaries are included in the Consolidated Statement of Comprehensive Income.

The non controlling interest is presented in the Consolidated Statement of Financial Position within equity, separately from the equity attributable to the equity holders of the Bank. Non controlling interest in the profit or loss of the Group is disclosed in the Consolidated Statement of Comprehensive Income.

Upon the loss of control, the Group de-recognized the assets and liabilities of the subsidiaries, any non controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the statement of changes in equity. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

All subsidiaries of the Bank have been incorporated in Sri Lanka.

### 2.3.1.3 Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objectives 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.

### 2.3.1.4 Transactions eliminated on Consolidation

Intra-group transactions and balances and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statement. Unrealized gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee against the investment in the investee. Unrealized losses are eliminated in the same way as unrealized gains; except that they are eliminated to the extent that there is no evidence of impairment.

### 2.3.2 Cash and Cash Equivalent

Cash and cash equivalents comprise of cash in hand, balances with banks and money at short and call notice that are subject to an insignificant risk of change in their value.

For the purpose of the Statement of Cash Flow, cash and cash equivalent consist of cash and short term deposits as defined above, net of unfavourable Nostro/Demand deposit balances.

### 2.3.3 Foreign Currency Transaction and Balances

All foreign currency transactions are translated in to the functional currency, which is Sri Lankan Rupees. Using the Exchange Rates prevailing at the dates of the transactions were attached.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees using the spot foreign exchange rate rating at that date and all differences arising on non-trading activities are taken to "other operating income" in the Income Statement.

Non monetary items in a foreign currency that are measured in terms of historical cost are translated using exchange rate as at the dates of the initial transactions. Non-monetary items in foreign currency measured at fair value are translated using the Exchange Rates at the date when the fair value was determined.

Foreign exchange differences arising on the statement or reporting of monetary items at rates different from those which were initially recorded are dealt within the Income Statement.

Forward exchange contracts are valued at the forward market rates ruling on the reporting date. Resulting not unrealized gains or losses are dealt with the Income Statement.

### 2.3.4 Financial Assets – Classification, Initial Recognition and Subsequent Measurement

Financial assets within the scope of LKAS 39 (Financial Instruments: Recognition and Measurement) are classified as Derivative Financial Instruments, Loans and Receivables, Financial Investments

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

Held-to-maturity, Financial Investments Available-for-sale, Financial Investments Held-for-trading as appropriate. The Group determines the classification of its financial assets at initial recognition. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

### 2.3.4.1 Date of Recognition

All financial assets are initially recognised on the settlement date. i.e. the date of payment.

### 2.3.4.2 Initial Measurement of Financial Assets

All Financial assets are measured initially at their fair value plus transaction costs, except in the case of financial assets that are directly attributable to acquisition or issue of such financial assets recorded at fair value as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments Recognition and Measurement). Transaction costs in relation to financial assets at fair value through profit and loss are dealt with, through Income Statement.

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.

### 2.3.4.3 Derivatives recorded at fair value through profit or loss

The Group uses derivatives such as currency swaps and 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 'Net trading income'.

### 2.3.4.4 Non Derivative Financial Assets

The Group recognises non derivative financial assets by the following four categories: Financial assets at fair value through profit and loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

#### *I. Financial Investments 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 is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

#### *II. Financial Investments Held to maturity*

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After the initial recognition, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate (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 income' in the Income Statement. The losses arising from impairment of such investments are recognised in the income statement line 'Credit loss expense'. If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances permitted in the LKAS 39 (Financial Instruments: Recognition and Measurement)), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as "held to maturity" during the following two years.

### *III. Balances with Banks and Loans & receivables from customers*

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

After initial measurement, amounts 'Balances with Banks' and 'Loans and receivables to customers' are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Credit loss expense'. The Group may enter into certain lending commitments where the loan, on draw-down, 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 draw-down, is expected to be retained by the Group, 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.

### *IV. Financial Investments Available-for-sale*

Financial investments available-for-sale include equity and debt securities. Equity investments classified as available for sale

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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 Group 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 through “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 Group 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 effective interest rate (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’.

### 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 Group immediately recognises the difference between the transaction price and fair value (a ‘Day 1’ profit or loss) in ‘Net trading income’.

### VI. Reclassification of Financial Assets

The Group reclassifies non derivative financial assets out of the ‘Held-for-trading’ category and in to ‘Available-for-sale, Loans and receivables, or Held-to-maturity’ categories as permitted by the LKAS 39 (Financial Instruments: Recognition and Measurement). In certain circumstances the Group is also permitted to reclassify financial assets out of the ‘Available-for-sale’ category and in to ‘Loans and receivable, Held-for-trading or Held-to-maturity’ 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 effective interest rate (EIR). If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The Group 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 Group 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 Group 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.

The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. An analysis of reclassified financial assets is disclosed in Note 41.

### VII. De-recognition of Financial Assets

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

- The rights to receive cash flows from the asset have expired
- The Group 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 Group 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 Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### VIII. Impairment of Financial Assets

The Group 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



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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 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 Balances with banks, loans and receivables to customers as well as held to maturity investments), the Group 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 Group 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 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 Group. 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 effective interest rate (EIR). If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR (Refer Note 2.3.3.4 above) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from 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 product category that considers credit risk characteristics such as 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 8 for details of impairment losses on financial assets carried at amortised cost, Note 21.4 for an analysis of the impairment allowance on loans and advances by class and Note 21.4 for details of impairment losses on held to maturity investments.

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

For available for sale financial investments, the Group 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 Group 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



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest 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 Group 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 23 for details of impairment losses on financial investments–available for sale.

### (iii) *Re-scheduled loans*

Where possible, the Group 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 effective interest rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews rescheduled 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 Valuation*

The Group 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. The fair value of collateral is generally assessed at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

### (v) *Collateral Repossessed*

The Group policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Asset determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

### 2.3.5 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices are treated as interest expense and is accrued over the life of agreement using the effective interest

rate (EIR). When the counter party has the right to sell or re-pledge the securities, the Group 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 'Reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Group. 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'.

### 2.3.6 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counter parties are 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'.

### 2.3.7 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

### 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 Group 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 Property, Plant and Equipment

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably in accordance with LKAS 16 "Property, Plant & Equipment". Property, Plant & Equipment is stated net of accumulated impairment losses if any. Initially property and equipment are carried at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, 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 and equipment.

#### 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 de-recognised. 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 de-recognized.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets 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 reporting date and adjusted prospectively, as changes in accounting estimates.

Property and Equipment is de-recognised on disposal or when no future economic benefits expected from its use. Any gain or loss arising de-recognition of the asset is recognised in "Other operating income" in the Income Statement in the year the asset is de-recognised.

### 2.3.10 Intangible assets

#### (I) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

#### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

#### (II) Computer 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 are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

### Other Intangible Assets

Other intangible assets consist of brands, 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.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, 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	Amortization 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.

### 2.3.11 Impairment of Non-Financial Assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating units (CGUs) fair value less costs to sell and its value in use. Where the carrying amount of an asset or GCU 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 Group estimates the asset'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 exceed 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.

### 2.3.12 Financial Liabilities Initial Recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as Due to banks, Securities sold under repurchase agreements, Derivative financial instruments, Due to other customers (Deposits) and other borrowed funds as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Bank and the Group classify financial liabilities in to financial liabilities at fair value through Profit and Loss (FVTPL) or other financial liabilities in accordance with the substance of the contractual arrangement and the definition of financial liabilities.

The Bank and the Group recognise financial liabilities in the Statement of Financial Position when they become a party to the contractual provision of financial liability.

#### I. Financial Liability at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading and designated as such upon initial recognition. Subsequent to the initial recognition financial assets at FVTPL are measured at fair value, and changes there in recognised in profit or loss. Upon initial recognition, transaction cost are directly attributable to the acquisition are recognised in profit or loss as incurred.

#### II. Other Financial Liabilities

Other financial liabilities including Due to banks, Securities sold under repurchase agreements, Due to other customers (Deposits) and other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are integral part of the EIR.



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

### De-recognition of Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition 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.

### 2.3.13 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 (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in LKAS 19 (Employee Benefits).

The contribution payable to defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Staff Cost' as and when they become due. Unpaid contributions are recorded as a liability.

#### (I) Employees' Provident Fund

The Bank and the employees contribute 12% and 10% respectively on the salary of each employee to the approved private provident fund. All subsidiary companies and their employees contribute 12% and 10% respectively on the salary of each employee to employees' provident fund.

#### (II) Employees' Trust Fund

The Group contributes 3% of the salary of each employee to the employees' trust fund.

#### Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined

contribution plan as defined in LKAS 19 (Employee Benefits).

#### (I) Gratuity

The cost of retirement gratuities are determined by a qualified actuary using projected unit credit method. This item is stated under 'other liabilities' in the Statement of Financial Position.

An actuarial valuation is carried out at every year end to ascertain the full liability under the fund.

#### Recognition of Actuarial Gain and Losses

The Bank recognises the total actuarial gains and losses that arises in calculating the Bank's obligation with respect to the plan in Other Comprehensive Income during the period in which it occurs.

#### Expected Return on Asset

Expected return on asset is zero as the plan is not pre funded.

#### Funding Arrangement

The gratuity liability is not externally funded. All subsidiary companies carry out actuarial valuations to ascertain their respective gratuity liabilities.

#### 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.

#### 2.3.14 Provisions

Provisions are recognised when the Group 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.

#### 2.3.15 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.



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

### 2.3.16 Taxes

As per LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income' (OCI) in which case it is recognised in Equity or in OCI.

#### (i) Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustments to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Accordingly provision for the taxation is based on the profit for the year adjusted for taxation purpose in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto at the rates specified in Note 11 to the Financial Statements.

#### (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 recognized 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 Recognition of Income and Expenses

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

#### (i) Interest Income and Interest 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 effective interest rate (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.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

The carrying amount of the financial asset or financial liability is adjusted if the Group 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 income' for financial assets and 'Interest expense' for financial liabilities. However, for a reclassified financial asset for which the Group 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 Group 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 Group'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'.

### **2.3.19 Segment Reporting**

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking, Asset management and Group functions.

Details of the segment reporting are shown in Note 46 to the Financial Statements.

### **2.3.20 Earnings per Share**

The Group presents basic and diluted earnings per share (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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of

ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### **2.4 Changes in Accounting Policies and Disclosures – New and Amended standards and interpretations**

#### **LKAS 19 - Employee Benefits (Revised 2013)**

The Group applied LKAS 19 (Revised 2013) in the current period in accordance with the transitional provisions set out in the revised standard. Some of the key changes that impacted the Group include the following:

The Group previously recognized only the net cumulative unrecognised actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets in accordance with LKAS 19.93 (previous).

As a consequence, the Group's Statement of Financial Position did not reflect a significant part of the unrecognised net actuarial gains and losses.

This method is no more allowed under revised LKAS 19 and hence Group changed its accounting policy to recognized actuarial gains and losses in the period in which they occur in total in Other Comprehensive Income Statements.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**Impact on profit and OCI {(increase)/(decrease) in profit/OCI}**

	Bank			Group		
	2013 Rs.	2012 Rs.	2011 Rs.	2013 Rs.	2012 Rs.	2011 Rs.
<b>Income Statement</b>						
Staff cost	*	-		*	2,810,548	
<b>Statement of Other Comprehensive Income</b>						
Actuarial gain recognized	*	485,201		*	1,606,328	
Deferred taxation	*	(135,856)		*	(135,856)	
<b>Impact of equity increase/ (decrease)</b>						
<b>Statement of Financial Position</b>						
Defined benefit liability	41,867,683	32,513,337	27,852,678	41,867,683	32,513,337	27,852,678
Equity	*	349,345	1,060,422	*	1,340,076	2,314,416

The transition did not have impact on statement of cash flows. There is no significant impact on basic and diluted EPS.

\* Impact on application of new accounting standards to the profit and loss cannot be separately recognized due to practical difficulties as actuarial valuations are carried out only under new accounting standards.

## 2.5 Standards issued but not yet effective

The following SLFRS have been issued by The Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

### 2.5.1 SLFRS 9 – Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities. This Standard was originally effective for annual periods commencing on or after

1 January 2015. However, effective date has been deferred subsequently.

### 2.5.2 SLFRS 13 - Fair Value Measurement

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

This Standard will be effective for the financial period beginning on or after 1 January 2014.

However, use of fair value measurement principles contained in this Standards are currently recommended.

In addition to the above, following Standards will also be effective for the annual periods commencing on or after 1 January 2014.

### SLFRS 10 - Consolidated Financial Statements

### SLFRS 11 - Joint Arrangements

### SLFRS 12 - Disclosure of Interests in Other Entities

The above parcel of three Standards will impact the recognition, measurement and disclosures aspects currently contained in LKAS 27 - Consolidated and Separate Financial Statements, LKAS 28 - Investments

in Associates, LKAS 31 - Interest in Joint Ventures and SIC - 12 and SIC 13 which are on consolidation of Special Purpose Entities (SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of option to proportionate consolidation of jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12 - establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the ones previously captured in earlier versions of LKAS 27, LKAS 28 and LKAS 31.

The Group will adopt these Standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 4. NET INTEREST INCOME

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
<b>Interest income</b>				
Reverse repurchased agreements	95,112,475	54,030,919	105,029,843	54,030,919
Financial investments held-for-trading	51,981,803	19,488,590	51,981,803	19,488,590
Placements with banks	128,480,120	212,990,003	260,872,620	332,004,222
Loans and receivables to banks	-	-	69,545	-
Loans and receivables to other customers	3,573,924,212	2,922,929,104	3,808,248,398	3,098,586,767
Deep discounted bond	92,962,044	94,975,450	-	-
Financial investments Available-for-sale	169,976,431	135,881,619	169,976,431	135,881,619
Financial investments - Held-to-maturity	2,628,554	2,629,093	2,628,554	3,355,753
Financial investments - Others	14,325,512	1,188,934	14,325,511	1,188,933
	4,129,391,151	3,444,113,712	4,413,132,705	3,644,536,803
<b>Interest expense</b>				
Due to banks	156,785,412	167,728,307	196,426,716	181,288,300
Due to other customers	2,809,315,803	2,038,451,036	2,923,198,066	2,047,948,347
Others	7,575,227	4,873,523	7,575,228	4,873,523
	2,973,676,442	2,211,052,866	3,127,200,010	2,234,110,170
<b>Net interest income</b>	1,155,714,709	1,233,060,846	1,285,932,695	1,410,426,633

## "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 1st 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 2013 to 31 December 2013, has been grossed up by Rs.29.6Mn ( 2012 - Rs.35.6Mn) and Rs.28.8Mn ( 2012- Rs 18.6) respectively.

## 5. NET FEE AND COMMISSION INCOME

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Fee and commission income	148,873,536	134,315,536	240,626,527	201,289,813
Less: Fee and commission expenses	40,452,545	34,452,668	47,768,852	36,180,861
<b>Net fee and commission income</b>	108,420,991	99,862,868	192,857,675	165,108,952
<b>Comprising</b>				
Loans	9,719,289	5,704,398	14,430,144	7,854,451
Cards	1,156,651	1,851,713	1,156,651	1,851,713
Trade and remittances	73,901,742	67,728,269	73,901,742	67,728,269
Guarantees	51,442,333	48,094,737	51,442,333	48,094,736
Fund Management	-	-	57,940,320	64,824,225
Others	12,653,521	10,936,419	41,755,337	10,936,419
<b>Fee and commission income</b>	148,873,536	134,315,536	240,626,527	201,289,813



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 6. NET TRADING INCOME

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Government Securities	8,018,172	7,739,956	8,018,172	7,739,956
Equity Securities	207,745	(18,480,430)	207,745	(24,944,383)
Investment in Units	112,725,862	20,902,974	112,725,862	20,902,973
<b>Total</b>	<b>120,951,779</b>	<b>10,162,500</b>	<b>120,951,779</b>	<b>3,698,546</b>

## 7. OTHER OPERATING INCOME (NET)

	BANK		GROUP	
	31.12.2013 RS.	31.12.2012 Rs.	31.12.2013 RS.	31.12.2012 Rs.
Dividend Income	9,413,220	9,404,365	696,681	2,093,116
Gain on sale of available-for -sale financial investments	-	-	-	5,707,472
Gain/ (Loss) on sale of property, plant and equipment	2,268,948	90,428	2,268,948	(2,188,981)
Foreign exchange gain	97,009,143	169,701,453	97,009,143	169,701,453
Others	284,843,906	156,380,501	316,503,884	164,605,051
<b>Total</b>	<b>393,535,217</b>	<b>335,576,747</b>	<b>416,478,656</b>	<b>339,918,111</b>

## 8. CREDIT LOSS EXPENSE

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Loans & Receivables to other customers				
Overdrafts	48,385,652	(160,469)	48,385,652	(160,469)
Trade finance	4,148,028	252	12,148,028	252
Pawning	228,109,221	1,583,654	228,109,221	1,583,654
Staff loans	(1,216,410)	311,027	(861,805)	311,027
Term loans	37,672,182	(13,445,880)	(14,155,880)	66,636,130
Lease/HP	2,991,077	3,556,878	17,987,092	3,556,878
Others (Factoring)	815,080	-	815,080	-
<b>Total</b>	<b>328,904,830</b>	<b>(8,154,538)</b>	<b>292,427,388</b>	<b>71,927,471</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 9. STAFF COSTS

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Salary and bonus	352,610,554	314,440,319	434,591,503	371,392,449
Contributions to defined contribution plans	48,730,337	39,547,361	59,737,141	47,262,143
Contributions to defined benefit plans	10,541,002	9,490,026	12,547,559	10,557,596
Social Security cost	14,088,546	9,718,637	19,826,664	9,718,637
Others	101,417,675	77,503,650	105,359,582	79,868,883
<b>Total</b>	<b>527,388,114</b>	<b>450,699,992</b>	<b>632,062,449</b>	<b>518,799,707</b>

Provision for the retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2013. Please refer note 35.1 for detailed disclosure and assumptions on the retirement benefit liability.

## 10. OTHER EXPENSES

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Directors' emoluments	11,428,570	8,635,713	19,228,570	12,332,856
Auditors' remunerations	2,952,400	2,820,000	5,047,296	4,104,781
Non-audit fees to auditors	990,000	2,620,000	1,983,003	2,620,000
Professional and legal expenses	14,321,967	18,722,936	21,168,479	19,339,338
Advertising & Marketing expenses	77,439,328	82,595,067	98,163,431	83,845,415
Office administration and establishment expenses	465,727,813	405,634,648	560,436,327	410,715,387
Others	31,989,233	20,571,548	32,299,703	85,457,962
<b>Total</b>	<b>604,849,311</b>	<b>541,599,913</b>	<b>738,326,809</b>	<b>618,415,739</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**11. TAXATION**

The components of income tax expense for the years ended 31 December 2013 & 2012 are;

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Current tax expense	-	135,239,189	15,005,885	144,366,997
Adjustments in respect of current income tax of prior years	4,721,327	(3,402,542)	4,721,327	(744,894)
Deferred tax expense	(13,468,485)	17,493,884	(13,564,594)	(178,698,158)
<b>Total</b>	<b>(8,747,158)</b>	<b>149,330,531</b>	<b>6,162,618</b>	<b>(35,076,055)</b>
<b>Reconciliation of the Accounting Profit to Taxation</b>				
Profit Before Tax	106,425,054	462,974,651	107,688,443	449,815,913
Add: Disallowable Expenses	348,891,223	285,783,880	362,276,458	289,387,476
Less: Tax Deductible Expenses	(273,962,585)	(225,557,457)	(164,949,897)	(183,403,000)
Tax Exempt Income	(255,025,500)	(40,203,972)	(255,025,500)	(40,203,972)
Statutory Income	(73,671,809)	482,997,102	49,944,504	515,596,418
<b>Taxable Income</b>	<b>(73,671,809)</b>	<b>482,997,102</b>	<b>49,944,504</b>	<b>515,596,418</b>
Income Tax on Current Year Profit @28%	-	135,239,189	13,984,461	144,366,997
Income Tax on Current Year Profit @10%( NAMAL)	-	-	1,021,424	-
(Over)/ under provision in respect of previous year	4,721,327	(3,402,542)	4,721,327	(744,894)
Deferred Tax charge/(credit) ( Note No 28.1)	(13,468,485)	17,493,884	(13,564,594)	(178,698,158)
<b>Taxation for the period</b>	<b>(8,747,158)</b>	<b>149,330,531</b>	<b>(6,162,618)</b>	<b>(35,076,055)</b>
<b>Effective tax rate (%)</b>	<b>8%</b>	<b>32%</b>	<b>6%</b>	<b>8%</b>

The deferred tax (credit)/charge in the income statement comprise of the following.

