

CONNECT AND GROW WITH US

**UNION BANK**

ANNUAL REPORT 2017



# CONNECT AND GROW WITH US

As your trusted banking partner of over two decades, we have continued to foster stronger relationships and deliver enhanced value to our stakeholders through sustainable and ethical banking practices.

While we continue to forge ahead as one of Sri Lanka's fastest growing commercial banks, we will strive to build on these relationships and leverage on our strengths of a solid capital base, comprehensive product portfolio, an empowered team, technological finesse and operational efficiency to create sustainable growth opportunities for all our stakeholders.

With a vision to become the innovator of banking solutions to the wider Corporate SME & Retail segments, Union Bank beckons you to connect and grow with us, whilst reaping the rewards of our pledge to 'make the rest of your life the best of your life'.



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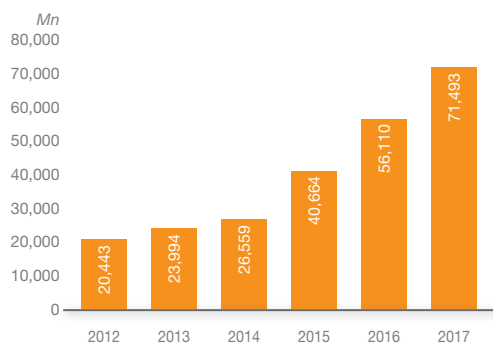
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## FINANCIAL HIGHLIGHTS

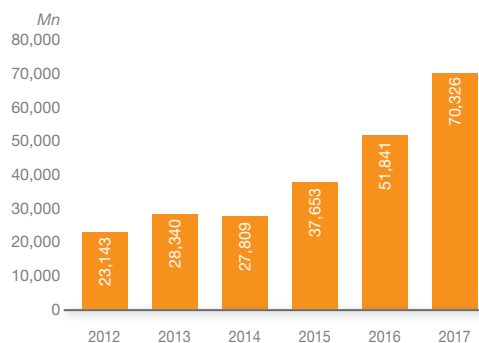
	2017	BANK 2016	Change %	2017	GROUP 2016	Change %
<b>Results for the year (Rs.'000)</b>						
Gross income	11,937,763	8,545,874	40%	13,899,368	10,143,971	37%
Total operating income	4,375,638	3,737,379	17%	5,261,280	4,578,460	15%
Results from operating activities	781,837	576,541	36%	1,025,536	838,813	22%
Net profit after taxation	460,618	451,180	2%	551,129	553,219	0%
Net profit attributable to equity holders of the bank	460,618	451,180	2%	514,776	504,126	2%
Gross dividends	109,141	109,141	0%	109,141	109,141	0%
<b>Assets and Liabilities (Rs.'000)</b>						
Gross loans and receivable to other customers	71,493,285	56,109,621	27%	80,645,569	64,105,186	26%
Due to other customers - Deposits	70,325,594	51,841,372	36%	76,747,977	57,525,156	33%
Total assets	119,007,408	93,008,509	28%	127,600,832	100,532,661	27%
Total liabilities	101,149,711	75,925,295	33%	109,759,116	83,567,269	31%
Total equity to equity holders of the bank	17,857,697	17,083,214	5%	17,437,454	16,608,813	5%
<b>Profitability (%)</b>						
Non-performing loans ratio	2.69%	2.40%		NA	NA	
Return on average shareholders' funds (%)	2.64%	2.65%		3.02%	3.12%	
Return on average assets after tax (%)	0.43%	0.55%		0.45%	0.57%	
<b>Information per ordinary share (Rs.)</b>						
Earnings - Basic	0.42	0.41		0.47	0.46	
Net assets value	16.36	15.65		15.98	15.22	
Market value as at 31 December	13.20	15.40		NA	NA	
Dividend	0.10	0.10		NA	NA	
Dividend yield (%)	0.76	0.65		NA	NA	
<b>Regulatory ratios (%)</b>						
<b>Capital Adequacy Ratio (%)</b>						
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.75%)	18.85%	NA		18.09%	NA	
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	18.85%	22.72%*		18.09%	19.33%*	
Total Capital Ratio (Minimum Requirement - 11.25%)	18.85%	22.09%*		18.09%	19.32%*	
<b>Liquid Asset Ratio (%)</b>						
- Domestic Business Unit	21.27%	22.02%		NA	NA	
- Foreign Currency Business Unit	21.13%	21.79%		NA	NA	

\* Capital adequacy ratio - comparative figures are reported based on Basel II

Gross Loans &amp; Receivables



Customer Deposits





### Vision

To be the innovator of banking solutions to the wider Corporate, SME and Retail 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.