The following table shows deferred tax expense recorded in the income statement due to changes in the deferred tax assets and liabilities

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Deferred tax assets	(75,819,113)	(7,228,986)	(76,647,709)	(204,071,411)
Deferred tax liabilities	62,350,628	24,722,870	63,083,115	25,373,253
<b>Deferred tax (credit)/charge to income statement</b>	<b>(13,468,485)</b>	<b>17,493,884</b>	<b>(13,564,594)</b>	<b>(178,698,158)</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 LKAS 33 (Earnings per Share).

	GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.
<b>Amount used as the numerator</b>		
Net profit attributable to ordinary shareholders (Rs.)	103,927,579	430,127,161
<b>Amount used as the denominator</b>		
Weighted average number of ordinary shares for basic earnings per share calculation	349,250,000	349,250,000
<b>Basic/ Diluted earnings per ordinary share (Rs.)</b>	<b>0.30</b>	<b>1.23</b>

**13. DIVIDEND PAID AND PROPOSED**

	BANK	
	2013 Rs.	2012 Rs.
Declared and paid during the year		
Dividend on ordinary shares at Rs. 0.35 per share (2012- Rs. 0.15)	122,237,500	52,387,500

**14. CASH AND BALANCES WITH CENTRAL BANK**

	BANK			GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	01.01.2012 Rs.
Cash in hand and Cash at bank	1,016,608,552	817,700,729	545,832,034	1,064,132,288	565,244,586
Statutory balances with central bank of Sri Lanka	1,117,870,849	1,627,910,656	1,341,739,054	1,117,870,849	1,341,739,054
<b>Total</b>	<b>2,134,479,401</b>	<b>2,445,611,385</b>	<b>1,887,571,088</b>	<b>2,182,003,137</b>	<b>1,906,983,640</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 6% of the rupee deposit liabilities as at 31 December 2013 ( 8% as at 31 December 2012). 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.



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 15. SRI LANKA GOVERNMENT SECURITIES

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
<b>Held for trading</b>						
Treasury bills	677,056,170	38,132,921	200,714,665	677,056,170	38,132,921	200,714,665
Treasury bonds	-	-	213,744,769	-	-	213,744,769
<b>Sub total</b>	<b>677,056,170</b>	<b>38,132,921</b>	<b>414,459,435</b>	<b>677,056,170</b>	<b>38,132,921</b>	<b>414,459,435</b>
<b>Available-for-sale</b>						
Treasury bills	1,735,198,300	1,463,828,125	198,813,800	1,735,198,300	1,463,828,125	198,813,800
Treasury bonds	-	100,314,597	363,092,846	1,773,882	100,314,597	363,092,846
<b>Sub total</b>	<b>1,735,198,300</b>	<b>1,564,142,722</b>	<b>561,906,646</b>	<b>1,736,972,182</b>	<b>1,564,142,722</b>	<b>561,906,646</b>
<b>Held-to-maturity</b>						
Treasury bills	-	-	-	-	-	119,160,766
Treasury bonds	29,856,568	29,778,014	29,698,921	29,856,568	29,778,014	29,698,921
<b>Sub total</b>	<b>29,856,568</b>	<b>29,778,014</b>	<b>29,698,921</b>	<b>29,856,568</b>	<b>29,778,014</b>	<b>148,859,687</b>
<b>Total</b>	<b>2,442,111,038</b>	<b>1,632,053,657</b>	<b>1,006,065,002</b>	<b>2,443,884,920</b>	<b>1,632,053,657</b>	<b>1,125,225,768</b>

## 16. REVERSE REPURCHASED AGREEMENTS

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Due to banks	320,060,810	100,185,508	125,056,662	320,201,839	115,190,437	125,056,662
Due to other customers	1,029,682,337	501,127,155	120,070,159	1,122,150,329	501,127,155	120,070,159
	<b>1,349,743,147</b>	<b>601,312,663</b>	<b>245,126,821</b>	<b>1,442,352,168</b>	<b>616,317,592</b>	<b>245,126,821</b>

## 17. PLACEMENTS WITH BANKS

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Placements	314,544,739	1,481,997,639	1,951,977,627	1,809,800,221	2,851,883,164	3,207,004,862
<b>Total</b>	<b>314,544,739</b>	<b>1,481,997,639</b>	<b>1,951,977,627</b>	<b>1,809,800,221</b>	<b>2,851,883,164</b>	<b>3,207,004,862</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**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 and are indicative of neither the market risk nor the credit risk.

Bank & Group	31.12.2013			31.12.2012			01.01.2012		
	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	1,457,949	-	959,256,460	-	2,057,759	542,098,729	148,409	1,912,522	659,175,694
	1,457,949	-	959,256,460	-	2,057,759	542,098,729	148,409	1,912,522	659,175,694

**19. FINANCIAL ASSETS HELD FOR TRADING (EXCLUDING SRI LANKA GOVERNMENT SECURITIES)**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
<b>Held for trading</b>						
Equity securities (Note 19.1)	65,402,515	110,151,429	149,622,004	65,402,515	112,141,877	158,076,406
Investment in Namal High Yield Fund	246,747,141	320,902,973	-	246,747,141	320,902,973	-
	312,149,656	431,054,402	149,622,004	312,149,656	433,044,850	158,076,406

**19.1 Equity Securities**

QUOTED INVESTMENTS	31.12.2013			31.12.2012			01.01.2012		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value (Rs.)
Abans Electricals PLC							1,500	359,921	285,150
Access Engineering Limited	905,300	22,632,500	20,007,130	905,300	22,632,500	16,295,400	0	0	-
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
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	3,981,600	21,000	5,134,974	4,704,000	20,000	5,134,974	4,776,000
Dialog Telekom PLC	758,898	8,312,075	6,830,082	758,898	8,312,075	6,298,853	1,177,000	12,891,472	9,180,600
Distilleries Company of SL PLC	-	-	-	4,800	794,918	796,800	4,800	794,918	706,080
Hatton National Bank PLC-Non Voting	102,860	12,949,115	12,240,340	102,860	12,949,115	11,571,750	100,000	12,949,115	8,320,000
Hemas Holdings PLC	25,000	976,740	850,000	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
Hotel Services (Ceylon) PLC	1,000,000	27,117,874	13,200,000	1,000,000	27,117,874	17,100,000	1,000,000	27,117,874	20,300,000
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
Laufgs Gas PLC	6,000	251,586	170,400	6,000	251,586	153,600	6,000	251,586	228,000
National Development Bank	-	-	-	47,400	8,763,605	6,536,460	52,600	9,725,013	7,264,060
Royal Ceramics Lanka PLC	-	-	-	54,900	5,279,390	5,435,100	111,000	10,674,176	15,706,500
Sampath Bank PLC	47,254	11,755,191	8,122,963	45,870	11,755,191	9,196,936	44,829	11,755,191	8,741,655
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
Singer Sri Lanka	-	-	-	2,800	329,341	286,440	2,800	329,341	371,560
Tokyo Cement (Lanka) PLC- Non Voting	-	-	-	90,000	2,355,186	1,737,000	420,400	11,001,336	12,822,200
Vanik Incorporation Ltd	-	-	-	51,375	1,755,277	-	51,375	1,755,277	-
		89,130,057	65,402,515		146,380,832	110,151,429		178,804,464	149,622,004
Mark to Market Adjustment		(23,727,542)			(36,229,403)			(29,182,460)	
		65,402,515	65,402,515		110,151,429	110,151,429		149,622,004	149,622,004

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 19.1 Equity Securities (Contd...)

	31.12.2013			GROUP 31.12.2012			01.01.2012		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment 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	20,007,130	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
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
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	3,981,600	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	6,830,082	758,898	8,312,075	6,298,853	1,177,000	12,891,472	9,180,600
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	12,240,340	102,860	12,949,115	11,571,750	100,000	12,949,115	8,320,000
Hemas Holdings PLC	25,000	976,740	850,000	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
Hotel Services (Ceylon) PLC	1,000,000	27,117,874	13,200,000	1,000,000	27,117,874	17,100,000	1,000,000	27,117,874	20,300,000
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
Lanka Ventures PLC	-	-	-	-	-	-	6,000	237,624	229,200
Laugfs Gas PLC	6,000	251,586	170,400	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
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
Royal Ceramics Lanka PLC	-	-	-	54,900	5,279,390	5,435,100	111,000	10,674,176	15,706,500
Sampath Bank PLC	47,254	11,755,191	8,122,963	45,870	11,755,191	9,196,935	44,829	11,755,191	8,741,655
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
Seylan Merchant Leasing Co. Ltd	-	-	-	13,200	132,000	13,200	13,200	132,000	25,080
Singer Sri Lanka	-	-	-	2,800	329,341	286,440	2,800	329,341	371,560
Softlogic 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
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	-
		89,130,057	65,402,515		149,119,582	112,141,877		181,543,214	158,076,406
Mark to Market Adjustment		(23,727,542)			(36,977,705)			(23,466,808)	
		65,402,515	65,402,515		112,141,877	112,141,877		158,076,406	158,076,406

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 20. LOANS AND RECEIVABLES TO BANKS

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Investment in Debentures	-	-	-	15,020,000	-	-

## 21. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Gross loans and receivables (Note 21.1)	23,994,425,634	20,442,842,571	17,720,001,722	27,076,183,726	21,937,485,386	18,794,107,081
(Less): Individual impairment charges (Note 21.4)	(165,628,397)	(330,457,436)	(372,271,860)	(1,043,342,375)	(330,457,436)	(372,271,860)
Collective impairment charges (Note 21.4)	(366,871,791)	(87,655,847)	(54,800,817)	(667,058,440)	(699,812,673)	(586,875,634)
<b>Net loans and receivables</b>	<b>23,461,925,446</b>	<b>20,024,729,288</b>	<b>17,292,929,045</b>	<b>25,365,782,911</b>	<b>20,907,215,277</b>	<b>17,834,959,587</b>

## 21.1 Loans and Receivables to other customers - by product

Overdrafts	6,642,056,207	6,265,444,248	5,523,013,838	6,642,055,607	6,265,444,248	5,523,013,838
Trade finance	4,613,724,268	3,709,013,638	3,581,589,798	4,613,724,268	3,709,013,638	3,581,589,798
Pawning	2,665,853,863	2,449,978,408	1,578,999,709	2,666,416,885	2,449,978,408	1,578,999,709
Staff loans	233,411,981	141,987,783	114,730,713	233,568,834	145,848,490	118,712,739
Term loans	8,313,024,685	6,902,357,004	6,365,792,342	9,545,786,260	7,957,506,301	7,290,432,891
Lease and Hire Purchase	1,157,998,238	974,061,490	496,087,234	2,162,833,070	1,409,694,301	641,570,018
Factoring	368,356,392	-	-	689,297,533	-	-
Debentures	-	-	-	18,000,000	-	-
Trust Certificate	-	-	59,788,088	-	-	59,788,088
Others	-	-	-	504,501,269	-	-
<b>Gross Loans and Receivables</b>	<b>23,994,425,634</b>	<b>20,442,842,571</b>	<b>17,720,001,722</b>	<b>27,076,183,726</b>	<b>21,937,485,386</b>	<b>18,794,107,081</b>

## 21.2 Loans and Receivables to other customers - by currency

Sri Lanka Rupee	21,043,215,791	18,024,800,881	16,189,533,781	24,124,973,883	19,519,443,696	17,263,639,140
United States Dollar	2,618,080,720	2,314,748,791	1,452,041,355	2,618,080,720	2,314,748,791	1,452,041,355
Euro	329,769,173	100,259,622	78,426,586	329,769,173	100,259,622	78,426,586
Others	3,359,950	3,033,277	-	3,359,950	3,033,277	-
<b>Gross Loans and Receivables</b>	<b>23,994,425,634</b>	<b>20,442,842,571</b>	<b>17,720,001,722</b>	<b>27,076,183,726</b>	<b>21,937,485,386</b>	<b>18,794,107,081</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 21.3 Loans and Receivables to other customers - by industry

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Agriculture and fishing	2,483,075,376	2,070,130,583	1,781,189,400	2,483,075,376	2,070,130,583	1,781,189,400
Manufacturing	3,848,431,235	2,879,346,562	3,519,995,147	3,848,431,235	2,879,346,562	3,519,995,147
Tourism	513,313,048	311,042,676	430,623,343	513,313,048	311,042,676	430,623,343
Transport	110,023,592	198,783,019	86,816,695	1,114,858,424	630,444,589	397,024,592
Construction	1,797,816,773	1,789,730,562	1,646,057,176	3,100,614,813	2,634,786,218	2,253,345,284
Traders	7,081,463,154	4,937,887,118	3,064,694,809	7,402,404,296	5,036,143,426	3,135,305,409
New economy	365,084,539	467,505,662	475,225,371	365,084,539	467,505,662	475,225,371
Financial & Business Services	1,701,981,876	2,091,639,246	1,600,130,193	1,649,944,811	2,091,639,246	1,600,130,193
Infrastructure	97,697,736	441,197,611	438,571,315	97,697,736	441,197,611	438,571,315
Other Services	1,448,370,202	1,165,998,997	1,079,361,441	1,953,028,323	1,222,024,263	1,119,623,260
Other Customers Including Pawning	4,547,168,103	4,089,580,535	3,597,336,832	4,547,731,125	4,153,224,550	3,643,073,767
<b>Gross Loans and Receivables</b>	<b>23,994,425,634</b>	<b>20,442,842,571</b>	<b>17,720,001,722</b>	<b>27,076,183,726</b>	<b>21,937,485,386</b>	<b>18,794,107,081</b>

## 21.4 Movements in Individual and Collective Impairment Charges during the Year

	BANK		GROUP	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
<b>Individual Impairment</b>				
Opening balance as at 1st January	330,457,436	372,271,860	330,457,436	372,271,860
Charge/(Write back) to income statement	33,557,927	(41,814,424)	20,647,431	(41,814,424)
Net write-off during the year	(198,386,966)	-	(198,386,966)	-
Other movements	-	-	890,624,474	-
<b>Closing balance as at 31st December</b>	<b>165,628,397</b>	<b>330,457,436</b>	<b>1,043,342,375</b>	<b>330,457,436</b>
<b>Collective Impairment</b>				
Opening balance as at 1st January	87,655,847	54,800,817	699,812,673	586,875,634
Additions through acquisition	-	-	-	-
Charge/(Write back) to income statement	293,361,597	33,659,886	269,794,651	113,741,895
Net write-off during the year	(14,145,653)	(804,856)	(14,145,653)	(804,856)
Other movements	-	-	(288,403,231)	-
<b>Closing balance as at 31st December</b>	<b>366,871,791</b>	<b>87,655,847</b>	<b>667,058,440</b>	<b>699,812,673</b>
<b>Total</b>	<b>532,500,188</b>	<b>418,113,283</b>	<b>1,710,400,815</b>	<b>1,030,270,110</b>

## 21.5 Loans Granted by utilizing the Investment Fund Account

The above term loans include Rs.171.7Mn of loans disbursed by utilising the Investment Fund Account Balance.

Sector	Interest Rate	Tenor (Years)	Outstanding Balance (Rs.)	No of Loans
Agriculture	14.74%	4	61,099,870	4
Industry	13.79%	5	67,087,743	13
Services	13.15%	5	43,485,603	4
			<b>171,673,216</b>	

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**22. DEEP DISCOUNTED BOND**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Deep Discounted Bond (Note 22.1)	2,375,110,753	2,283,760,340	2,195,923,404	-	-	-
<b>22.1 Investment in Serandib Bond</b>						
Deep Discounted Bond - Serandib Capital (Pvt) Ltd	2,375,110,753	2,283,760,340	2,195,923,404	-	-	-
	2,375,110,753	2,283,760,340	2,195,923,404	-	-	-

The Bank purchased a Deep Discounted Bond guaranteed by a Commercial Bank from Serandib 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. The Bank intends to hold this bond till its maturity and is recorded at cost plus a proportion of the discount over the period to maturity based on its implicit rate of return of 4%.

**23. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (EXCLUDING SRI LANKA GOVERNMENT SECURITIES)**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Equity securities						
Unquoted (Note 23.1)	1,530,000	1,530,000	1,530,000	32,607,027	32,782,027	32,782,027
Quoted (Note 23.2)	-	-	-	23,958,665	27,446,451	-
Debt securities (Note 23.3)	-	500,000	500,000	430,000	2,840,000	2,840,000
Investment in Unit Trusts (Note 23.4)	-	-	-	54,619,742	96,381,954	28,517,222
(Less): Impairment charges on Debt Securities (Note 23.3)	-	(500,000)	(500,000)	(200,000)	(700,000)	(700,000)
(Less): Impairment charges on Equity Securities (Note 23.1)	-	-	-	(18,561,709)	(18,561,709)	(23,775,885)
Net Available-for-sale Investments	1,530,000	1,530,000	1,530,000	92,853,725	140,188,723	39,663,364

**23.1 Equity securities - Unquoted Investments****Bank**

	31.12.2013 Cost of Investment Rs.	31.12.2012 Cost of Investment Rs.	01.01.2012 Cost of Investment Rs.
Lanka Financial Service Bureau Limited ( 100,000 @ Rs 10)	1,000,000	1,000,000	1,000,000
Lanka Clear (Private) Limited (5,000 @ Rs 100)	500,000	500,000	500,000
Credit Information Bureau ( 300 @ Rs 100)	30,000	30,000	30,000
	1,530,000	1,530,000	1,530,000

All unquoted Available-for-sale equity investments are recorded at cost, since the fair value of these investments cannot be reliably measured. There is no market for these investments and bank intends to hold for them in the long term.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