### Organisational Profile

Established in 1995 as the 8th indigenous bank, Union Bank is amongst the highest capitalised private commercial banks in Sri Lanka, offering a wide range of products and services to Retail, SME and Corporate segments.

Listed in the Colombo Stock Exchange, Union Bank is synonymous with progressiveness and potential for growth and is an entity that has attracted global and local investors.

The global investment company TPG's investment of USD 117 Mn in Union Bank in 2014, acquiring 70% of the Bank's equity through its affiliate Culture Financial Holdings Ltd. marked a milestone in the financial services industry as one of the largest foreign direct investments to Sri Lanka. With a solid foundation etched with financial stability and international know-how, Union Bank is a full service bank offering a comprehensive range of products and services to financially empower individuals, entrepreneurs and corporates in Sri Lanka. Following the capital infusion the Bank implemented a cohesive plan for accelerated growth with substantial innovations and developments to its product offering, technological and delivery platforms with the view of providing a differentiated banking experience to its clientele.

Union Bank's growth is further augmented by the extensive investments made in network development initiatives. The Bank's fast growing network stands at 67 branches at present, provisioning unsurpassed service experiences to a diverse clientele across the island. The brick and mortar presence of the Bank is ably supplemented by alternate channels that include, dedicated sales forces for Asset and Liability products, a 24-hour call centre, a digital banking platform and a rapidly growing island-wide ATM network of over 100 bank owned ATMs and access to over 4,000 ATMs across Sri Lanka through LankaPay, providing our clients with convenient access to financial services.

Union Bank's renewed positioning as a fully-fledged commercial bank providing a comprehensive range of financial products and services is further enhanced, with its strategic diversifications within the financial services sphere. Union Bank's subsidiaries include National Asset Management Limited, Sri Lanka's premier Asset Management company and UB Finance Company Limited.

Delivering a unique value proposition and backed by the strength of TPG - the US based global private investment firm with over USD 70 Bn in capital under management and an extensive global network; today, Union Bank continues to expand its horizons as one of the fastest growing commercial Banks in Sri Lanka.

### About TPG

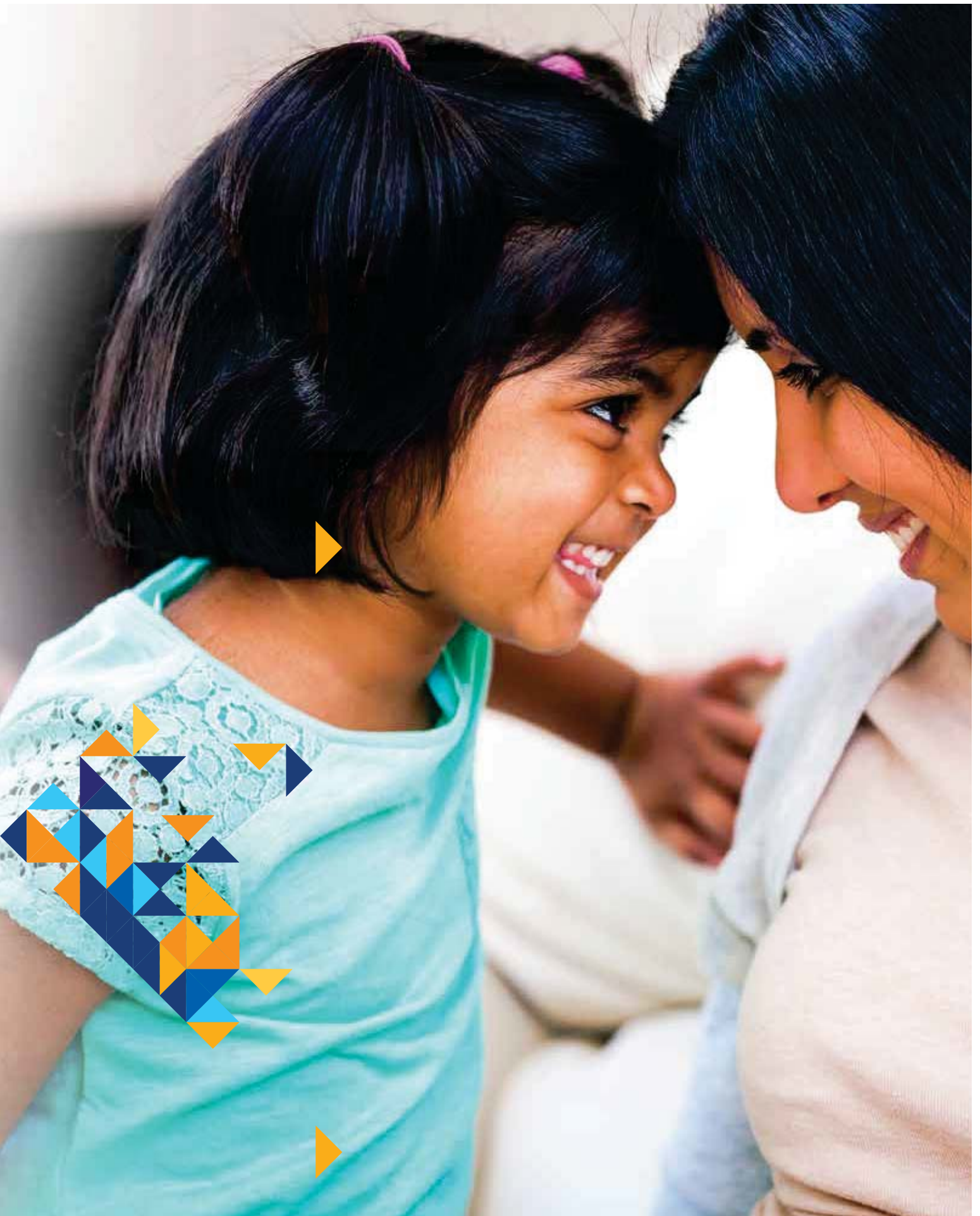
TPG is a leading global private investment firm founded in 1992 with over \$ 79 Bn of assets under management and offices in San Francisco, Fort Worth, Austin, Beijing, Hong Kong, Houston, London, Luxembourg, Melbourne, Moscow, Mumbai, New York, São Paulo, Seoul and Singapore. TPG has been present in Asia since 1994 and is currently investing out of its seventh Asia-focused fund. TPG has extensive experience with global public and private investments executed through leveraged buyouts, recapitalisations, spinouts, growth investments, joint ventures and restructurings. The firm's investments span a variety of industries including financial services, travel and entertainment, technology, energy, industrials, retail, consumer, real estate, media and communications, and healthcare.