23.1 Equity securities - Unquoted Investments (Contd...)  
Group

	31.12.2013			31.12.2012			01.01.2012		
	No of Shares Rs.	Cost of Investment Rs.	Directors' Valuation 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	-	48,540	485,400	-
Ceyenergy Electronic Co. (Pvt) Ltd	30,000	300,000	-	30,000	300,000	-	30,000	300,000	-
Ceylinco Aruna Accessories Ltd	25,000	250,000	-	25,000	250,000	-	25,000	250,000	-
Ceylinco Capital Ltd	12,500	125,000	-	12,500	125,000	-	12,500	125,000	-
Ceylinco CISCO Ranaviru Ser. (Pvt) Ltd	50,000	500,000	-	50,000	500,000	-	50,000	500,000	-
Ceylinco Coloured Stones (Pvt) Ltd	60,000	600,000	-	60,000	600,000	-	60,000	600,000	-
Ceylinco Foliage Exports (Pvt) Ltd	25,000	250,000	-	25,000	250,000	-	25,000	250,000	-
Ceylinco Grameen Credit Co. Ltd	25,000	250,000	-	25,000	250,000	-	25,000	250,000	-
Ceylinco International Trading Co.	25,000	250,000	-	25,000	250,000	-	25,000	250,000	-
Ceylinco Investment & Reality Ltd	630,000	6,300,000	-	630,000	6,300,000	-	630,000	6,300,000	-
Ceylinco Islamic Corporation Ltd	10,000	100,000	-	10,000	100,000	-	10,000	100,000	-
Ceylinco Netassist (Pvt) Ltd	12,500	125,000	-	12,500	125,000	-	12,500	125,000	-
Ceylinco Niranjan Invention (Pvt) Ltd	9,500	95,000	-	9,500	95,000	-	9,500	95,000	-
Ceylinco Packaging Ltd	166,667	1,666,667	-	166,667	1,666,667	-	166,667	1,666,667	-
Ceylinco Tax & Financial Consultants	50,000	500,000	-	50,000	500,000	-	50,000	500,000	-
Ceylinco Venture Capital Ltd	73,000	730,000	-	73,000	730,000	-	73,000	730,000	-
Credit Information Bureau	309	30,900	30,900	309	30,900	30,900	309	30,900	30,900
F & G Real Estate Co. Ltd	18,000	180,000	-	18,000	180,000	-	18,000	180,000	-
F & G Realtors Share Capital Co.	34,000	340,000	-	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	20,000	200,000	200,000
Fingara International Cricket Acedamy	879,906	8,799,060	-	879,906	8,799,060	-	879,906	8,799,060	-
Fingara International Cricket Acedamy	25,000	2,500,000	-	25,000	2,500,000	-	25,000	2,500,000	-
Golden Key Credit Card Co Ltd	10,000	100,000	-	10,000	100,000	-	10,000	100,000	-
IC & CS Software Solutions (Pvt) Ltd	12,500	125,000	-	12,500	125,000	-	12,500	125,000	-
Interna. College of Business Tech. Ltd	10,000	100,000	-	10,000	100,000	-	10,000	100,000	-
Interna. Consult. & Corp. Ser. (Pvt) Ltd	100,000	1,000,000	-	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	100,000	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	12,314,418	100,000	2,500,000	7,100,241
San Michel Ltd	50	5,000	-	50	5,000	-	50	5,000	-
Seraka Investment Ltd	70,000	700,000	-	70,000	700,000	-	70,000	700,000	-
TFC Homes (Pvt) Ltd	200,000	2,000,000	-	200,000	2,000,000	-	200,000	2,000,000	-
		32,607,027	14,045,318		32,782,027	14,220,318		32,782,027	9,006,141
<b>Less: Impairment Charges</b>		(18,561,709)	-		(18,561,709)			(23,775,885)	
		14,045,318	14,045,318		14,220,318	14,220,318		9,006,141	9,006,141

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

23.2 Equity securities - Quoted Investments  
Group

	31.12.2013			31.12.2012		
	No of Shares	Cost Rs.	Market Value Rs.	No of Shares	Cost Rs.	Market Value Rs.
Blue Diamond Jewellery Worldwide PLC	1,040,657	2,606,570	1,146,234	-	-	-
Ceylinco Insurance PLC	30,000	11,001,868	11,964,000	-	-	-
Commercial Bank- Voting	-	-	-	25,000	2,578,560	2,575,000
Dialog Axiata PLC	500,000	4,449,221	4,500,000	-	-	-
Renuka Holding PLC	26,633	1,184,926	814,970	26,633	1,184,926	961,451
Sampath Bank PLC	32,190	6,714,354	5,533,461	100,000	21,235,200	20,050,000
Tokyo Cement- Non Voting	-	-	-	200,000	3,943,680	3,860,000
		25,956,940	23,958,665		28,942,366	27,446,451

## 23.3 Debt Securities

## Bank

	31.12.2012		
	No	Cost Rs.	Market Value Rs.
Vanik Debentures	50,000	500,000	500,000
Less: Impairment Charges		(500,000)	(500,000)
Balance as at 31 December		-	-

## Group

	31.12.2013		31.12.2012		31.12.2011	
	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.	Cost Rs.	Directors' Valuation Rs.
Ceylinco Sec. & Fin. Services Co Ltd (2,000@Rs100)	200,000	200,000	200,000	200,000	200,000	200,000
Ceylinco Institute of Mgt Ltd( 2,000 @Rs 100)	200,000	-	200,000	-	200,000	-
Seylan Merchant Leasing Ltd ( 300 @ Rs 100)	30,000	30,000	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	-
	430,000	230,000	2,840,000	2,140,000	2,840,000	2,140,000
Less: Impairment Charges	(200,000)	-	(700,000)	-	(700,000)	-
Balance as at 31 December	230,000	-	2,140,000	-	2,140,000	-

## Movements in Impairment Charges during the Year

	Bank		Group	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Opening balance as at 1st January	500,000	500,000	700,000	700,000
Net write-off during the year	(500,000)	-	(500,000)	-
Closing balance as at 31st December	-	500,000	200,000	700,000



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 23.4 Investment in Units

Group	31.12.2013			31.12.2012			01.01.2012		
	No of Shares	Cost Rs.	Market Value Rs.	No of Shares	Cost Rs.	Market Value Rs.	No of Shares	Cost Rs.	Market Value Rs.
NAMAL Money Market Fund	67,422	694,940	706,747	47,622	694,940	703,882	1,222,129	12,728,732	12,587,929
NAMAL Gilt Edge Fund 1	-	-	-	-	-	-	1,250,337	12,500,000	15,929,293
NAMAL High Yield Fund	4,196,216	42,810,201	53,737,995	8,491,509	85,000,000	95,678,072	-	-	-
Pyrimid Unit Trust	7,500	75,000	75,000	-	-	-	-	-	-
Cey Bank Unit Trust	9,569	100,000	100,000	-	-	-	-	-	-
		43,680,141	54,619,742		85,694,940	96,381,954		25,228,732	28,517,222

## 24. INVESTMENT IN SUBSIDIARIES

	31.12.2013		31.12.2012		01.01.2012	
	"Percentage Holding" %	Cost Rs.	"Percentage Holding" %	Cost Rs.	"Percentage Holding" %	Cost Rs.
<b>Unquoted equity shares</b>						
National Asset Management Ltd	51.00	331,500,000	51.00	331,500,000	51.00	331,500,000
UB Finance Company Ltd (Refer Note No 20.1)	66.17	580,864,489	68.53	580,882,010	68.82	600,000,000
(Less): Disposals		20,000,000		17,521		19,117,991
(Less): Impairment charges		-		-		-
		892,364,489		912,364,489		912,382,009

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 25. OTHER FINANCIAL INVESTMENTS - HELD TO MATURITY

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Senior Debentures	109,698,992	-	-	109,698,992	-	-

## 26. INVESTMENT IN REAL ESTATE

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Land	-	-	-	257,422,660	276,045,253	300,881,531
Housing Projects	-	-	-	35,264,417	31,138,438	33,382,753
Other Projects	-	-	-	788,532,686	701,838,072	701,838,073
Less: Impairment Charge	-	-	-	(741,072,929)	(656,954,999)	(688,081,620)
	-	-	-	340,146,834	352,066,765	348,020,737

## 27. GOODWILL AND INTANGIBLE ASSETS

## Bank

	2013 Rs.	2012 Rs.
<b>Computer Software</b>		
<b>Cost</b>		
Opening balance as at 1st January	43,118,561	11,307,845
Additions	19,453,148	31,810,716
Closing balance as at 31st December	62,571,709	43,118,561
<b>(Less): Amortisation</b>		
Opening balance as at 1st January	3,122,982	637,323
Charge for the year	5,497,627	2,485,659
Closing balance as at 31st December	8,620,609	3,122,982
Net book value at 31 December	53,951,100	39,995,579

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**27. GOODWILL AND INTANGIBLE ASSETS (Contd....)**  
Group

	Goodwill		Computer Software		Brand Value		Asset Management and Advisory intangible		Licenses and related Infrastructure		Group	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Opening balance as at 1st January	113,031,112	113,031,112	68,090,099	31,173,158	10,168,890	10,168,890	118,947,300	118,947,300	41,458,804	141,458,804	451,696,205	414,779,264
Additions	-	-	29,052,374	36,916,941	-	-	-	-	-	-	29,052,374	36,916,941
Disposals	-	-	-	-	-	-	-	-	(5,458,222)	-	(5,458,222)	-
Closing balance as at 31st December	113,031,112	113,031,112	97,142,473	68,090,099	10,168,890	10,168,890	118,947,300	118,947,300	136,000,582	141,458,804	475,290,357	451,696,205
(Less): Amortisation												
Opening balance	-	-	22,104,512	18,758,359	932,149	423,704	14,538,003	6,608,183	8,255,738	1,217,637	45,830,402	27,007,883
Charge for the year	-	-	6,963,652	3,346,153	508,445	508,445	7,929,820	7,929,820	6,890,931	7,042,931	22,292,847	18,827,349
Disposals	-	-	-	-	-	-	-	-	(408,517)	-	(408,517)	-
Closing balance as at 31st December	-	-	29,068,164	22,104,512	1,440,593	932,149	22,467,823	14,538,003	14,738,152	8,255,738	67,714,732	45,830,401
Net book value at 31st December	113,031,112	113,031,112	68,074,309	45,985,587	8,728,297	9,236,742	96,479,477	104,409,297	121,262,430	133,203,066	407,575,625	405,865,804

**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 Asset	Method Used
Goodwill	Free Cashflow to Equity (FCFE)
Licensing and other Infrastructure	Greenfield Method

The rates used by the Bank;

	Goodwill	License
Discount Rate	13.65%	18.65%
Terminal Growth Rate	2.50%	2.50%

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 rates and market CI ratios.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 28. PROPERTY, PLANT AND EQUIPMENT

2013	BANK					Total Rs.
	Leasehold Improvements Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicle Rs.	Work-in -progress Rs.	
<b>Cost/fair value</b>						
Opening balance as at 1st January	372,344,872	545,797,807	136,520,756	39,013,974	2,813,391	1,096,490,800
Additions	91,547,721	139,467,698	43,183,197	16,498,193	287,324,443	578,021,249
Disposals	-	(23,297,580)	(47,000)	(5,077,083)	-	(28,421,663)
Transfers	-	-	-	-	2,813,391	2,813,391
Closing balance as at 31st December	463,892,593	661,967,925	179,656,953	50,435,084	287,324,443	1,643,276,994
<b>(Less): Accumulated depreciation</b>						
Opening balance as at 1st January	101,164,131	307,354,150	61,016,292	12,515,607	-	482,050,180
Charge for the year	77,156,428	65,945,475	15,141,679	5,045,301	-	163,288,882
Disposals	-	(23,227,427)	(28,908)	(3,893,650)	-	(27,149,986)
Closing balance as at 31st December	178,320,559	350,072,198	76,129,063	13,667,258	-	618,189,076
Net book value as at 31 December 2013	285,572,034	311,895,727	103,527,890	36,767,826	287,324,443	1,025,087,918
<b>2012</b>						
<b>Cost/fair value</b>						
Opening balance as at 1st January	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 as at 31st December	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 as at 1st January	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
Disposals	(18,904,030)	(3,528,014)	(20,328,404)	-	-	(42,760,448)
Closing balance as at 31st December	101,164,131	307,354,150	61,016,292	12,515,607	-	482,050,180
Net book value as at 31 December 2012	271,180,741	238,443,657	75,504,464	26,498,367	2,813,391	614,440,620
Net book value as at 31 December 2011	217,303,586	164,759,782	61,846,517	21,198,151	-	465,108,037



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

Land and Buildings Rs.	Leasehold properties Rs.	Computer & Equipments Rs.	GROUP			Work-in-progress Rs.	Total Rs.
			Furniture & Fittings Rs.	Motor Vehicle Rs.			
36,190,215	372,948,132	545,797,807	209,104,103	55,992,293	2,813,391	1,222,845,941	
565,598	112,634,501	145,683,364	71,087,603	28,921,693	289,340,443	648,233,202	
-	-	23,297,580	23,464,182	6,207,083	-	52,968,845	
-	-	5,093,955	(5,093,955)	-	4,829,391	4,829,391	
36,755,813	485,582,633	673,277,546	251,633,569	78,706,903	287,324,443	1,813,280,907	
3,732,983	101,650,008	307,354,150	100,611,473	22,284,686	-	535,633,300	
688,489	78,508,384	67,069,921	24,322,879	9,951,894	-	180,541,567	
-	-	23,227,427	21,236,361	5,545,549	-	50,009,337	
4,421,472	180,158,392	354,737,831	100,156,804	26,691,031	-	666,165,530	
32,334,341	305,424,241	318,539,715	151,476,766	52,015,871	287,324,443	1,147,115,377	
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	
-	(18,904,030)	(3,528,014)	(20,328,404)	-	-	(42,760,448)	
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	
33,026,351	217,511,458	164,759,782	80,350,215	29,319,264	-	524,967,072	

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 29. DEFERRED TAXATION

## 29.1 Deferred Tax Liability

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Balance as at beginning of the year	(37,703,479)	(20,073,739)	(5,884,454)	(38,353,861)	(20,114,732)	(5,884,454)
Additions through acquisitions				-	-	1,681,558
Deferred Tax charged / (reversed) to the Income Statement	13,468,485	(17,493,884)	(13,776,898)	13,564,594	(18,239,129)	(15,499,454)
Deferred Tax charged / (reversed) to the statement of OCI	271,282	(135,856)	-	271,282	(135,860)	-
Effect in Retained earnings due change in LKAS 19			(412,386)			(412,381)
Balance as at the year end	(23,963,712)	(37,703,479)	(20,073,739)	(24,517,986)	(38,353,861)	(20,114,732)
<b>Deferred Tax Assets - Income Statement</b>						
Carry Forward Losses	85,419,530	36,857,308	31,051,421	85,419,530	36,206,925	31,010,423
Defined Benefit Plan Liability - Income Statement	11,999,912	9,651,982	8,228,884	12,178,125	9,651,982	8,228,888
Collective Impairment	24,908,961	-	-	24,908,961	-	-
	122,328,403	46,096,904	39,280,305	122,506,616	45,446,521	39,239,311
<b>Deferred Tax Assets - Other Comprehensive Income</b>						
Defined Benefit Plan Liability - Statement of OCI	(276,961)	(548,242)	(412,386)	(276,961)	(548,242)	(412,386)
<b>Deferred Tax liability</b>						
Accelerated Depreciation allowance for tax purposes ( Property and Equipment)	(92,341,451)	(60,551,399)	(37,448,517)	(93,073,938)	(60,551,399)	(37,448,517)
Accelerated Depreciation allowance for tax purposes ( Lease Rental Receivable)	(53,673,704)	(23,113,127)	(21,493,140)	(53,673,704)	(23,113,127)	(21,493,140)
	(146,015,155)	(83,664,527)	(58,941,657)	(146,747,641)	(83,664,527)	(58,941,657)
	(23,963,712)	(37,703,479)	(20,073,739)	(24,517,986)	(38,353,861)	(20,114,732)
<b>29.2 Deferred Tax Assets</b>						
Balance as at beginning of the year	-	-	-	525,668,427	328,867,001	333,407,699
Deferred Tax charged to the Income Statement	-	-	-	(4,894,624)	196,801,426	(4,540,698)
Balance as at the year end	-	-	-	520,773,803	525,668,427	328,867,001
<b>Deferred Tax Assets</b>						
Carry Forward Losses	-	-	-	520,773,803	525,668,427	328,867,001
	-	-	-	520,773,803	525,668,427	328,867,001

## 30. OTHER ASSETS

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Advances	55,958,925	79,937,937	39,127,144	59,458,616	90,122,942	48,323,198
Deposits and prepayments	178,839,013	152,219,061	134,019,566	247,514,106	325,208,087	307,665,274
Sundry debtors	-	-	-	20,490,742	60,021	632,875
Prepaid staff cost	140,681,576	85,995,317	63,325,327	140,942,711	86,581,137	64,395,302
Prepaid Lease Rental	3,611,165	-	-	3,611,165	-	-
Others	63,202,337	35,872,693	35,796,878	67,605,482	108,661,695	90,694,003
	442,293,016	354,025,008	272,268,915	539,622,822	610,633,882	511,710,652

## 31. DUE TO BANKS

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Borrowings	163,414,547	911,891,348	380,992,686	163,415,100	911,891,348	380,992,686
Deposits	33,926	7,112	6,765	29,014,386	11,932,698	42,720,290
Others	-	-	-	-	269,180	493,386
	163,448,473	911,898,460	380,999,451	192,429,486	924,093,226	424,206,362

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**32. DUE TO OTHER CUSTOMERS**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
At amortised cost	28,339,687,162	23,142,801,872	19,754,596,560	29,462,270,834	23,725,595,501	19,845,291,770
	28,339,687,162	23,142,801,872	19,754,596,560	29,462,270,834	23,725,595,501	19,845,291,770

**32.1 Due to other Customers - by product**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Demand deposits (current accounts)	1,943,945,075	1,754,725,389	1,547,957,941	1,922,900,535	1,743,862,562	1,547,651,872
Savings deposits	3,493,916,731	2,896,498,873	3,818,387,361	3,492,166,369	2,901,162,393	3,822,517,889
Fixed deposits	19,570,530,744	15,828,860,765	11,936,584,506	20,715,909,318	16,417,853,701	12,023,455,257
Other deposits - CDs	3,331,294,612	2,662,716,845	2,451,666,752	3,331,294,612	2,662,716,845	2,451,666,752
Interest Payable	-	-	-	-	-	-
	28,339,687,162	23,142,801,872	19,754,596,560	29,462,270,834	23,725,595,501	19,845,291,770

**32.2 Due to other Customers - by currency**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Sri Lanka Rupee	25,990,129,171	21,179,513,763	18,362,189,193	27,113,214,295	21,762,307,391	18,452,884,403
United States Dollar	1,848,078,465	1,602,924,397	1,088,352,691	1,848,078,465	1,602,924,397	1,088,352,691
Great Britain Pounds	163,592,376	173,749,255	121,457,032	163,592,376	173,749,255	121,457,032
Euro	273,787,143	123,461,236	67,466,765	273,787,143	123,461,236	67,466,765
Australian Dollar	60,171,317	60,403,071	114,184,942	60,171,317	60,403,070	114,184,942
Others	3,928,690	2,750,152	945,937	3,427,238	2,750,152	945,937
<b>Total</b>	<b>28,339,687,162</b>	<b>23,142,801,872</b>	<b>19,754,596,560</b>	<b>29,462,270,834</b>	<b>23,725,595,501</b>	<b>19,845,291,770</b>

**33. REPURCHASED AGREEMENTS**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Due to other customers	129,449,986	499,494,690	128,288,554	127,154,017	394,164,303	63,746,072
	129,449,986	499,494,690	128,288,554	127,154,017	394,164,303	63,746,072

**34. OTHER BORROWED FUNDS**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Borrowings from Financial Institutions	-	-	-	668,154,102	323,603,729	338,078,671
	-	-	-	668,154,102	323,603,729	338,078,671

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 35. OTHER LIABILITIES

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Accrued Expenses	23,596,151	29,531,308	25,305,167	26,122,622	31,924,911	30,698,618
Payable on Usance Bills	656,504,233	424,410,082	655,892,040	656,504,233	424,410,082	655,892,041
Retirement benefit Obligation (Note 35.1)	41,867,683	32,513,337	27,852,678	54,678,047	44,631,070	42,331,077
Other payables	175,159,404	241,916,437	174,862,830	255,598,582	322,135,045	294,889,853
<b>Total</b>	<b>897,127,471</b>	<b>728,371,164</b>	<b>883,912,715</b>	<b>992,903,484</b>	<b>823,101,108</b>	<b>1,023,811,589</b>

## 35.1 The movement of the Retirement Benefit Obligation of the bank is given below;

## a. Defined benefit obligation (included in other liabilities)

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Defined benefit obligation as at 1st January	32,513,337	27,852,678	44,631,070	42,331,077
Expense on defined benefit plan (Note b)	10,541,002	9,490,026	12,547,559	10,557,596
Payments made during the year	(2,155,519)	(4,344,166)	(4,114,173)	(6,651,275)
(Gain)/ loss due to changes in assumptions	968,863	(485,201)	1,613,591	(1,606,328)
Defined benefit obligation as at 31st December	41,867,683	32,513,337	54,678,047	44,631,070

## b. Net benefit expense (recognised under the personal expense)

	BANK		GROUP	
	31.12.2013 Rs.	31.12.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.
Current Service cost	6,964,535	6,112,508	8,573,240	8,923,056
Interest cost on benefit obligation	3,576,467	3,377,518	3,974,319	1,634,540
Net benefit expense	10,541,002	9,490,026	12,547,559	10,557,596

## c. The principal assumptions used in determining defined benefit obligation are shown below;

	2013	2012	2011
Discount rate	11%	11%	10%
Future salary increment rate	9%	9%	9%
Retirement age	55 Years	55 Years	55 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table	GA 1983 Mortality Table

d. Messers Piyal S. Goonathileke 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.

e. The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

Increase/ (Decrease) in discount rate	Increase/(Decrease) in salary increment rate	Sensitivity effect on Statement of Other Comprehensive Income		Sensitivity effect on Employment Benefit obligation	
		Increase/(Decrease in results for the year)		Increase/(Decrease) in the Liability	
%	%	Bank Rs.	Group Rs.	Bank Rs.	Group Rs.
1%		3,469,415	3,881,219	(3,469,415)	(3,881,219)
(-1%)		(4,069,794)	(4,546,177)	4,069,794	4,546,177
	1%	(3,988,009)	(4,449,499)	3,988,009	4,449,499
	(-1%)	3,459,997	3,867,407	(3,459,997)	(3,867,407)



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**36. STATED CAPITAL**

	BANK		GROUP	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Ordinary Shares	4,979,791,113	4,979,791,113	4,979,791,113	4,979,791,113

**37. STATUTORY RESERVE FUND**

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	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Balance as at 1 January	53,298,847	37,616,641	53,298,847	37,616,641
Transfer during the year	5,628,917	15,682,206	9,972,773	15,682,206
Balance as at 31 December	58,927,764	53,298,847	63,271,620	53,298,847

**38. INVESTMENT FUND ACCOUNT**

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.

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 and Group.

	BANK		GROUP	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Balance as at 1 January	146,322,124	53,371,307	147,494,112	53,371,307
Transfer during the year	67,394,728	92,950,817	67,394,728	94,122,805
Balance as at 31 December	213,716,852	146,322,124	214,888,840	147,494,112

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**39. RETAINED EARNINGS**

	BANK		GROUP	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Balance as at 1 January	286,452,114	133,479,172	(255,131,248)	(534,932,278)
Profit for the year	112,715,195	313,644,120	103,927,579	430,127,161
Transfers to Statutory Reserve Fund (Note 37)	(5,628,917)	(15,682,206)	(9,972,773)	(15,682,206)
Transfers to Investment Fund Account (Note 38)	(67,394,728)	(92,950,817)	(67,394,728)	(94,122,805)
Additions through new share issue	-	-	-	10,748,727
Dividend	(122,237,500)	(52,387,500)	(122,237,500)	(52,387,500)
Other Comprehensive Income	(697,581)	349,345	(1,124,198)	1,117,653
Balance as at 31 December	203,207,583	286,452,114	(351,932,868)	(255,131,248)

**40. AVAILABLE FOR SALE RESERVE**

Available for sale reserve comprise of the gains and losses on re-measuring available-for-sale financial assets

	BANK		GROUP	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Balance as at 1 January	(1,450,650)	(4,253,501)	10,600,522	(3,319,115)
Gains and losses on re-measuring available-for-sale financial assets	3,092,818	2,802,851	3,573,485	17,208,127
Net realised gain on available-for-sale investments reclassified to the income statement	-	-	-	(3,288,490)
Balance as at 31 December	1,642,168	(1,450,650)	14,174,007	10,600,522

**41. RECLASSIFICATION NOTE**

**41.1** The bank has reclassified the investment made in Serandib Capital (Pvt) Ltd which was under Financial Assets Available for sale in the previous Financial year to Loans and Receivables in the current Financial year since the Bank has the intention and ability to hold the financial assets for the foreseeable future or until maturity. At the date of the reclassification, the fair value of the bond is similar to the carrying value since there is not active market for the bond

The following table shows the carrying amount and the fair value of financial assets reclassified from Available for sale to the Loans and Receivables category.

Bank	Note	31.12.2012		01.01.2012	
		Rs.	Rs.	Rs.	Rs.
As reported previously		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Statement of Financial Position</b>					
Financial Investments - Available for sale		2,283,760,340	2,283,760,340	2,195,923,404	2,195,923,404
<b>Income Statement</b>					
Interest Income					
Financial Investments - Available for sale		94,975,450		87,499,666	
As reported currently					
<b>Statement of Financial Position</b>					
Deep Discounted Bond	22	2,283,760,340	-	2,195,923,404	-
<b>Income Statement</b>					
Interest Income					
Deep Discounted Bond	4	94,975,450		87,499,666	

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**41.2** The Bank reclassified the Nostro favorable balances from Placements with Banks to Cash and balances with Central Bank in compliance with LKAS 7 (Statement of Cash Flows)

	Note	BANK		GROUP	
		31.12.2012	01.01.2012	31.12.2012	01.01.2012
		Rs.	Rs.	Rs.	Rs.
<b>As reported previously</b>		Carrying Amount	Carrying Amount	Carrying Amount	Carrying Amount
<b>Statement of Financial Position</b>					
Cash and Balances with Central Bank		2,325,986,601	1,781,297,602	2,326,433,124	1,781,607,106
Placements with banks		1,601,622,423	2,058,251,113	2,995,130,691	3,332,381,395
<b>As reported currently</b>					
<b>Statement of Financial Position</b>					
Cash and Balances with Central Bank	14	2,445,611,385	1,887,571,088	2,469,680,651	1,906,983,640
Placements with banks	17	1,481,997,639	1,951,977,627	2,851,883,164	3,207,004,862
<b>Change</b>					
<b>Statement of Financial Position</b>					
Cash and Balances with Central Bank		(119,624,784)	(106,273,486)	(143,247,527)	(125,376,534)
Placements with banks		119,624,784	106,273,486	143,247,527	125,376,534

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**42. MEASUREMENT OF FINANCIAL INSTRUMENTS**

Financial Statements are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 (Financial Instruments: Recognition and Measurement) by heading of the Statement of Financial Position.

**Bank - 2013**

	Held for Trading	Held to Maturity	Amortised Cost	Available-for-sale	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>					
Cash and balances with central bank of Sri Lanka	-	-	2,134,479,401	-	2,134,479,401
Sri Lanka government securities	677,056,170	29,856,568	-	1,735,198,300	2,442,111,038
Reverse repurchased agreements	-	-	1,349,743,147	-	1,349,743,147
Placements with banks	-	-	314,544,739	-	314,544,739
Derivative financial instrument	1,457,949	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	312,149,656
Loans and receivables to other customers	-	-	23,461,925,446	-	23,461,925,446
Deep Discounted Bond	-	-	2,375,110,753	-	2,375,110,753
Financial investments – Available-for-sale	-	-	-	1,530,000	1,530,000
Other Financial investments – Held-to-maturity	-	109,698,992	-	-	109,698,992
<b>Total financial assets</b>	<b>990,663,776</b>	<b>139,555,560</b>	<b>29,635,803,486</b>	<b>1,736,728,300</b>	<b>32,502,751,121</b>

	Amortised cost	Total
	Rs.	Rs.
<b>LIABILITIES</b>		
Due to banks	163,448,473	163,448,473
Repurchased agreements	129,449,986	129,449,986
Due to other customers	28,339,687,162	28,339,687,162
<b>Total financial liabilities</b>	<b>28,632,585,621</b>	<b>28,632,585,621</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 42. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd...)

## Bank - 2012

	Held for Trading	Held to Maturity	Loans and Receivables	Available-for- sale	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>					
Cash and balances with central banks	-	-	2,445,611,385	-	2,445,611,385
Sri Lanka government securities	38,132,921	29,778,014	-	1,564,142,722	1,632,053,657
Reverse repurchased agreements	-	-	601,312,663	-	601,312,663
Placements with banks	-	-	1,481,997,639	-	1,481,997,639
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
Deep Discounted Bond	-	-	2,283,760,340	-	2,283,760,340
Financial investments – Available-for-sale	-	-	-	1,530,000	1,530,000
<b>Total financial assets</b>	<b>469,187,323</b>	<b>29,778,014</b>	<b>26,837,411,315</b>	<b>1,565,672,722</b>	<b>28,902,049,374</b>

	Held for Trading	Amortised cost	Total
	Rs.	Rs.	Rs.
<b>LIABILITIES</b>			
Due to banks	-	911,898,460	911,898,460
Derivative financial instrument	2,057,759	-	2,057,759
Repurchased agreements	-	499,494,690	499,494,690
Due to other customers	-	23,142,801,872	23,142,801,872
<b>Total financial liabilities</b>	<b>2,057,759</b>	<b>24,554,195,022</b>	<b>24,556,252,781</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 42. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd...)

## Group - 2013

	Held for Trading	Held to Maturity	Amortised Cost	Available-for-sale	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>					
Cash and balances with central bank of Sri Lanka	-	-	2,182,003,137	-	2,182,003,137
Sri Lanka government securities	677,056,170	29,856,568	-	1,736,972,182	2,443,884,920
Reverse repurchased agreements	-	-	1,442,352,168	-	1,442,352,168
Placements with banks	-	-	1,809,800,221	-	1,809,800,221
Derivative financial instrument	1,457,949	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	312,149,656
Loans and receivables to banks	-	-	15,020,000	-	15,020,000
Loans and receivables to other customers	-	-	25,365,782,911	-	25,365,782,911
Financial investments – Available-for-sale	-	-	92,853,725	-	92,853,725
Other Financial investments – Held-to-maturity	-	109,698,992	-	-	109,698,992
<b>Total financial assets</b>	<b>990,663,775</b>	<b>139,555,560</b>	<b>30,907,812,162</b>	<b>1,736,972,182</b>	<b>33,775,003,679</b>
				<b>Amortised cost</b>	<b>Total</b>
				<b>Rs.</b>	<b>Rs.</b>
<b>LIABILITIES</b>					
Due to banks				192,429,486	192,429,486
Repurchased agreements				127,154,017	127,154,017
Due to other customers				29,462,270,834	29,462,270,834
Other Borrowed Funds				668,154,102	668,154,102
<b>Total financial liabilities</b>				<b>30,450,008,439</b>	<b>30,450,008,439</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 42. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd...)

## Group - 2012

	Held for Trading	Held to Maturity	Loans and Receivables	Available-for- sale	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>					
Cash and balances with central banks	-	-	2,469,680,650	-	2,469,680,650
Sri Lanka government securities	38,132,921	29,778,014	-	1,564,142,722	1,632,053,657
Reverse repurchased agreements	-	-	616,317,592	-	616,317,592
Placements with banks	-	-	2,851,883,164	-	2,851,883,164
Financial assets held-for-trading	433,044,850	-	-	-	433,044,850
Loans and receivables to banks	-	-	-	-	-
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>	<b>471,177,771</b>	<b>29,778,014</b>	<b>26,845,096,683</b>	<b>1,704,331,445</b>	<b>29,050,383,913</b>
			Held for Trading	Amortised cost	Total
			Rs.	Rs.	Rs.
<b>LIABILITIES</b>					
Due to banks			-	924,093,226	924,093,226
Derivatives of financial instruments			2,057,759	-	2,057,759
Repurchased agreements			-	394,164,303	394,164,303
Due to other customers			-	23,725,595,501	23,725,595,501
Other borrowed funds			-	323,603,729	323,603,729
<b>Total financial liabilities</b>			<b>2,057,759</b>	<b>25,367,456,759</b>	<b>25,369,514,518</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**43. 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 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.

**43.1 Commitments and Contingencies**

	BANK			GROUP		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Acceptances	622,548,396	425,255,489	338,404,589	622,548,396	425,255,489	338,404,589
Guarantees	3,320,762,103	4,561,468,438	3,046,794,128	3,320,762,103	4,561,468,438	3,046,794,128
Letters of credit	1,068,369,433	1,618,464,283	1,057,390,906	1,068,369,433	1,618,464,283	1,057,390,906
Spot Contracts	60,784,333	81,304,168	159,437,348	60,784,333	81,304,168	159,437,348
Forward Contracts	1,168,279,566	460,794,561	499,738,346	1,168,279,566	460,794,561	499,738,346
Cheque pending for realization	434,015,317	444,471,515	303,414,247	434,015,317	444,471,515	303,414,247
Other contingent items	1,143,781,638	995,840,881	236,659,794	1,143,781,638	995,840,881	236,659,794
Undrawn loan commitments	12,993,324,082	6,949,688,579	8,301,143,521	12,993,324,082	6,949,688,579	8,301,143,521
Other commitments	-	2,301,899	-	-	2,301,899	-
<b>Total</b>	<b>20,811,864,868</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>20,811,864,868</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>

**43.2 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		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
<b>Approved and Contracted for</b>						
Capital Commitments for Risk Management System	3,565,909	24,785,827	-	3,565,909	24,785,827	-
Capital Commitments for Core Banking System	636,408,685	-	-	636,408,685	-	-
Others	47,758,530	1,788,097	-	47,758,530	1,788,097	-
	687,733,124	26,573,924	-	687,733,124	26,573,924	-
<b>Approved but not Contracted for</b>						
Capital Commitments for Core Banking System	-	854,260,444	-	-	854,260,444	-
Others	192,588,715	3,766,977	-	192,588,715	3,766,977	-
	192,588,715	858,027,421	-	192,588,715	858,027,421	-
<b>Total Capital Commitments</b>	<b>880,321,839</b>	<b>884,601,345</b>	<b>-</b>	<b>880,321,839</b>	<b>884,601,345</b>	<b>-</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**43.3 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		
	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.	31.12.2013 Rs.	31.12.2012 Rs.	01.01.2012 Rs.
Within one year	132,436,675	110,696,419	105,360,187	148,720,073	116,096,419	111,015,067
After one year to five years	236,445,525	244,194,720	284,434,943	297,482,283	268,008,720	285,848,663
More than five years	15,783,825	20,140,993	-	78,317,969	56,862,073	-
	384,666,025	375,032,132	389,795,130	524,520,325	440,967,212	396,863,730

**43.4 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 a legal protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonable estimated, the Bank makes adjustments to account for any adverse effect which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome.

- 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 - 22/2011 Sc (Appeal)  
Appeal filed by a customer against the judgment of the High Court in the Supreme Court.
- c. 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.
- d. 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.
- e. Case No - 11287/L  
Case filed by a third party in the District court of Homagama claiming title to mortgaged property
- f. Case No - 2053/L  
Case filed by a third party in the District court of Gampaha claiming title to mortgaged property
- g. Case No - 223/13 MR CHC  
Case filed by a customer in Colombo High Court to obtain enjoining order to stay the auction
- h. Case No - 2346/L  
Case filed by a third party in the District court of Gampaha claiming title to mortgaged property
- i. Case No - 23847/P  
Case filed by a third party in the District court of Matara claiming title to mortgaged property
- j. Case No - 293/13 M (Civil)  
Case filed by a customer in Colombo High Court to obtain enjoining order to stay the auction
- k. Case No - HCCA 226/2009  
Appeal filed by a customer against the judgement of the Court of Appeal

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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- i. Case No - 42/10 SC (CHC)  
Appeal filed by a customer against the judgement of the High Court in the Supreme Court.
- m. Case No - 42/2008 (F)  
Appeal filed by a third party against the judgement of the High Court in the Supreme Court
- n. LT Case No 23/9983/2012 –  
Case filed by an employee for unfair dismissal from service, seeking reinstatement and compensation as may deem suitable to the Tribunal.
- o. LT Case No8/427/2010 –  
Case filed by an employee for unfair dismissal from service seeking reinstatement or compensation as may deem suitable to the Tribunal
- p. LT Case No1/62/2012 – Mr W.M.P Perera  
Case filled by an employee for unfair dismissal from services, seeking reinstatement and or compensation as the Tribunal may deem suitable.

### 43.4.1 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 repossessed the vehicles.
- b. Case No - HC /Civil/337, 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 Deposit
- 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 - 1102 / M - DC, M/4107/2011 - DC , DSP/0063/10 - DC, DMR/00679/12 - DC, DMR/2291/12 D, DSP 0266/12  
Filed action against the Company in the District Courts regarding the non payment of Deposit , advance payments on land sale and insurance

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**44. ASSET PLEDGE**

Bank	Nature of Liability	2013	2012
		Carrying Amount	Carrying Amount
Government Treasury Bills & Bonds	Repurchased agreements	129,317,545	499,494,690
Export Bills Receivable	Due to Banks - Borrowings	-	507,081,103

Group	Nature of Liability	2013	2012
		Carrying Amount	Carrying Amount
Government Treasury Bills & Bonds	Repurchased agreements	127,154,017	499,494,690
Export Bills Receivable	Due to Banks - Borrowings	-	507,081,103
Investment in Real Estate	Other borrowed funds	100,000,000	160,000,000

**45. 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 who are defined as LKAS 24 "Related Party Disclosures", except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

**45.1 Parent and Ultimate Controlling Party**

The Bank does not have an identifiable parent of its own.

**45.2 Transactions with Key Management Personnel (KMPs)**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

Such KMPs include the Board of Directors of the Bank, Chief Executive Officer of the Bank, Corporate Management and the Compliance Officer of the Bank.

**45.2.1 Compensation of key management personnel of the bank**

	2013	2012
	Rs.	Rs.
Short-term employee benefits	68,582,961	61,931,209
Post-employment benefits	8,012,706	7,042,372
Other Long term benefits	12,523,363	10,871,259
Directors Fees & Expenses	11,428,470	8,755,713
Termination Benefits	2,833,534	-
	103,260,081	88,600,553

In addition to the above, the Bank has also provided non-cash benefits such as vehicles, insurance for Key Management Personnel in line with the approved benefit plan of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**45.3 Transactions, Arrangements and Agreements involving KMPs, their Close Family Members (CFMs)**

CFMs of a KMPs are those family members who may be expected to influence by, that KMP in their dealing with the entity. They may include KMPs' domestic partner and children, children of KMPs' domestic partner and dependents of the KMP or the KMPs' domestic partner.

**45.3.1 Transactions with Key Management Personnel and their Close Family Members of the Bank**

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 2013 Rs.	Balance as at 31-Dec-13 Rs.	Income Expense during 2013 Rs.	Maximum Balance during 2012 Rs.	Balance as at 31-Dec-12 Rs.	Income Expense during 2012 Rs.
Loans and Advances	47,317,342	47,317,342	2,405,124	40,629,281	40,629,281	1,141,979
Deposits	10,425,286	10,425,286	209,163	22,146,381	20,609,981	719,653
Other	30,720	30,720	2,746	28,115	28,189	-

**45.4 Transactions with other related parties**

The following table shows the outstanding balance and the corresponding interest during the year.

**45.4.1 Subsidiaries**

	Amount owed by related parties			Amount owed to related parties		
	Interest from related parties Rs.	Balance as at 31 Dec 2013 Rs.	Maximum balance during the year Rs.	Interest to related parties Rs.	Balance as at 31 Dec 2012 Rs.	Maximum balance during the year Rs.
<b>2013</b>						
Rent	6,548,396	-	-	-	-	-
Other	2,276,246	-	-	-	-	-
Dividend	9,280,470	-	-	-	-	-
Loans and Receivables	5,262,040	70,037,065	70,037,065	-	-	-
Deposits	-	-	-	7,131,168	28,579,751	266,370,377
<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



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 45.5 Other related parties

	Amount owed by related parties			Amount owed to related parties		
	Interest from related parties	Balance as at 31 Dec 2013	Maximum balance during the year	Interest to related parties	Balance as at 31 Dec 2012	Maximum balance during the year
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>2013</b>						
Funded	200	300	300	593,151	46,746,643	224,588,451
<b>2012</b>						
Funded	65,086,707	677,299,573	677,299,573	55,492,190	482,041,548	597,727,445
Funded Facilities	686,992	12,880,557	72,300,000	-	-	-

## 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.

## 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 2013	% equity interest 2012
National Assets Management Limited	Sri Lanka	51.00	51.00
UB Finance Company Limited	Sri Lanka	66.17	68.53

## 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 2013 has contributed a sum of Rs.38.9 Mn to the Fund. (2012 - Rs.31.6 Mn). As at 31 December 2013, the Fund has invested a sum of Rs.305.8 Mn with the Bank. (2012- Rs.103.5 Mn)

During the year, the Bank has incurred a sum of Rs.36.7Mn (2012 - Rs.10.6Mn) as interest expense to the fund.