## FOSTERING VALUE-BASED RELATIONSHIPS

We will continue to build long standing relationships with our customers, by delivering unsurpassed value through a gamut of products and services aptly designed to meet their diverse financial needs, be it personal or business related.







**Overview**

(GRI 102-4/102-50/102-51/102-52/102-54)

The report reviews the operations of the Bank and its subsidiaries during the financial year from 1 January 2017 to 31 December 2017, complying with all the due financial and non-financial requirements. The report precisely exhibits the Bank's strategy, operational performance and stakeholder management processes which contribute significantly to the Bank's sustainable growth journey to achieve its strategic objectives, within identified boundaries. Currently, the Bank functions only within the territory of Sri Lanka, and provides comprehensive range of financial solutions to its customer bases within the respective boundaries. Union Bank publishes its financial performance on an annual basis and the most recent previous report published was for the financial year of 2016.

This report has been compiled in conformity with the Global Reporting Initiative GRI guidelines for sustainability reporting and is presented "in accordance" Core. According to the GRI sustainability reporting guidelines, the Bank's prioritisation of GRI content aspects have been based on the principle of materiality and stakeholder inclusiveness. The GRI content index is set out in pages 152-153 of this report.

The financial statements appearing in this report have been prepared in accordance with the Sri Lanka Accounting Standards (LKASs/SLFRSs) in effect as at 31st December 2017, issued by the Institute of Chartered Accountants of Sri Lanka. The Bank operates in compliance with the requirements of the Company's Act no.07 of 2007, Banking Act and the listing rules of the Colombo Stock Exchange.

**Endorsement or Subscription to externally developed Charters and Principles**

(GRI 102-12)

In addition to all the relevant legal and regulatory frameworks and charters the Bank also endorses and or subscribes to the following,

- ▷ Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.
- ▷ The Global Reporting Initiatives for Sustainability Reporting (GRI)

**External assurance**

(GRI 102-56)

We have appointed M/s Ernst & Young Chartered Accountants, an independent external auditor to provide an assurance on the Bank's integrated sustainability initiatives and measures included in the report. The Board of Directors' recommendation is obtained in determining the external assurance provider and shareholders' approval has been obtained at the Annual General Meeting to appoint an independent external auditor.