## Transactions with the Serandib Capital Limited (Special Purpose entity)

Bank has invested Rs.1,578Mn in a 20year Deep Discount Bond maturing in 2023 issued by Serandib Capital Limited, a Special Purpose Vehicle in 2003. Value of the Bond as at 31.12.2012 is Rs.2,375Mn

	Balance as at 31-Dec-13 Rs.	Income/Expense during 2013 Rs.	Balance as at 31-Dec-12 Rs.	Income/Expense during 2012 Rs.
Serandib Bond	2,375,110,753	91,350,414	2,283,760,340	87,836,936
Deposits	126,557,810	15,483,680	112,000,000	10,711,744
Management Fee	-	1,611,631	-	7,138,514
Agency Fee	-	95,930	-	424,912

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**Other**

Bank has invested Rs.200.0Mn in the NAMAL High Yield Fund Manged by National Asset Management Limited. Value of the Units as at 31.12.2013 is Rs.246.7Mn.

Direct and indirect accommodations granted to key management personnel and their closed family members and entities that have significant influence as a percentage of regulatory capital is 4% (2012 - 17%).

**46. SEGMENT INFORMATION**

For the Management purposes, the group is organized in to four operating segments based on the services offered to customers. The following table presents income, profit and certain asset and liability information regarding the bank's operating segments.

	Corporate		Treasury		SME		Other Group Companies		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Interest Income	1,343,832,953	956,515,745	506,359,159	433,367,730	2,180,974,954	1,775,978,676	381,965,638	478,674,653	4,413,132,705	3,644,536,804
Inter-Segment Interest Income	(694,765,108)	(737,056,775)	(17,502,638)	(100,427,958)	712,267,746	837,484,733	-	-	-	-
Total Interest Income	649,067,846	219,458,970	488,856,521	332,939,772	2,893,242,700	2,613,463,409	381,965,638	478,674,653	4,413,132,705	3,644,536,804
Total Interest Expense	445,368,838	209,535,108	190,976,498	198,712,082	2,313,708,423	1,802,805,676	177,146,250	23,057,304	3,127,200,010	2,234,110,170
Net Interest Income	203,699,007	9,923,861	297,880,023	134,227,690	579,534,277	810,657,733	204,819,388	455,617,349	1,285,932,696	1,410,426,634
Total Other Income	74,897,830	72,636,217	367,269,154	164,670,363	204,855,690	214,418,749	131,034,288	57,000,281	778,056,962	508,725,610
Total Net Income	278,596,837	82,560,078	665,149,177	298,898,053	784,389,967	1,025,076,482	335,853,676	512,617,630	2,063,989,658	1,919,152,243
Total Other Expenses	463,891,238	243,323,013	416,055,933	262,081,872	788,570,953	647,668,636	244,901,789	217,468,868	1,913,419,913	1,370,542,389
Segmental Results	(185,294,401)	(160,762,935)	249,093,245	36,816,181	(4,180,987)	377,407,846	90,951,888	295,148,762	150,569,745	548,609,854
Vat On Financial Services									42,881,302	98,793,941
Taxation									8,620,635	(35,076,055)
Profit After Taxation									99,067,808	484,891,968
<b>Other Information</b>										
Segment Assets	9,653,059,439	7,124,484,345	4,049,261,980	3,799,759,776	16,600,936,006	14,033,040,678	4,671,618,810	6,674,546,633	34,974,876,234	31,631,831,432
Unallocated Assets									1,849,876,546	-
Consolidated Total Assets									36,824,752,780	31,631,831,432
Segment Liabilities	5,462,280,894	2,206,103,443	127,379,234	2,057,759	23,552,756,645	17,998,666,761	2,232,494,962	6,214,693,150	31,374,911,735	26,421,521,112
Unallocated Liabilities									256,122,469	-
Consolidated Total Liabilities									31,631,034,204	26,421,521,112
Cash flow from operating activities	453,124,175	2,383,487,796	190,076,370	124,749,956	779,264,386	(733,381,663)	219,290,416	(661,376,684)	1,641,755,348	1,113,479,405
Cash flow from investing activities	(167,993,261)	-	(70,469,754)	(1,286,399,515)	(288,907,925)	(313,847,542)	(81,300,699)	(116,171,932)	(608,671,639)	(1,716,418,990)
Cash flow from financing activities	(159,804,890)	-	(67,034,899)	539,184,014	(274,825,900)	(52,387,500)	(77,337,919)	(42,406,474)	(579,003,608)	444,390,040

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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### 47. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

### 48. 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 quoted and unquoted equities and Government debt securities. These assets are valued using models that use quoted prices in active markets or observable inputs to models.

#### Derivatives of financial instruments

Derivatives (Forward foreign exchange contracts) are valued using valuation techniques with market observable inputs. The most frequently applied valuation technique includes forward foreign exchange, spot and forward premiums.

### 48.1 Determination of Fair Value and Fair Value Hierarchy

For all financial instruments where fair values are determined by referring to external quoted prices or observable pricing inputs to models, independent price determination or valuation is obtained. In an elective market, direct observation offer trade price may not be possible. In these circumstances the Group use alternative market information to validate the financial instruments' fair values with greater weight given to information that is considered to be more relevant and reliable.

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**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 amount and fair values of the Bank's Financial Instruments that are not carried at fair value in Financial Statements. This table does not includes the fair values of non-financial assets and non-financial liabilities.

**Bank**

31 December 2013	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	677,056,170	-	-	677,056,170
Equity Securities	312,149,656	-	-	312,149,656
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	1,457,949	-	1,457,949
<b>Financial Assets available for sale</b>				
Treasury bills	1,735,198,300	-	-	1,735,198,300
<b>Total Financial Assets</b>	<b>2,724,404,126</b>	<b>1,457,949</b>	<b>-</b>	<b>2,725,862,075</b>

31 December 2012	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	38,132,921	-	-	38,132,921
Equity Securities	431,054,402	-	-	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>2,033,330,045</b>	<b>-</b>	<b>-</b>	<b>2,033,330,045</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>



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

Group	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
<b>31 December 2013</b>				
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	677,056,170	-	-	677,056,170
Equity Securities	312,149,656	-	-	312,149,656
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	1,457,949	-	1,457,949
<b>Financial Assets available for sale</b>				
Treasury bills	1,735,198,300	-	-	1,735,198,300
Treasury bonds	1,773,882	-	-	1,773,882
Equity Securities - Quoted	23,958,665	-	-	23,958,665
Investment in Units	54,619,743	-	-	54,619,743
<b>Total Financial Assets</b>	<b>2,804,756,416</b>	<b>1,457,949</b>	<b>-</b>	<b>2,806,214,365</b>
<b>31 December 2012</b>				
<b>Financial assets</b>				
<b>Financial Assets held for trading</b>				
Treasury bills	38,132,921	-	-	38,132,921
Treasury bonds	-	-	-	-
Equity Securities	433,044,850	-	-	433,044,850
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	-	-	-
<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	27,446,551	-	-	27,446,551
Investment in Units	96,381,954	-	-	96,381,954
<b>Total Financial Assets</b>	<b>2,159,148,998</b>	<b>-</b>	<b>-</b>	<b>2,159,148,998</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>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**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**

	2013		2012	
	Carrying amount Rs.	Fair value Rs.	Carrying amount Rs.	Fair value Rs.
<b>Financial assets</b>				
Cash and balances with central bank	2,134,479,401	2,134,479,401	2,445,611,385	2,445,611,385
Sri Lanka Government Securities - Held to maturity	29,856,568	29,856,568	29,778,014	29,778,014
Reverse repurchased agreements	1,349,743,147	1,349,743,147	601,312,663	601,312,663
Balances with banks	314,544,739	314,544,739	1,481,997,639	1,481,997,639
Loans and receivables to other customers	23,994,425,634	23,802,503,597	20,442,842,571	20,092,984,439
Deep Discounted Bond	2,375,110,753	2,375,110,753	2,283,760,340	2,283,760,340
Other Financial investments – Held-to-maturity	109,698,992	109,698,992	-	-
	30,307,859,234	30,115,937,197	27,285,302,612	26,935,444,480
<b>Financial liabilities</b>				
Due to banks	163,448,473	163,448,473	911,898,460	911,898,460
Repurchased agreements	129,449,986	129,449,986	499,494,690	499,494,690
Due to other customers	28,339,687,162	28,373,054,074	23,142,801,872	23,133,288,944
	28,632,585,621	28,665,952,533	24,554,195,022	24,544,682,094
<b>GROUP</b>				
<b>Financial assets</b>				
Cash and balances with central bank	2,182,003,137	2,052,978,713	2,469,680,651	2,326,433,124
Sri Lanka Government Securities - Held to maturity	29,856,568	29,856,568	29,778,014	29,778,014
Reverse repurchased agreements	1,442,352,168	1,442,352,168	616,317,592	616,317,592
Balances with banks	1,809,800,221	1,809,800,221	2,851,883,164	2,995,130,691
Loans and receivables to Banks	15,020,000	15,020,000	-	-
Loans and receivables to other customers	27,076,183,726	25,238,196,413	21,937,485,386	20,969,097,109
Other Financial investments – Held-to-maturity	109,698,992	109,698,992	-	-
	32,664,914,812	30,697,903,075	27,905,144,807	26,936,756,530
<b>Financial liabilities</b>				
Due to banks	192,429,486	192,429,486	924,093,226	924,093,226
Repurchased agreements	127,154,017	127,154,017	394,164,303	394,164,303
Due to other customers	29,462,270,834	29,649,553,696	23,725,595,501	23,690,769,173
Other borrowed funds	668,154,102	668,154,102	323,603,729	269,079,671
	30,450,008,439	30,637,291,301	25,367,456,759	25,278,106,373

**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.

## 49. MATURITY ANALYSIS OF ASSETS &amp; LIABILITIES

Bank As at 31 December 2013	2013			2012		
	Within 12 months Rs.	After 12 months Rs.	Total Rs.	Within 12 months Rs.	After 12 months Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with central banks	2,134,479,401	-	2,134,479,401	2,445,611,385	-	2,445,611,385
Sri Lanka government securities	2,412,254,470	29,856,568	2,442,111,038	1,602,705,339	29,348,318	1,632,053,657
Reverse repurchased agreements	1,349,743,147	-	1,349,743,147	601,312,663	-	601,312,663
Balances with banks	314,544,739	-	314,544,739	1,481,997,639	-	1,481,997,639
Derivatives of financial instruments	1,457,949	-	1,457,949	-	-	-
Financial assets held-for-trading	312,149,656	-	312,149,656	431,054,402	-	431,054,402
Loans and receivables to other customers	19,138,509,478	4,323,415,968	23,461,925,446	16,313,253,604	3,711,475,684	20,024,729,288
Deep Discounted Bond	-	2,375,110,753	2,375,110,753	-	2,285,290,340	2,285,290,340
Financial investments – Available-for-sale	-	1,530,000	1,530,000	-	1,530,000	1,530,000
Financial investments – Held-to-maturity	-	109,698,992	109,698,992	-	-	-
Investments in subsidiaries	-	892,364,489	892,364,489	-	912,364,489	912,364,489
Goodwill and intangible assets	-	53,951,100	53,951,100	-	39,995,579	39,995,579
Property, plant and equipment	-	1,025,087,918	1,025,087,918	-	614,440,620	614,440,620
Current tax assets	94,514,640	-	94,514,640	-	-	-
Other assets	226,412,267	215,880,749	442,293,016	174,915,056	179,109,952	354,025,008
<b>Total assets</b>	<b>25,979,356,647</b>	<b>9,031,605,637</b>	<b>35,010,962,284</b>	<b>23,050,850,088</b>	<b>7,772,024,982</b>	<b>30,822,875,070</b>
<b>Liabilities</b>						
Due to banks	87,591,723	75,856,750	163,448,473	851,224,243	60,674,217	911,898,460
Derivatives of financial instruments	-	-	-	2,057,759	-	2,057,759
Repurchased agreements	129,449,986	-	129,449,986	499,494,690	-	499,494,690
Due to other customers	27,979,335,338	360,351,824	28,339,687,162	22,684,485,355	458,316,517	23,142,801,872
Current tax liabilities	-	-	-	36,134,098	-	36,134,098
Deferred tax liabilities	23,963,712	-	23,963,712	37,703,479	-	37,703,479
Other liabilities	852,366,594	44,760,877	897,127,471	696,663,412	31,707,752	728,371,164
<b>Total liabilities</b>	<b>29,072,707,353</b>	<b>480,969,451</b>	<b>29,553,676,804</b>	<b>24,807,763,036</b>	<b>550,698,486</b>	<b>25,358,461,522</b>
<b>Maturity Gap</b>	<b>(3,093,350,706)</b>	<b>8,550,636,186</b>	<b>5,457,285,480</b>	<b>(1,756,912,948)</b>	<b>7,221,326,496</b>	<b>5,464,413,548</b>
<b>Cumulative Gap</b>	<b>(3,093,350,706)</b>	<b>5,457,285,480</b>		<b>(1,756,912,948)</b>	<b>5,464,413,548</b>	

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## 49 MATURITY ANALYSIS OF ASSETS &amp; LIABILITIES Contd..

Group As at 31 December 2013	2013			2012		
	Within 12 months Rs.	After 12 months Rs.	Total Rs.	Within 12 months Rs.	After 12 months Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with central banks	2,182,003,137	-	2,182,003,137	2,469,680,650	-	2,469,680,650
Sri Lanka government securities	2,414,028,352	29,856,568	2,443,884,920	1,602,705,339	29,348,318	1,632,053,657
Reverse repurchased agreements	1,442,352,168	-	1,442,352,168	616,317,592	-	616,317,592
Balances with banks	188,568,894	1,621,231,327	1,809,800,221	2,851,883,164	-	2,851,883,164
Derivatives of financial instruments	1,457,949	-	1,457,949	-	-	-
Financial assets held-for-trading	312,149,656	-	312,149,656	431,054,402	1,990,449	433,044,850
Loans and receivables to Banks	-	15,020,000	15,020,000	-	-	-
Loans and receivables to other customers	20,941,348,981	4,424,433,930	25,365,782,911	16,717,167,941	4,190,047,336	20,907,215,277
Deep Discounted Bond	-	-	-	-	-	-
Financial investments – Available-for-sale	77,257,173	15,596,552	92,853,725	136,142,823	4,045,900	140,188,723
Financial investments – Held-to-maturity	-	109,698,992	109,698,992	-	-	-
Investments in subsidiaries	-	-	-	-	-	-
Investments in Real Estate	-	340,146,834	340,146,834	90,887,104	261,179,661	352,066,765
Goodwill and intangible assets	-	407,575,625	407,575,625	-	405,865,804	405,865,804
Property, plant and equipment	-	1,147,115,377	1,147,115,377	-	687,212,641	687,212,641
Current tax asset	94,514,640	-	94,514,640	-	-	-
Deferred tax assets	-	520,773,803	520,773,803	525,668,427	-	525,668,427
Other assets	246,488,518	293,134,304	539,622,822	225,562,815	385,071,067	610,633,882
<b>Total assets</b>	<b>27,900,169,468</b>	<b>8,924,583,312</b>	<b>36,824,752,780</b>	<b>25,667,070,257</b>	<b>5,964,761,175</b>	<b>31,631,831,432</b>
<b>Liabilities</b>						
Due to banks	116,572,736	75,856,750	192,429,486	863,419,009	60,674,217	924,093,226
Derivatives of financial instruments	-	-	-	2,057,759	-	2,057,759
Repurchased agreements	127,154,017	-	127,154,017	394,164,303	-	394,164,303
Due to other customers	28,968,340,892	493,929,942	29,462,270,834	23,015,525,322	710,070,179	23,725,595,501
Other borrowed funds	-	668,154,102	668,154,102	323,603,729	-	323,603,729
Current tax liabilities	96,868	163,507,427	163,604,295	190,551,625	-	190,551,625
Deferred tax liabilities	24,517,986	-	24,517,986	38,353,861	-	38,353,861
Other liabilities	857,727,674	135,175,810	992,903,484	785,134,182	37,966,926	823,101,108
<b>Total liabilities</b>	<b>30,094,410,174</b>	<b>1,536,624,030</b>	<b>31,631,034,204</b>	<b>25,612,809,790</b>	<b>808,711,322</b>	<b>26,421,521,112</b>
<b>Maturity Gap</b>	<b>(2,194,240,706)</b>	<b>7,387,959,282</b>	<b>5,193,718,576</b>	<b>54,260,464</b>	<b>5,156,049,853</b>	<b>5,210,310,320</b>
<b>Cumulative Gap</b>	<b>(2,194,240,706)</b>	<b>5,193,718,576</b>		<b>54,260,464</b>	<b>5,210,310,320</b>	



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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### 50. RISK MANAGEMENT

#### 50.1 Introduction

Risk is inherent in the bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the bank's continuing profitability and each individual within the bank is accountable for the risk exposures relating to his or her responsibilities.

Effective capital and risk management is fundamental to the business activities of Union Bank of Colombo PLC. It is managed in terms of regulatory capital and economic capital. The chief risk types defined under Pillar I of Basel II namely Credit, Market and Operational risk are linked to regulatory capital, whilst other risks under Pillar II namely Reputational risk, Strategic risk, Interest rate risk in the banking books, credit concentration risk and liquidity risk are linked to internal capital, which both put together is termed as economic capital.

The business risks such as changes in the environment, technology and industry are primarily addressed through the bank's strategic planning process. Industry specific changes are also reviewed and presented on a need basis by the Credit Risk Management Unit and are tabled at the Executive Risk Management Committee.

#### Risk management structure

The Board of Directors is responsible for the overall capital & risk management approach and for approving the risk management strategies and principles.

A Board appointed supervisory committee called "Integrated Risk Management Committee (IRMC)" has the responsibility to monitor and oversee the overall risk process within the bank.

The IRMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. IRMC is also responsible for managing risks and monitoring risk levels and reports on quarterly basis to the Board.

The Risk Management Department (RMD) is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the IRMC to ensure that procedures are compliant with the overall framework.

The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the bank. This unit ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on daily/ monthly/ quarterly basis, where necessary, to the IRMC or its sub committees, and the relevant actions are taken to address exceptions and any areas of weakness.

Bank Treasury and the Assets and Liabilities Management Committee (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 ( 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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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.

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 processes and instruments to manage exposures resulting from credit risks, changes in interest rates, foreign currencies, equity risks, and exposures arising from transactions.

The bank actively uses collateral to reduce its credit risks.

### **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.

### **50.2 Credit risk**

Credit risk is the risk of financial loss for the Bank if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and receivables to customers/other banks and investments in debt securities.

In addition to the credit risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as Letter of credit, guarantees etc which would carry credit risk.

The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties 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 standardized 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 Managers/ Branch Managers annually. Also bank's borrower risk rating system forms an integral part of the evaluation of credit proposals and assists the approval authorities to assess the creditworthiness of the borrowers. Bank's systems for credit evaluation and decision making are independent from collateralization albeit collateral helps to mitigate credit risk.

The Risk Management Department reviews credit facilities before and after sanctioning of facilities. Under pre-sanction evaluation, RMD independently reviews credit facilities and adds its recommendation where risk is considered acceptable. This independent review covers all new facilities or one-off / temporary facilities for existing lines over Rs. 50million (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**

The methodology of the impairment assessment has explained in the Note 2.3.4.4 (VIII) under summary of significant accounting policies.

### **Credit-related commitments risks**

The bank makes available to its customers guarantees that may require that the bank makes payments on their behalf and enters into commitments to extend credit lines to secure customer's liquidity needs. Letters of credit and guarantees commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods or contract financing. Such commitments risks are mitigated by collateral cover, regular review of unfunded limits and exposures similar to review of funded limits and exposures.

**NOTES TO THE FINANCIAL STATEMENTS** CONTD.**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

The following table shows the maximum exposure to credit risk by class of financial assets. It further, shows total fair value of collateral and the net exposure to credit risk.

<b>Bank as at 31 December 2013</b>	<b>Maximum Exposure to Credit Risk</b>	<b>Net Exposure</b>
<b>Financial Assets</b>	<b>Rs.</b>	<b>Rs.</b>
Sri Lanka government securities	2,442,111,038	2,442,111,038
Reverse repurchased agreements	1,349,743,147	-
Placement with banks	314,544,739	314,544,739
Derivative financial instrument	1,457,949	1,457,949
Financial assets held-for-trading	312,149,656	312,149,656
Loans and receivables to other customers	23,994,425,634	2,486,244,261
Deep Discounted Bond	2,375,110,753	-
Financial investments – Available-for-sale	1,530,000	1,530,000
Other Financial investments – Held-to-maturity	109,698,992	109,698,992
<b>Total</b>	<b>30,900,771,908</b>	<b>5,667, 736,635</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## Group as at 31 December 2013

Financial Assets	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Sri Lanka government securities	2,443,884,920	2,443,884,920
Reverse repurchased agreements	1,442,352,168	-
Placement with banks	1,809,800,221	1,809,800,221
Derivative financial instrument	1,457,949	1,457,949
Financial assets held-for-trading	312,149,656	312,149,656
Loans and receivables Banks	15,020,000	-
Loans and receivables to other customers	27,076,183,726	2,899,440,969
Financial investments – Available-for-sale	92,853,725	92,853,726
Other Financial investments – Held-to-maturity	109,698,992	109,698,992
<b>Total</b>	<b>33,303,401,358</b>	<b>7,769,286,433</b>

**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 fact by the Loan Review Manager. Since the introduction of the new loan origination system, risk ratings for new facilities and annual reviews are derived using this system. The tables below show the credit quality for all financial assets exposed to credit risk, based on the bank's internal credit rating systems.

**Definition of Past Due**

Group consider that any amounts uncollected are day or more beyond their contractual due date are " Past Due".



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## Bank as at 31 December 2013

	Neither past due nor impaired Rs.	Less than 3 months Rs.	Past due but not impaired			Over 12 months Rs.	Individually impaired Rs.	Total Rs.
			3-6 months Rs.	6-12 months Rs.				
Cash and balances with central bank	2,134,479,401	-	-	-	-	-	-	2,134,479,401
Sri Lanka government securities	2,442,111,038	-	-	-	-	-	-	2,442,111,038
Reverse repurchased agreements	1,349,743,147	-	-	-	-	-	-	1,349,743,147
Placement with banks	314,544,739	-	-	-	-	-	-	314,544,739
Derivative financial instrument	1,457,949	-	-	-	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	-	-	-	312,149,656
Loans and receivables to other customers (Gross)	16,086,206,903	5,766,901,269	620,142,873	434,934,000	206,188,947	880,051,643		23,994,425,635
Deep Discounted Bond	2,375,110,753	-	-	-	-	-	-	2,375,110,753
Financial investments – Available-for-sale	1,530,000	-	-	-	-	-	-	1,530,000
Other Financial investments – Held-to-maturity	109,698,992	-	-	-	-	-	-	109,698,992
<b>Total</b>	<b>25,127,032,578</b>	<b>5,766,901,269</b>	<b>620,142,873</b>	<b>434,934,000</b>	<b>206,188,947</b>	<b>880,051,643</b>		<b>33,035,251,310</b>

## Bank as at 31 December 2012

	Neither past due nor impaired Rs.	Less than 3 months Rs.	Past due but not impaired			Over 12 months Rs.	Individually impaired Rs.	Total Rs.
			3-6 months Rs.	6-12 months Rs.				
Cash and balances with central bank	2,445,611,385	-	-	-	-	-	-	2,445,611,385
Sri Lanka government securities	1,632,053,657	-	-	-	-	-	-	1,632,053,657
Reverse repurchased agreements	601,312,663	-	-	-	-	-	-	601,312,663
Placement with banks	1,481,997,639	-	-	-	-	-	-	1,481,997,639
Financial assets held-for-trading	431,054,402	-	-	-	-	-	-	431,054,402
Loans and receivables to other customers (Gross)	13,863,220,220	5,329,847,343	105,056,180	55,869,253	99,757,724	989,091,852		20,442,842,572
Deep Discounted Bond	2,283,760,340	-	-	-	-	-	-	2,283,760,340
Financial investments – Available-for-sale	1,530,000	-	-	-	-	-	-	1,530,000
<b>Total</b>	<b>22,740,540,306</b>	<b>5,329,847,343</b>	<b>105,056,180</b>	<b>55,869,253</b>	<b>99,757,724</b>	<b>989,091,852</b>		<b>29,320,162,656</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## Group as at 31 December 2013

	Neither past due nor impaired Rs.	Less than 3 months Rs.	Past due but not impaired			Over 12 months Rs.	Individually impaired Rs.	Total Rs.
			3-6 months Rs.	6-12 months Rs.				
Cash and balances with central bank	2,187,003,137	-	-	-	-	-	-	2,187,003,137
Sri Lanka government securities	2,443,884,920	-	-	-	-	-	-	2,443,884,920
Reverse repurchased agreements	1,442,352,168	-	-	-	-	-	-	1,442,352,168
Placement with banks	1,809,800,221	-	-	-	-	-	-	1,809,800,221
Derivative financial instrument	1,457,949	-	-	-	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	-	-	-	312,149,656
Loans and receivables to Banks (Gross)	15,020,000							15,020,000
Loans and receivables to other customers (Gross)	16,034,169,838	6,070,796,835	871,361,354	716,984,634	1,600,328,119	1,782,542,948		27,076,183,728
Financial investments – Available-for-sale	92,853,725	-	-	-	-	-	-	92,853,725
Other Financial investments – Held-to-maturity	109,698,992	-	-	-	-	-	-	109,698,992
<b>Total</b>	<b>24,443,390,607</b>	<b>6,070,796,835</b>	<b>871,361,354</b>	<b>716,984,634</b>	<b>1,600,328,119</b>	<b>1,782,542,948</b>		<b>35,485,404,496</b>

## Assets distribution based on Risk Rating

## Bank

	31 December 2013		31 December 2012	
	Previous BRR System (94% of the Portfolio)	New Kalypto Rating (6% of the Portfolio)	BRR System	
A	2.2%	A 8.2%	A	2.4%
B	30.5%	BB 16.1%	B	33.1%
C	35.1%	BBB 74.7%	C	21.1%
D	0.3%	Micro finance loans 0.0%	D	0.0%
E	1.0%		E	0.0%
F	1.4%	R3 0.0%	F	1.1%
G	0.3%	R5 1.0%	G	0.4%
H	1.1%		H	0.2%
UR	28.1%		UR	41.4%
<b>Total</b>	<b>100.0%</b>	<b>Total 100.0%</b>	<b>Total</b>	<b>100.0%</b>

UR (unrated exposures) consists individual clients, pawning, consumer, OD (Cash Backed) & other few facilities (NCRCS, Cheque purchase, Apara loans, Vehicle loans)

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**Analysis of risk concentration**

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. Risk is monitored and managed against Board approved limits for industry sector and individual / group exposures.

The following table shows the risk concentration by industry for the components of the statement of financial position.

**Bank as at 31 December 2013**

	Financial Services	Government	Consumer	Retail and Wholesale	Construction	Manufacturing	Service	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>								
<b>Cash and balances with Central Bank of Sri Lanka</b>								
- Cash in Hand	1,016,608,552	-	-	-	-	-	-	1,016,608,552
- Balances with Central Bank	-	1,117,870,849	-	-	-	-	-	1,117,870,849
<b>Sri Lanka Government Securities</b>								
- Treasury Bills	-	2,412,254,471	-	-	-	-	-	2,412,254,471
- Treasury Bonds	-	29,856,567	-	-	-	-	-	29,856,567
Reverse repurchased agreements	1,349,743,147	-	-	-	-	-	-	1,349,743,147
Placement with banks	1,457,949	-	-	-	-	-	-	1,457,949
Financial assets held-for-trading	20,363,303	-	-	-	-	-	291,786,353	312,149,656
Loans and receivables to other customers	1,672,099,443	-	6,426,776,761	6,634,575,824	1,701,698,982	3,741,937,823	2,146,847,324	22,323,936,157
Lease Rental Receivables	11,024,698	-	335,981,522	317,843,713	165,554,603	71,237,602	236,347,151	1,137,989,289
Deep Discounted Bond	2,375,110,753	-	-	-	-	-	-	2,375,110,753
Financial investments – Held-to-maturity	109,698,992	-	-	-	-	-	-	109,698,992
Financial investments – Available-for-sale	1,000,000	-	-	-	-	-	530,000	1,530,000
<b>Total</b>	<b>6,546,082,139</b>	<b>3,559,981,887</b>	<b>6,762,758,283</b>	<b>6,952,419,537</b>	<b>1,867,253,585</b>	<b>3,813,175,425</b>	<b>2,675,510,828</b>	<b>32,501,293,172</b>

**Bank as at 31 December 2012**

	Financial Services	Government	Consumer	Retail and Wholesale	Construction	Manufacturing	Service	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cash and balances with Central Bank of Sri Lanka</b>								
- Cash in Hand	817,700,729	-	-	-	-	-	-	817,700,729
- Balances with Central Bank	-	1,627,910,656	-	-	-	-	-	1,627,910,656
<b>Sri Lanka Government Securities</b>								
- Treasury Bills	-	1,501,961,046	-	-	-	-	-	1,501,961,046
- Treasury Bonds	-	130,092,611	-	-	-	-	-	130,092,611
Reverse repurchased agreements	601,312,663	-	-	-	-	-	-	601,312,663
Placement with banks	1,481,997,639	-	-	-	-	-	-	1,481,997,639
Financial assets held-for-trading	431,054,402	-	-	-	-	-	-	431,054,402
Loans and receivables to other customers	2,089,922,728	-	5,809,317,984	4,635,123,870	1,886,724,744	2,815,514,297	2,006,639,046	19,243,242,669
Lease Rental Receivables	-	-	266,762,693	215,769,652	120,461,005	43,004,415	135,488,854	781,486,619
Financial investments – Available-for-sale	2,285,290,340	-	-	-	-	-	-	2,285,290,340
<b>Total</b>	<b>7,707,278,501</b>	<b>3,259,964,313</b>	<b>6,076,080,677</b>	<b>4,850,893,522</b>	<b>2,007,185,749</b>	<b>2,858,518,712</b>	<b>2,142,127,900</b>	<b>28,902,049,373</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

## Group as at 31 December 2013

	Financial Services	Government	Consumer	Retail and Wholesale	Construction	Manufacturing	Service	Total
<b>Financial Assets</b>								
<b>Cash and balances with Central Bank of Sri Lanka</b>								
- Cash in Hand	1,064,132,288	-	-	-	-	-	-	1,064,132,288
- Balances with Central Bank	-	1,117,870,849	-	-	-	-	-	1,117,870,849
<b>Sri Lanka Government Securities</b>								
- Treasury Bills	-	2,412,254,470	-	-	-	-	-	2,412,254,470
- Treasury Bonds	-	31,630,450	-	-	-	-	-	31,630,450
Reverse repurchased agreements	1,442,352,168	-	-	-	-	-	-	1,442,352,168
Placement with banks	1,809,800,221	-	-	-	-	-	-	1,809,800,221
Financial assets held-for-trading	20,363,303	-	-	-	-	-	291,786,353	312,149,656
Loans and receivables to Banks	15,020,000	-	-	-	-	-	-	15,020,000
Loans and receivables to other customers	1,620,062,378	-	6,748,256,304	6,955,516,966	2,299,203,876	3,741,937,823	2,317,191,665	23,682,169,014
Lease Rental Receivables	11,024,698	-	881,606,131	317,843,713	165,554,603	71,237,601	236,347,151	1,683,613,897
Financial investments – Held-to-maturity	109,698,992	-	-	-	-	-	-	109,698,992
Financial investments – Available-for-sale	8,285,595	-	-	12,314,418	-	-	72,253,712	92,853,725
<b>Total</b>	<b>6,100,739,643</b>	<b>3,561,755,769</b>	<b>7,629,862,435</b>	<b>7,285,675,097</b>	<b>2,464,758,479</b>	<b>3,813,175,424</b>	<b>2,917,578,881</b>	<b>33,773,545,730</b>

**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.

Following table shows the Bank's and Group's maximum credit risk exposure to commitment and contingencies

Bank & Group	31.12.2013	31.12.2012
	Rs.	Rs.
Acceptances	622,548,396	425,255,489
Guarantees	3,320,762,103	4,561,468,438
Letters of credit	1,068,369,433	1,618,464,283
Spot Contracts	60,784,333	81,304,168
Forward Contracts	1,168,279,566	460,794,561
Cheque pending for realization	434,015,317	444,471,515
Other contingent items	1,143,781,638	995,840,881
Undrawn loan commitments	12,993,324,082	6,949,688,579
Other commitments	-	2,301,899
<b>Total</b>	<b>20,811,864,868</b>	<b>15,539,589,813</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**50.3 Liquidity risk and funding management**

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 by Assets and Liability Management Committee (ALCO) using various statistical analysis using both current and stressed scenarios. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity consistently through ALCO. The bank has developed internal control processes and contingency funding plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains 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 6% 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 liquid assets to customer liabilities, to reflect market conditions. The ratios during the year were, as follows:

**Liquid Asset Ratios**

	2013	2012
	%	%
Year End	22.14	23.35
Maximum	23.52	23.46
Minimum	20.59	21.28
Average	21.88	22.29

**Advances to Deposit Ratios**

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers.

**Advance to Deposit Ratio**

	2013	2012
	%	%
Year End	84.67	88.33

**Net Loans to Assets**

	2013	2012
Net Loans (Rs Mn)	23,461,925,446	20,024,729,288
Total Assets (Rs Mn)	35,010,962,284	30,822,875,070
Ratio	67.01%	64.97%

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**Analysis of financial assets and liabilities by remaining contractual maturities**

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the bank expects that many customers will not request repayments on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

**MATURITY ANALYSIS OF ASSETS & LIABILITIES**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
<b>Bank as at 31 December 2013</b>					
<b>Assets</b>					
Cash and balances with central banks	2,134,479,401	-	-	-	2,134,479,401
Sri Lanka government securities	2,277,334,748	134,919,723	-	29,856,568	2,442,111,038
Reverse repurchased agreements	1,346,681,230	3,061,917	-	-	1,349,743,147
Placements with banks	314,544,739	-	-	-	314,544,739
Derivatives of financial instruments	1,457,949	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	312,149,656
Loans and receivables to other customers	15,885,620,342	3,252,889,136	3,822,385,927	501,030,040	23,461,925,446
Deep Discounted Bond	-	-	-	2,375,110,753	2,375,110,753
Financial investments – Available-for-sale	-	-	-	1,530,000	1,530,000
Financial investments – Held-to-maturity	-	-	109,698,992	-	109,698,992
Investments in subsidiaries	-	-	-	892,364,489	892,364,489
Goodwill and intangible assets	-	-	-	53,951,100	53,951,100
Property, plant and equipment	-	-	-	1,025,087,918	1,025,087,918
Current tax assets	94,514,640	-	-	-	94,514,640
Other assets	157,316,998	64,386,173	147,648,776	72,941,069	442,293,016
<b>Total assets</b>	<b>22,524,099,703</b>	<b>3,455,256,949</b>	<b>4,079,733,695</b>	<b>4,951,871,937</b>	<b>35,010,962,284</b>
<b>Liabilities</b>					
Due to banks	48,115,606	39,476,117	75,856,750	-	163,448,473
Derivatives of financial instruments	-	-	-	-	-
Repurchased agreements	125,876,618	3,573,368	-	-	129,449,986
Due to other customers	17,508,303,475	10,471,533,315	301,443,778	58,406,594	28,339,687,162
Other borrowed funds	-	-	-	-	-
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	-	23,963,712	-	-	23,963,712
Other liabilities	750,347,083	102,019,512	24,182,911	20,577,965	897,127,471
<b>Total liabilities</b>	<b>18,432,642,782</b>	<b>10,640,566,024</b>	<b>401,483,439</b>	<b>78,984,559</b>	<b>29,553,676,804</b>
<b>Total equity</b>				<b>5,457,285,480</b>	<b>5,457,285,480</b>
<b>Total equity and liabilities</b>	<b>18,432,642,782</b>	<b>10,640,566,024</b>	<b>401,483,439</b>	<b>5,536,270,040</b>	<b>35,010,962,284</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

Bank as at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
<b>Assets</b>					
Cash and balances with central banks	2,445,611,385	-	-	-	2,445,611,385
Sri Lanka government securities	1,493,990,946	108,284,697	-	29,778,014	1,632,053,657
Reverse repurchased agreements	601,312,663	-	-	-	601,312,663
Balances with banks	1,281,414,625	200,583,014	-	-	1,481,997,639
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
Deep Discounted Bond	-	-	-	2,283,760,340	2,283,760,340
Financial investments – Available-for-sale	-	-	-	1,530,000	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
Other assets	139,913,812	35,001,244	135,143,354	43,966,598	354,025,008
<b>Total assets</b>	<b>18,869,374,486</b>	<b>4,181,045,907</b>	<b>3,324,033,889</b>	<b>4,448,420,788</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 of financial instruments	2,057,759	-	-	-	2,057,759
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	-	37,703,479	-	-	37,703,479
Other liabilities	570,945,127	123,760,276	18,567,311	15,098,450	728,371,164
<b>Total liabilities</b>	<b>17,188,902,742</b>	<b>7,616,902,285</b>	<b>484,543,434</b>	<b>68,113,061</b>	<b>25,358,461,522</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,464,413,548</b>	<b>5,464,413,548</b>
<b>Total equity and liabilities</b>	<b>17,188,902,742</b>	<b>7,616,902,285</b>	<b>484,543,434</b>	<b>5,532,526,609</b>	<b>30,822,875,070</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

Group as at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
<b>Assets</b>					
Cash and balances with central banks	2,182,003,137	-	-	-	2,182,003,137
Sri Lanka government securities	2,277,334,748	134,919,723	-	31,630,450	2,443,884,920
Reverse repurchased agreements	1,439,290,251	3,061,917	-	-	1,442,352,168
Placements with banks	188,568,894	-	-	1,621,231,327	1,809,800,221
Derivatives of financial instruments	1,457,949	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	312,149,656
Loans and receivables Banks	-	-	15,020,000	-	15,020,000
Loans and receivables to other customers	16,098,731,006	3,785,977,809	4,839,995,570	641,078,526	25,365,782,911
Deep Discounted Bond	-	-	-	-	-
Financial investments – Available-for-sale	77,257,174	1,752,134	-	13,844,418	407,575,625
Financial investments – Held-to-maturity	-	-	109,698,992	-	109,698,992
Investment in Real Estate	-	-	-	340,146,834	340,146,834
Investments in subsidiaries	-	-	-	-	-
Goodwill and intangible assets	-	-	-	407,575,624	407,575,625
Property, plant and equipment	-	-	-	1,147,115,376	1,147,115,377
Current tax assets	94,514,640	-	-	-	94,514,640
Deferred tax asset	-	-	-	520,773,803	520,773,803
Other assets	182,102,347	136,489,346	147,648,776	73,382,349	539,622,822
<b>Total assets</b>	<b>22,853,409,803</b>	<b>4,062,200,929</b>	<b>5,112,363,338</b>	<b>4,796,778,708</b>	<b>36,824,752,780</b>
<b>Liabilities</b>					
Due to banks	77,096,619	39,476,117	75,856,750	-	192,429,486
Derivatives of financial instruments	-	-	-	-	-
Repurchased agreements	123,580,649	3,573,368	-	-	127,154,017
Due to other customers	17,939,264,462	11,029,577,882	419,851,880	73,576,609	29,462,270,834
Other borrowed funds	-	-	668,154,102	-	668,154,102
Current tax liabilities	96,868	-	-	163,507,427	163,604,295
Deferred tax liabilities	554,274	23,963,712	-	-	24,517,986
Other liabilities	755,708,165	181,406,211	24,182,911	31,606,200	992,903,484
<b>Total liabilities</b>	<b>18,896,301,036</b>	<b>11,277,997,289</b>	<b>1,188,045,643</b>	<b>268,690,236</b>	<b>31,631,034,204</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,193,718,576</b>	<b>5,193,718,576</b>
<b>Total equity and liabilities</b>	<b>18,896,301,036</b>	<b>11,277,997,289</b>	<b>1,188,045,643</b>	<b>5,462,408,812</b>	<b>36,824,752,780</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**Contractual Maturities of Commitments and Contingencies**