**Reporting boundaries and material topics**

(GRI 102-48/102-10/102-46)

This report is basically about the performance of Union Bank's operations within the boundaries of Sri Lanka. Reporting is mainly focused on indicators that reflect on the Bank's performance against defined core sustainability focus areas such as economic, environmental and social impacts or that would influence the assessment and decisions of its stakeholders. The material assessment attached here, further reveals details on the material topics and setting of aspect boundaries with regard to each factor. There have been no restatements to the information provided in previous reports or to the scope and aspect boundaries.

There were no significant changes regarding the Bank's size, structure and ownership or its supply chain, including changes in the location of or changes in the operations, changes in the capital structure and other capital formation, maintenance, and alteration operations and changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination.

## REPORT PROFILE

**Material Topics & Boundaries**

(GRI 102-47/102-49/103-1/103-2/103-3)

The materiality is defined by considering the significant impact, which the Bank's operations impose on its internal and external stakeholders and the influences the Bank receives from externalities. The Bank's operations have been reviewed considering both financial and non-financial aspects in comparison with the previous year's assessment and no significant changes have taken effect to the materiality aspects which are being considered on this report. The significance of materiality aspects discussed herein are detailed below.

**Economic Performance**

Reasons for Materiality	Economic performance entails the organisation's considerations towards its stakeholders in terms of strategic decision making, which in turn enable the stakeholders to make long term employment decisions, investment decisions and partnering decisions with the organisation. This would generate impacts on both internal and external stakeholders and hence, the significance and relevance of economic performance being materialistic to the Bank.
Management Strategy	Measurement of performance would be through evaluation of annual goals and objectives set based on the budgeted performance for the year reviewed. Quantitative measures of this aspect are presented through the Key Performance Indicators, illustrated in pages 17-19. The Bank continues to place high significance to this aspect as it impacts the Bank's long term sustainable growth, and the performance is reported in line with the Sri Lanka Accounting Standards.
Evaluation Mechanism	Annual internal and external audits provide in-depth analysis on the performance of the Bank, and the assurance provided following the audit proceedings ensures that the Bank stands in accordance with statutory and regulatory compliance requirements and facilitates a space to recognise the Bank's achievement against the comparative competitor performances during the reporting year.

**Energy** (GRI 302-1)

Reasons for Materiality	Energy is recognised as an essential requirement to maintain uninterrupted, efficient organisational performance at pre-determined levels. The significance is high from both internal and external stakeholder perspectives, as the absence of energy would disrupt Banking operations and thus impact its performance while limiting its customers from carrying out their daily banking requirements in a timely manner.
Management Strategy	The Bank currently maintains a process to monitor energy consumption at selected locations and plans to extend this mechanism across its entire branch network, considering the significant impact in this aspect.
Evaluation Mechanism	With the implementation of the aforementioned management strategy for monitoring the energy consumption of the Bank, suitable evaluation mechanisms are being rolled out progressively.

## REPORT PROFILE

**Employment**

Reasons for Materiality	The Bank values its employees as important assets, as the experience and skills to provide required services to customers is of paramount importance to the Bank's performance. The Bank believes in selecting the right person for the right job, be it through internal or external resources.
Management Strategy	The annual head count planning exercise, which is aligned to the Bank's strategy provides direction regarding the roles that need to be resourced either internally or externally. The Bank follows a meticulous recruitment process to ensure that it provides career development opportunities to internal candidates through transfers and promotions. Further, the recruitment process is geared to select the best suited candidates with the required knowledge, skills and abilities. The management has established sound processes and policies to ensure that employment is provided to the most suited candidates whilst constant efforts are made to ensure that all employees are rewarded and compensated in par with industry standards. The Bank's HR policy guides the direction in respect to this aspect and the HR department stands responsible for successful implementation of specific HR activities of the Bank.
Evaluation Mechanism	The policies relevant to the selection of employees are periodically reviewed by the audit and compliance teams and recommendations are provided to address gaps, if any. The Bank also conducts an employee engagement survey and remunerations surveys periodically, to gauge employee sentiment and evaluate the positioning of the Bank against the market.

**Occupational Health & Safety**

Reasons for Materiality	Providing a safe and healthy environment for employees to work is of utmost importance to the Bank. The Bank has thus established systems and processes across all locations to ensure employees are confident of the security provided, so that they are able to perform at their best in their respective roles.
Management Strategy	The Bank has established security personnel and security devices such as CCTV cameras and access control across all locations, including the entire branch network. The Bank conducts regular fire-drills, whilst selected employees are trained as fire wardens and on basic first-aid skills periodically. In addition, all employees on the permanent cadre are covered by a personal accident, critical illness and life covers along with surgical and hospitalisation insurance as well as reimbursements of OPD bills. HR Department stands responsible to ensure the full implementation of employee wellbeing by aligning the grievance mechanism and the HR policy are in line with the industry norms.
Evaluation Mechanism	The effectiveness of fire-drills is periodically assessed to ensure the Bank's readiness to safeguard employees during an emergency situation. All security equipments are checked and maintained frequently. In addition, an annual review of the surgical and hospitalisation insurance service provider is conducted to ensure that the best facilities are extended to employees.