The table below shows the contractual expiry by maturity of the bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Bank and Group as at 31 December 2013	Total	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Commitments</b>						
Undrawn OD	1,196,319,763	1,196,319,763	-	-	-	-
Commitments for Unutilised Facilities	11,797,004,319	11,797,004,319	-	-	-	-
<b>Sub Total</b>	<b>12,993,324,082</b>	<b>12,993,324,082</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Acceptances	622,548,396	250,840,684	363,093,153	8,614,559	-	-
Guarantees	3,320,762,103	893,809,311	1,039,374,432	1,026,378,576	361,199,783	-
Documentary Credit	878,826,967	116,759,231	738,170,102	23,897,634	-	-
Bills for Collection	189,542,467	37,838,306	146,793,821	4,910,340	-	-
Others	1,143,781,637	5,756,545	935,082,072	19,623,865	86,665,318	96,653,837
Cheque pending for realization	434,015,317	434,015,317	-	-	-	-
<b>Sub Total</b>	<b>6,589,476,887</b>	<b>1,739,019,394</b>	<b>3,222,513,580</b>	<b>1,083,424,974</b>	<b>447,865,101</b>	<b>96,653,837</b>
Spot Purchase	56,542,166	56,542,166	-	-	-	-
Spot Sold	4,242,167	4,242,167	-	-	-	-
<b>Sub Total</b>	<b>60,784,333</b>	<b>60,784,333</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Forward Contracts Bought	584,139,783	-	584,139,783	-	-	-
Forward Contracts Sold	584,139,783	-	584,139,783	-	-	-
<b>Sub Total</b>	<b>1,168,279,566</b>	<b>-</b>	<b>1,168,279,566</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Commitments and Contingent Liability</b>	<b>20,811,864,868</b>	<b>14,793,127,810</b>	<b>4,390,793,147</b>	<b>1,083,424,974</b>	<b>447,865,101</b>	<b>96,653,837</b>
<b>Bank and Group as at 31 December 2012</b>	<b>Total</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Commitments</b>						
Undrawn OD	1,152,631,618	1,152,631,618	-	-	-	-
Commitments for Unutilised Facilities	5,797,056,961	5,797,056,961	-	-	-	-
Others	2,301,899	-	-	2,301,899	-	-
<b>Sub Total</b>	<b>6,951,990,478</b>	<b>6,949,688,579</b>	<b>-</b>	<b>2,301,899</b>	<b>-</b>	<b>-</b>
Acceptances	425,255,488	182,502,981	227,434,340	15,318,167	-	-
Guarantees	4,561,468,438	1,053,854,922	1,647,574,945	1,394,604,252	465,434,319	-
Documentary Credit	1,211,396,249	64,470,816	1,108,174,607	38,750,826	-	-
Bills for Collection	407,068,035	10,909,277	396,158,758	-	-	-
Others	995,840,882	1,158,307	774,667,510	9,827,657	74,403,607	135,783,801
Cheque pending for realization	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>
Spot Purchase	69,325,681	69,325,681	-	-	-	-
Spot Sold	11,978,487	11,978,487	-	-	-	-
<b>Sub Total</b>	<b>81,304,168</b>	<b>81,304,168</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Forward Contracts Bought	358,420,830	-	358,420,830	-	-	-
Forward Contracts Sold	102,373,731	-	102,373,731	-	-	-
<b>Sub Total</b>	<b>460,794,561</b>	<b>-</b>	<b>460,794,561</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Commitments and Contingent Liability</b>	<b>15,539,589,814</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>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**50.4 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 risk factors 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.

**50.4.1 Market risk – trading (including financial assets and financial liabilities designated at fair value through profit or loss)**

The trading book is marked to market on a daily basis by the Treasury Mid Office (TMO) whose independent front Treasury front office and is reporting to the Head of risk management. Various Board approved limits such as dealer wise limits etc are also monitored on a daily basis by TMO,

**50.4.2 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 impacting the P&L and the economic value of equity. 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.

**Bank**

As at 31 December 2013	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
<b>Assets</b>						
Cash and balances with central banks	2,134,479,401	-	-	-	-	2,134,479,401
Sri Lanka government securities	2,442,111,038	2,277,334,748	134,919,722	-	29,856,568	-
Reverse repurchased agreements	1,349,743,147	1,346,681,230	3,061,917	-	-	-
Placement with banks	314,544,739	314,544,739	-	-	-	-
Derivative financial instruments	1,457,949	-	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	-	312,149,656
Loans and receivables to other customers	23,461,925,446	15,885,620,342	3,252,889,136	3,822,385,927	501,030,041	-
Deep Discounted Bond	2,375,110,753	-	-	-	2,375,110,753	-
Financial investments – Available-for-sale	1,530,000	-	-	-	-	1,530,000
Financial investments – Held-to-maturity	109,698,992	-	-	109,698,992	-	-
<b>Total assets</b>	<b>32,502,751,122</b>	<b>19,950,664,768</b>	<b>3,390,870,776</b>	<b>3,932,084,919</b>	<b>2,905,997,362</b>	<b>2,323,133,297</b>
<b>Liabilities</b>						
Due to banks	163,448,473	48,115,606	39,476,117	75,856,750	-	-
Repurchased agreements	129,449,986	125,876,618	3,573,368	-	-	-
Due to other customers	28,339,687,162	15,564,358,400	10,471,533,315	301,443,778	58,406,594	1,943,945,075
<b>Total liabilities</b>	<b>28,632,585,621</b>	<b>15,738,350,624</b>	<b>10,514,582,799</b>	<b>377,300,528</b>	<b>58,406,594</b>	<b>1,943,945,075</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**Bank**

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
<b>Assets</b>						
Cash and balances with central banks	2,445,611,385	-	-	-	-	2,445,611,385
Sri Lanka government securities	1,632,053,657	1,493,990,945	108,714,394	-	29,348,318	-
Reverse repurchased agreements	601,312,663	601,312,663	-	-	-	-
Placement with banks	1,481,997,639	1,281,414,625	200,583,014	-	-	-
Financial assets held-for-trading	431,054,402	-	-	-	-	431,054,402
Loans and receivables to other customers	20,024,729,288	12,476,076,653	3,837,176,952	3,188,890,535	522,585,148	-
Deep Discounted Bond	2,283,760,340	-	-	-	2,283,760,340	-
Financial investments – Available-for-sale	1,530,000	-	-	-	-	1,530,000
<b>Total assets</b>	<b>28,902,049,374</b>	<b>15,852,794,886</b>	<b>4,146,474,360</b>	<b>3,188,890,535</b>	<b>2,835,693,806</b>	<b>2,878,195,787</b>
<b>Liabilities</b>						
Due to banks	911,898,460	568,974,594	282,249,649	60,674,217	-	-
Derivative financial instruments	2,057,759	-	-	-	-	2,057,759
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
<b>Total liabilities</b>	<b>24,556,252,781</b>	<b>14,861,174,466</b>	<b>7,419,304,432</b>	<b>465,976,125</b>	<b>53,014,610</b>	<b>1,756,783,148</b>

**Group**

As at 31 December 2013	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
<b>Assets</b>						
Cash and balances with central banks	2,182,003,137	-	-	-	-	2,182,003,137
Sri Lanka government securities	2,443,884,920	2,277,334,747.62	134,919,723	-	31,630,450	-
Reverse repurchased agreements	1,442,352,168	1,439,290,251	3,061,917	-	-	-
Balances with banks	1,809,800,221	188,568,894	-	-	1,621,231,327	-
Derivatives of financial instruments	1,457,949	-	-	-	-	1,457,949
Financial assets held-for-trading	312,149,656	-	-	-	-	312,149,656
Loans and receivables to Banks	15,020,000	-	-	15,020,000	-	-
Loans and receivables to other customers	25,365,782,911	16,098,731,006	3,785,977,809	4,839,995,570	641,078,526	-
Financial investments – Available-for-sale	92,853,725	-	-	-	-	92,853,725
Financial investments – Held-to-maturity	109,698,992	-	-	109,698,992	-	-
<b>Total assets</b>	<b>33,775,003,679</b>	<b>20,003,924,899</b>	<b>3,923,959,449</b>	<b>4,964,714,562</b>	<b>2,293,940,303</b>	<b>2,588,464,468</b>
<b>Liabilities</b>						
Due to banks	192,429,486	77,096,619	39,476,117	75,856,750	-	-
Repurchased agreements	127,154,017	123,580,649	3,573,368	-	-	-
Due to other customers	29,462,270,834	15,995,319,386	11,029,577,882	419,851,880	73,576,609	1,943,945,075
Other borrowed funds	668,154,102	-	-	668,154,102	-	-
<b>Total liabilities</b>	<b>30,450,008,438</b>	<b>16,195,996,654</b>	<b>11,072,627,366</b>	<b>1,163,862,732</b>	<b>73,576,609</b>	<b>1,943,945,075</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

**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 NET INTEREST INCOME
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 POSSIBLES EXCHANGE RATE MOVEMENTS			
	5%	10%	15%
<b>IF EXCHANGE RATE MOVES DOWN</b>			
BANK TIER 01 RATIO	17.91	17.91	17.91
REVISED CAPITAL ADQ RATIO AS PER STRESS TESTING	17.906	17.902	17.899
UBC TOTAL CAPITAL ADQ RATIO	16.89	16.89	16.89
REVISED TOTAL CAP ADQ RATIO AS PER STRESS TESTING	16.8875	16.8839	16.8802

EXCHANGE RATE MOVES UP			
	5%	10%	15%
BANK TIER 01 RATIO	17.91	17.91	17.91
REVISED CAPITAL ADQ RATIO AS PER STRESS TESTING	17.913	17.917	17.92
UBC TOTAL CAPITAL ADQ RATIO	16.89	16.89	16.89
REVISED TOTAL CAP ADQ RATIO AS PER STRESS TESTING	16.8949	16.8985	16.9022



## NOTES TO THE FINANCIAL STATEMENTS CONTD.

### 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 obliger's inability 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

#### Bank and Group as at 31 December 2013

	ASIA Rs.	EUROPE Rs.	AMERICA Rs.	AUSTRALIA Rs.	TOTAL Rs.
<b>Financial Asset</b>					
Foreign Bank Balance	65,575,841	18,463,542	35,434,247	7,010,079	126,483,710
<b>Financial Liabilities</b>					
Foreign Banks (Nostro Overdrawn)	15,524,808	1,346,898	31,209,757	-	48,081,462

#### Bank and Group as at 31 December 2012

	ASIA Rs.	EUROPE Rs.	AMERICA Rs.	AUSTRALIA Rs.	TOTAL Rs.
<b>Financial Asset</b>					
Foreign Bank Balance	74,773,275	7,917,623	31,958,868	4,975,019	119,624,784
<b>Financial Liabilities</b>					
Foreign Borrowings	507,081,103	-	-	-	507,081,103
Foreign Banks (Nostro Overdrawn)	27,083,338	-	33,726,762	-	60,810,100

Except for the above, the bank does not carry any other Financial Asset or Financial Liability outside Sri Lanka.

### 50.6 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.

Please refer the Risk Management section of this Annual report for more information.

## NOTES TO THE FINANCIAL STATEMENTS CONTD.

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### 51. CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local banking supervisor, Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking supervision.

During the past year, the Bank had complied in full with all its externally imposed capital requirements. The consolidated financial statements include the financial statements of Union Bank of Colombo PLC, subsidiaries namely UB Finance Company Limited, National Asset Management Limited and the special purpose entity Serandib Capital (Pvt) Ltd.

#### Capital management

The primary objective of the Bank's capital requirement policy is to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders.

## QUARTERLY PERFORMANCE OF THE BANK 2013

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Rs.'000</b>				
Net Interest Income	317,183	262,299	341,809	234,424
Non interest income	120,172	260,857	134,976	147,356
Impairments	10,965	39,980	88,578	189,381
Less: Non - Interest Expenses	297,787	330,563	318,237	394,890
Operating Profit Before VAT and Corporate Tax	128,603	281,216	351,183	(202,490)
Operating Profit After Corporate Tax	62,968	189,372	226,759	(113,773)
Total Assets	32,276,470	34,603,753	35,028,003	35,010,962
Loans and receivables to other customers	21,961,497	23,940,061	23,085,587	23,461,925
Due to other customers	25,297,524	26,932,005	27,868,521	28,469,137
Equity Capital & Reserves	5,528,378	5,532,208	5,569,694	5,457,285
<b>Regulatory Capital Adequacy</b>				
"Core Capital Adequacy Ratio, % of Risk Weighted Assets (Minimum Requirement, 5%)"	20.03%	17.02%	17.31%	18.06%
"Total Capital Adequacy Ratio, % of Risk Weighted Assets (Minimum Requirement, 10%)"	18.79%	15.99%	16.29%	17.03%
<b>Assets Quality</b>				
"Gross Non-Performing Advances Ratio (Without Interest in Suspense)"	5.68%	5.68%	6.94%	8.24%
"Net Non-Performing Advances Ratio (Net of Interest in Suspense & Provision)"	5.34%	5.33%	6.50%	7.80%
<b>Profitability (Annualized)</b>				
Interest Margin	4.02%	3.54%	3.73%	3.51%
Return on Assets (After tax)	0.80%	1.40%	1.14%	0.32%
Return on Equity	4.58%	6.89%	5.48%	2.07%
<b>Regulatory Liquidity</b>				
"Statutory Liquid Assets Ratio (Minimum Requirement,20%)"				
Domestic Banking Unit	20.15%	20.66%	21.67%	22.01%
Off-Shore Banking Unit	21.84%	21.02%	21.14%	23.09%

## TEN YEARS AT A GLANCE

	2013 RS	2012 RS	2011 RS	2010 RS
<b>Operating Results</b>				
	SLFRS			
Gross Income	4,792,751,683	3,942,648,925	2,523,138,664	2,078,120,074
Interest Income	4,129,391,151	3,444,113,712	2,083,742,198	1,771,976,557
Interest Expense	2,973,676,442	2,211,052,866	1,102,214,847	997,841,287
Net Interest Income	1,155,714,709	1,233,060,846	981,527,351	774,135,270
Exchange Income	97,009,143	169,701,453	81,375,306	48,204,897
Other Income	566,351,389	328,833,760	358,021,160	257,938,620
Profit/ (loss ) before Taxation	148,693,932	559,237,254	534,028,312	412,841,729
Value Added Tax	42,268,878	96,262,603	82,784,786	104,850,021
Income Tax	(6,289,141)	149,330,531	143,550,243	158,194,702
Profit/ (loss ) After Income Tax	112,714,195	313,644,120	307,693,283	149,797,006
<b>Assets</b>				
	SLFRS			
Cash and Balances with Central Bank of Sri Lanka	2,134,479,401	2,445,611,385	1,887,571,088	1,092,431,525
Investment Securities	-	-	-	-
Sri Lanka government securities	2,442,111,038	1,632,053,657	1,006,065,002	2,434,526,632
Reverse repurchased agreements	1,349,743,147	601,312,663	245,126,821	1,852,604,648
Placements with banks	314,544,739	1,481,997,639	1,951,977,627	943,348,776
Derivatives of financial instruments	1,457,949	-	148,409	1,275,208
Financial assets held-for-trading	312,149,656	431,054,402	149,622,004	161,205,900
Bills of Exchange	-	-	-	-
Net Loans and Advances	-	-	-	-
Loans and receivables to other customers	23,461,925,446	20,024,729,288	17,292,929,045	9,919,464,662
Deep Discounted Bond	2,375,110,753	2,283,760,340	2,195,923,404	-
Financial investments – Available-for-sale	1,530,000	1,530,000	1,530,000	2,112,994,811
Financial investments – Held-to-maturity	109,698,992	-	-	-
Investments in subsidiaries	892,364,489	912,364,489	912,382,009	-
Goodwill and intangible assets	53,951,100	39,995,579	10,670,522	4,024,643
Property, Plant & Equipment	1,025,087,918	614,440,620	465,108,037	235,669,824
Current tax assets	94,514,640	-	-	-
Deferred Taxation	-	-	-	-
Other Assets	442,293,016	354,025,008	272,268,915	212,906,869
<b>Total Assets</b>	<b>35,010,962,284</b>	<b>30,822,875,070</b>	<b>26,391,322,883</b>	<b>18,970,453,499</b>
<b>Liabilities</b>				
Deposits				
Borrowings & Due to foreign banks				
Due to banks	163,448,473	911,898,460	380,999,451	320,824,567
Derivatives of financial instruments	-	2,057,759	1,912,522	1,130,820
Repurchased agreements	129,449,986	499,494,690	128,288,554	81,785,390
Due to other customers	28,339,687,162	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	23,963,712	37,703,479	19,661,352	5,884,454
Other Liabilities	897,127,471	728,371,164	885,385,524	538,351,472
<b>Total Liabilities</b>	<b>29,553,676,804</b>	<b>25,358,461,522</b>	<b>21,192,378,574</b>	<b>14,414,047,864</b>
<b>Shareholder's Funds</b>				
Share Capital	4,979,791,113	4,979,791,113	4,979,791,113	4,604,791,113
Reserves	477,494,367	484,622,435	220,213,619	(48,385,479)
<b>Total</b>	<b>5,457,285,480</b>	<b>5,464,413,548</b>	<b>5,200,004,732</b>	<b>4,556,405,634</b>
<b>Contingencies</b>				
Guarantees	3,320,762,103	4,561,468,438	3,046,794,128	2,540,197,217
Documentary Credit	1,068,369,433	1,618,464,283	1,057,390,906	1,175,259,265
Others	16,422,733,333	9,359,657,092	9,838,797,844	3,797,219,009
<b>Total</b>	<b>20,811,864,868</b>	<b>15,539,589,813</b>	<b>13,942,982,879</b>	<b>7,512,675,491</b>



2009 RS	2008 Rs.	2007 Rs.	2006 Rs.	2005 Rs.	2004 Rs.
2,052,704,053	1,935,829,061	1,311,123,307	1,000,773,915	705,687,077	597,218,322
1,855,783,799	1,750,332,385	1,155,289,418	851,527,221	606,702,899	504,210,559
1,392,872,704	1,387,000,585	912,902,139	591,520,173	447,056,713	342,510,341
462,911,095	363,331,800	242,387,279	260,007,048	159,646,186	161,700,218
39,728,046	44,404,151	36,530,449	32,396,218	23,793,826	26,135,448
157,192,208	141,092,525	119,303,440	116,850,476	75,190,352	66,872,315
180,451,783	112,104,760	60,316,076	115,413,441	22,118,048	28,658,027
46,468,715	36,659,428	19,351,651	30,565,802	8,267,796	6,329,955
71,842,056	52,343,464	27,548,269	33,732,854	8,229,697	9,260,858
62,141,012	23,101,868	13,416,156	51,114,785	5,620,555	13,067,214
1,396,635,110	2,144,048,967	1,855,471,509	1,524,976,488	1,805,826,818	1,288,714,717
2,848,257,103	2,350,343,067	2,032,421,349	1,961,317,620	1,894,804,039	1,830,335,683
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
330,734,648	121,274,375	111,750,401	114,255,785	164,734,810	57,542,686
7,189,589,535	7,367,482,120	5,835,916,796	4,918,345,967	3,987,249,510	3,206,098,905
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
201,581,378	163,031,569	114,236,432	86,709,807	88,047,596	95,979,320
-	-	-	-	-	-
39,182,113	65,762,470	89,116,311	99,038,775	107,904,756	-
352,605,675	299,212,971	414,270,269	317,101,045	338,796,830	184,433,879
14,306,149,188	12,679,354,059	11,160,179,679	9,058,346,864	8,449,017,515	6,700,301,649
11,963,995,607	10,492,076,858	8,932,543,714	7,807,072,788	6,866,717,047	5,623,655,755
92,396,759	92,983,345	130,543,576	148,044,309	204,015,507	228,226,882
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
650,982,544	613,330,591	766,730,991	356,284,525	705,787,904	440,266,565
12,707,374,910	11,198,390,794	9,829,818,281	8,311,401,622	7,776,520,458	6,292,149,202
1,813,170,000	1,757,500,000	1,630,000,000	1,060,000,000	1,036,666,600	885,000,000
(214,395,722)	(276,536,734)	(299,638,602)	(313,054,758)	(364,169,543)	(476,847,573)
1,598,774,278	1,480,963,266	1,330,361,398	746,945,242	672,497,057	408,152,427
3,552,649,733	2,633,841,926	1,822,445,064	1,251,473,265	977,271,801	968,959,310
458,399,214	280,735,267	418,912,792	508,218,821	344,605,325	540,906,447
1,614,871,192	862,033,930	865,210,194	498,548,041	469,033,573	354,922,729
5,625,920,139	3,776,611,123	3,106,568,050	2,258,240,127	1,790,910,699	1,864,788,486

## CAPITAL ADEQUACY

## Computation of Capital Adequacy Ratios - Basel 11 (Rs.'000)

	Bank				Group			
	2013		2012		2013		2012	
	Assets	Risk weighted Assets	Assets	Risk weighted Assets	Assets	Risk weighted Assets	Assets	Risk weighted Assets
<b>Risk-weighted Assets for Credit Risk</b>								
Claims on Central Government and Central Bank of Sri Lanka	2,900,863	-	3,220,194	-	2,902,636	-	3,220,194	-
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	741,028	223,400	2,198,826	449,819	756,048	227,910	2,200,051	450,064
*Rupee Exposures less than 3 months	300,000	60,000	1,556,721	312,146	300,000	60,000	1,556,721	312,146
*Foreign Currency Exposures less than 3 months	441,028	163,400	642,105	137,673	441,028	163,400	643,330	137,918
*Exposures more than 3 months (both rupee & foreign currency)	-	-	-	-	15,020	4,510	-	-
Claims on Financial Institutions	3,507,420	3,422,373	2,283,760	2,283,760	3,525,420	3,431,373	2,283,760	2,283,760
*Primary Dealers/Finance Companies	-	-	-	-	18,000	9,000	-	-
*Other Financial Institutions	3,507,420	3,422,373	2,283,760	2,283,760	3,507,420	3,422,373	2,283,760	2,283,760
Claims on Corporates	7,816,664	7,332,940	8,248,407	8,102,657	7,746,857	7,263,133	9,211,080	9,065,331
Retail claims	8,729,402	7,740,281	6,182,202	5,618,323	10,145,885	8,802,643	6,182,202	5,529,458
Claims Secured by Residential Property	636,264	478,607	435,049	217,525	662,604	491,777	215,058	107,529
Claims Secured by Commercial real Estate	2,467,894	2,467,894	1,606,399	1,606,399	2,467,894	2,467,894	1,957,808	1,957,808
Past Due Loans	685,334	1,012,009	695,879	1,035,437	714,665	1,041,340	695,879	1,035,437
Past Due Residential Mortgage Loans	354,688	343,998	158,719	148,169	623,989	478,649	432,815	421,030
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items	1,346,410	6,594	1,375,792	9,102	1,394,714	6,594	787,918	9,102
Other Assets	2,613,461	2,613,461	1,766,019	1,766,019	2,969,207	2,969,207	2,546,570	2,546,570
	31,799,428	25,641,556	28,171,246	21,237,210	33,909,920	27,180,518	29,733,336	23,406,090

	Credit Conversion Factor (%)	Bank		Group		Credit equivalent of Off-balance sheet items	Credit equivalent of Off-balance sheet items	Credit equivalent of Off-balance sheet items	Credit equivalent of Off-balance sheet items
		2013	2012	2013	2012				
<b>Off-balance sheet Items</b>									
<b>Direct Credit Substitutes</b>									
General Guarantees of Indebtedness	100%	547,167	547,167	580,298	580,298	547,167	547,167	580,298	580,298
<b>Transaction-related Contingencies</b>									
Performance Bonds, Bid Bonds & Warranties	50%	1,465,957	732,978	2,493,046	1,246,523	1,465,957	732,978	2,493,046	1,246,523
Others	50%	1,677,316	838,658	1,948,900	974,450	1,677,316	838,658	1,948,900	974,450
<b>Short-Term Self-Liquidating Trade-Related Contingencies</b>									
Shipping Guarantees	20%	571,132	114,226	312,475	62,495	571,132	114,226	312,475	62,495
Documentary Letters of Credit	20%	878,827	175,765	1,211,396	242,279	878,827	175,765	1,211,396	242,279
Trade related acceptances	20%	-	-	385,265	77,053	-	-	385,265	77,053
Others	20%	627,417	125,483	464,400	92,880	627,417	125,483	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>									
Formal Standby Facilities and Credit Lines	0%	463,800	-	-	-	463,800	-	-	-
Undrawn Term Loans	0%	1,536,015	-	-	-	1,536,015	-	-	-
Undrawn Overdraft Facilities/Unused Credit Card Lines	0%	2,942,967	-	1,934,220	-	2,942,967	-	1,934,220	-
Others	0%	189,542	-	407,068	-	189,542	-	407,068	-
<b>Commitments with an original maturity up to 1 year</b>									
Others (please specify)	20%	880,322	176,064	-	-	880,322	176,064	-	-
<b>Other Commitments with an Original Maturity of over one year</b>									
Undrawn Term Loans	50%	-	-	-	-	-	-	-	-
Others	50%	202,943	101,472	220,015	110,008	202,943	101,472	220,015	110,008
<b>Foreign Exchange Contracts</b>									
Original Maturity-less than one year	2%	1,221,762	24,435	542,099	10,842	1,221,762	24,435	542,099	10,842
		13,205,167	2,836,250	10,499,183	3,396,828	13,205,167	2,836,250	10,499,183	3,396,828

## CAPITAL ADEQUACY CONTD.

	Bank		Group	
	2013	2012	2013	2012
<b>Risk-weighted amounts for Market Risk</b>				
<b>Interest Rate Risk</b>				
General risk	1,694	174	1,694	174
Specific risk	-	-	-	-
<b>Equity Risk</b>				
General risk	29,179	38,830	36,486	39,312
Specific risk	28,837	38,647	35,920	39,129
<b>Foreign Exchange &amp; Gold Risk</b>	2,532	1,905	2,532	1,905
<b>Total Capital Charge for Market Risk</b>	<b>62,241</b>	<b>79,556</b>	<b>76,632</b>	<b>80,520</b>
<b>Total Risk-weighted amount for Market Risk</b>	<b>622,414</b>	<b>795,556</b>	<b>766,317</b>	<b>805,200</b>
( Total Capital Charge X 10 )				

	Bank		Group	
	2013	2012	2013	2012
<b>Risk-weighted Assets for Operational Risk</b>				
Average Net Income for last three financial years	1,516,230	1,372,969	1,446,328	1,487,477
<b>Deductions :</b>				
Realised profits from the sale of securities ( average of last three financial years )	-	15,111	-	15,111
Extraordinary / irregular item of income ( average of last three financial years )	-	-	-	-
Income from insurance ( average of last three financial years )	-	-	-	-
<b>Gross Income</b>	<b>1,516,230</b>	<b>1,357,858</b>	<b>1,446,328</b>	<b>1,472,366</b>
<b>Total Capital Charge for Operational Risk</b>	<b>227,434</b>	<b>203,679</b>	<b>216,949</b>	<b>220,855</b>
(Gross Income X 15%)				
<b>Total Risk-weighted amount for Operational risk</b>	<b>2,274,344</b>	<b>2,036,787</b>	<b>2,169,493</b>	<b>2,208,549</b>
(Total Capital Charge for Operational Risk X 10)				

	Bank		Group	
	2013	2012	2013	2012
<b>Risk-weighted assets for credit risk</b>	<b>25,641,556</b>	<b>21,237,210</b>	<b>27,180,518</b>	<b>23,406,090</b>
<b>Risk-weighted amounts for market risk</b>	<b>622,414</b>	<b>795,556</b>	<b>766,317</b>	<b>805,200</b>
<b>Risk-weighted amounts for operational risk</b>	<b>2,274,344</b>	<b>2,036,787</b>	<b>2,169,493</b>	<b>2,208,549</b>
<b>Total Risk-weighted Assets</b>	<b>28,538,314</b>	<b>24,069,553</b>	<b>30,116,328</b>	<b>26,419,839</b>

## CAPITAL ADEQUACY CONTD.

	Bank		Group	
	2013	2012	2013	2012
<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	58,948	53,299	63,292	53,299
Published Retained Profits/(Accumulated Losses)	203,187	285,042	(351,953)	(259,451)
General and Other Reserves	213,717	146,322	214,889	147,494
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)	-	-	273,526	201,137
Approved perpetual debt capital instruments	-	-	-	-
<b>Deductions/Adjustments-Tier 1</b>				
Goodwill/Net deferred tax assets	-	-	113,031	113,031
Net Deferred Tax Assets	-	-	496,256	-
Other intangible assets	53,951	39,995	294,545	292,835
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.	280,432	290,432	-	-
50% investments in the capital of other banks and financial institutions	10,182	21,376	12,948	32,689
<b>Total Core Capital</b>	<b>5,111,078</b>	<b>5,112,651</b>	<b>4,262,765</b>	<b>4,683,716</b>
<b>Supplementary Capital (Tier II)</b>				
Revaluation Reserves (as approved by CBSL)	-	-	-	-
General Provisions	-	94,219	-	94,219
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.	280,432	290,432	-	-
50% investments in the capital of other banks and financial institutions	10,182	21,376	12,948	32,689
<b>Eligible Tier II Capital</b>				
<b>Base Capital (Tier I + Tier II)</b>	<b>4,820,464</b>	<b>4,895,061</b>	<b>4,249,816</b>	<b>4,745,246</b>

**LIMITS :**

- (i) Approved subordinated Term Debt is limited to 50% of Total Tier 1 Capital.  
(ii) The total of Tier 11 Supplementary Elements should not exceed a maximum of 100% of Tier 1 Elements.  
(iii) General Provision should not exceed 1.25% of Risk Weighted Assets.

	Bank		Group	
	2013	2012	2013	2012
<b>Core Capital Ratio (Minimum Ratio - 5%)</b>				
Core Capital (Tier 1) x 100	511,107,832	511,265,086	426,276,474	468,371,583
Total Risk-weighted Assets	28,538,314	24,069,553	30,116,328	26,419,839
<b>Total Capital Ratio (Minimum Ratio - 10%)</b>				
Capital Base x 100	482,046,442	489,506,123	424,981,636	474,524,595
Total Risk-weighted Assets	28,538,314	24,069,553	30,116,328	26,419,839
<b>Core Capital (Tier 1) Ratio (%)</b>	<b>17.91%</b>	<b>21.24%</b>	<b>14.15%</b>	<b>17.73%</b>
<b>Total Capital Ratio (%)</b>	<b>16.89%</b>	<b>20.34%</b>	<b>14.11%</b>	<b>17.96%</b>



## GLOSSARY

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### 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

Tax expense 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.

### 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.

**GLOSSARY** CONTD.**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

## GLOSSARY CONTD.

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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

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### 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 the Companies Act No. 7 of 2007. Listed as a public quoted Company at the Colombo Stock Exchange. A Licensed Commercial Bank under the 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

### AUDITORS

Ernst & Young,  
Chartered Accountants  
No.201, De Saram Place,  
Colombo10

### BOARD OF DIRECTORS

Mr. Alexis Indrajit Lovell, *MBE* - Chairman  
Mr. Bodahandi Asoka Keerthi de Silva - Senior Director/ Deputy Chairman  
H R H Prince Faisal Al Abdulla Al Faisal Al Saud  
Dr. Liyanamohottige Joseph Sri Harsha Cabral PC  
Mr. Anil Suneetha Amarasuriya  
Mr. Kin Leong Chong  
Mr. Priyantha Damian Joseph Fernando  
Mr. Sunil Karunanayake  
Mr. Mohamed Hisham Sabry Ghouse  
Mr. Hiran Arjuna Suren Madanayake  
Mr. Hussain Imtiaz Muhseen

### ALTERNATE DIRECTORS

Mr. David Nigel Bartholomeusz  
Ms. Sow Lin Chiew

### BOARD SECRETARY

Ms. 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
Ambalatota	133/1, Hambanthota Road, Ambalantota.	047 2225642	047 2225641
Angunakolapelessa	Hungama Road, Angunakolapelessa.	047 2228500	047 2228501
Anuradhapura	38, Main Street, Anuradhapura.	025 2224888	025 2224890
Atchchuveli	Pathameny, Sannadhy Road, Atchchuveli.	021 2058650	021 2058651
Badulla	81, Bank Road, Badula.	055 2224657	055 2224697
Balangoda	29, Rest House Entry Road, Balangoda.	045 2289455	045 2289457
Batticaloa	03, Station Road, Batticaloa	065 2228512	065 2228514
Chilaw	50, Colombo Road, Chilaw.	032 2224556	032 2224557
Chunnakam	118, Sir P Ramanathan Road, Chunnakam.	021 2240930	021 2240932
Dambulla	723, Anuradhapura Road, Dambulla.	066 2285510	066 2285512
Embilipitiya	58, Main Street, Pallegama, Embilipitiya.	047 2230761	047 2230763
Galle	66, Matara Road, Pettigalawatta, Galle	091 2247307	091 2247256
Gampaha	06, Asoka Gardens, Colombo Road, Gampaha	033 2248812	033 2248813
Gampola	121, Kandy Road, Gampola.	081 2353785	081 2353783
Horana	41, Panadura Road, Horana.	034 2263156	034 2263178
Horowpathana	Rest House Junction, Trincomalee Road, Horowpathana.	025 2278558	025 2278557
Ja Ela	151/B, Colombo Road, Ja-Ela.	011 2228572	011 2228574
Jaffna	62/17, Stanley Road, Jaffna.	021 2224567	021 2224569
Kadawatha	315F, Kandy Road, Kadawatha.	011 2927716	011 2 928 816
Kebithigollewa	Padaviya Road, Kebithigollewa.	025 2298111	025 2298110
Kegalle	340, Kandy Road, Kegalle.	035 2223605	035 2223603
Kekirawa	21D, Yakalla Road, Kekirawa.	025 2265350	025 2265351
Kandy	165, D. S. Senanayake Veediya, Kandy.	081 2224500	081 2204611
Kollupitiya	51A, Ananda Coomaraswamy Mawatha, Colombo 03.	011 2565475	011 4717463

## BRANCH NETWORK CONTD.

Branch	Address	Telephone	Fax
Kotahena	16A, Kotahena Street, Colombo 13.	011 2448825	011 2440232
Kurunagala	11, Rajaphilla Road, Kurunagala.	037 2225419	037 2225423
Maharagama	140, High Level Road, Maharagama.	011 2088800	011 2088803
Mannar	66, Main Street, Mannar.	023 2251343	023 2251345
Marawila	44, Chilaw Road, Marawila.	032 225 2522	032 2252523
Matara	17, Station Road, Matara.	041 2228441	041 2228440
Matugama	121/B, Agalawatta Road, Matugama.	034 2248555	034 2248699
Minuwangoda	68, Veyangoda Road, Minuwangoda.	011 2299277	011 2299275
Moratuwa	729, Galle Road, Idama, Moratuwa.	011 2642501	011 2642504
Narammala	64, Kuliypitiya Road, Narammala.	037 2248710	037 2248733
Nawala	232, Nawala Road, Nawala.	011 2805814	011 4401417
Negombo	387, Main Street, Negombo.	031 2238229	031 2238208
Nugegoda	114, Stanley Thilakarathne Mawatha, Nugegoda.	011 2832323	011 2832301
Old Moor Street	330, Old Moor Street, Colombo 12.	011 2399994	011 2399996
Panadura	495, Galle Road, Panadura.	038 2237098	038 2237072
Pelawatte	966, Pannipitiya Road, Palawatta.	011 2785338	011 2785339
Pettah	215/53, Bodhiraja Mawatha, Colombo 11.	011 2321139	011 4627664
Piliyandala	71, Moratuwa Road, Piliyandala.	011 2606152	011 2606172
Ratnapura	109, Main Street, Ratnapura.	045 2 224 422	045 2224423
Trincomalee	306, Central Roal, Trincomalee.	026 2226 505	026 2226506
Vavuniya	124, Bazaar Street, Vavuniya.	024 2225612	024 2225614
Warakapola	238 B, Kandy Road, Warakapola.	035 2268226	035 2268227
Wattala	258, Negombo Road, Wattala.	011 2980731	011 2980732
Wellawatta	605, Galle Road, Colombo 06.	011 2553223	011 2553225
Wennappuwa	33, Colombo Road, Wennappuwa.	031 2253543	031 2253545

## NOTICE OF MEETING

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Notice is hereby given that the 19th Annual General Meeting of UNION BANK OF COLOMBO PLC will be held on 31st March 2014 at 1.45 p.m. at the Sri Lanka Foundation Institute of No. 100, Independence Square, Colombo 07 for the following purposes;

### 1. ORDINARY BUSINESS

- 1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st December 2013 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. Priyantha Damian Joseph Fernando 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 Dr. Liyanamohottige Joseph Sri Harsha Cabral 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 H.R.H. Prince Faisal Al Abdulla Al Faisal Al Saud 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 89 of the Articles of Association of the Bank Mr. Kin Leong Chong who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director.
- 1.6 To authorize the directors to determine donations for the year ending 31st December 2014 and upto the date of the next Annual General Meeting.
- 1.7 To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors and authorize the Board of Directors to determine their remuneration.
- 1.8 Presentation of reports of the performance on Human Resources and Remuneration Committee, Integrated Risk Management Committee, Nomination Committee and Audit Committee.
- 1.9 To consider any other business of which due notices has been given.

By order of the Board.



Nirossha Kannangara  
COMPANY SECRETARY

Date: 27th February 2014

### 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 Sri Lanka or failing him
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. 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 31st March 2014 at 1.45 p.m. at the **Sri Lanka Foundation Institute** of No. 100, Independence Square, Colombo 07. 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, Mr. Priyantha Damian Joseph Fernando 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 Dr. Liyanamohottige Joseph Sri Harsha Cabral 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 H.R.H. Prince Faisal Al Abdulla Al Faisal Al Saud 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 89 of the Articles of Association of the Bank Mr. Kin Leong Chong who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 1.5 of the Notice of Meeting.                               | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorize the directors to determine donations for the year ending 31st December 2014 and up to the date of the next Annual General Meeting as set out in Clause 1.6 of the Notice of Meeting.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors and authorize the Board of Directors to determine their Remuneration as set out in Clause 1.7 of the Notice of Meeting.  | <input type="checkbox"/> | <input type="checkbox"/> |

In witness my/our hand/s this ..... day of ..... Two Thousand and Fourteen.

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 he thinks fit.

**Please fill the details:**

Share Certificate No. /	:
CDS Account No.	:
Name	:
Address	:
Jointly with	:





Union Bank of Colombo PLC | 64, Galle Road, Colombo 03, Sri Lanka | Tel: +94 11 2374100 | [www.unionb.com](http://www.unionb.com)