## REPORT PROFILE

## Training &amp; Education

Reasons for Materiality	The Bank believes in equipping its employees with the skills and tools necessary to perform in their respective job roles at an optimum, in a bid to gear them towards delivering a remarkable service experience to its customers. Hence, the Bank invests significantly in providing opportunities for employees to learn and grow within the organisation. The Bank further ensures that employees receive sufficient training and upgraded knowledge on product information, operational procedures and regulatory compliance, so that the Bank's interests with regard to good governance are preserved at all times.
Management Strategy	The scope for learning and development initiatives are reviewed annually and aligned to the Bank's strategy as well as regulatory requirements. The annual training budget is optimised to provide specific staff development interventions throughout the year. These interventions include internal training, external forums as well as selected overseas exposures.
Evaluation Mechanism	The effectiveness of internal training interventions is assessed by obtaining spot- feedback from employees subsequent to each training programme. The annual employee performance review exercise also allows the employee and line manager to highlight any particular training requirements needed during the year. This information is considered at the time of deciding on nominating employees for programmes or when designing learning interventions. Overall sentiments of employees regarding learning and development is also obtained through the feedback of the employee engagement survey.

## Customer Privacy

Reasons for Materiality	As one of the fastest growing commercial banks in Sri Lanka with a growing network of 67 branches, the Bank serves a significant number of customers each day - thus the significance of the materiality of this aspect. All banks have a legal duty to protect the confidentiality of existing and former customers under the Banking Act and the banks' responsibility for protecting customer data is continuing to grow in importance. External stakeholders would get adversely affected in the event customer information gets exposed to an unauthorised party, leading into breach of trust and confidence in the customers, which would bear a negative influence on the corporate image of the organisation.
Management Strategy	All bank staff are responsible to ensure the Bank's operations remain within the scope of the banking act and directions issued by the Central Bank. Further, the Bank has implemented processes and systems to ensure that customer confidentiality is safeguarded to the maximum from potential internal and external threats imposed.
Evaluation Mechanism	Reviews carried out by Internal Audit, Compliance department and Operational Risk Management teams ensure continuous evaluation of the Bank's processes and systems in place to safeguard customer confidentiality. Further, independent external audits on processes and systems add value to the evaluation mechanism.

## Diversity and Equal Opportunity

Reasons for Materiality	The Bank is committed to providing equal opportunities throughout an employee's career and encourages diversity in the workplace at all times. This enables a healthy work environment where diverse individuals bring in different skill sets and experiences.
Management Strategy	The Bank consistently encourages equal opportunity and diversity throughout the employee life-cycle. The Bank has also ensured that appropriate policies and processes are in place to provide employees with an environment where they are comfortable. The Whistleblowing Policy and the process for handling disciplinary issues and grievances ensure that the employees' best interest is maintained and respected at all times.
Evaluation Mechanism	Regular audits are conducted to ensure the aforementioned policies and processes are in place. Internal investigations are attentively conducted into any incidents which are reported. The management of the Bank has zero tolerance towards any form of discrimination and has ensured appropriate action is taken with due diligence, at all times.

### Non-discrimination

Reasons for Materiality	The Bank does not tolerate discrimination of any form. Being an organisation that fosters diversity and equality, the Bank believes in encouraging employees to accept and value each other's differences. Being a service oriented organisation, it is of importance that employees themselves foster an environment of non-discrimination as it has a direct bearing on how we treat our customers.
Management Strategy	As mentioned in the previous section, the Bank has policies and processes to handle grievances and disciplinary issues.
Evaluation Mechanism	All issues reported are investigated by the audit teams and all policies are reviewed periodically to ensure they are current and are supportive of the Bank's approach to prevent any form of discrimination.

### Other GRI Prospects (GRI 102-11/102-18/402-1)

According to the nature of services being facilitated, in order to establish a sustainable corporate entity, the Bank should ensure the social and environmental wellbeing through its direct and indirect commercial endeavours. The indirect phase may be applied through initiatives such as including the social and environmental criteria to the initial customer screening process and establishing a clear process for determining sustainable feasibility prior to launching new products and services in the forthcoming years.

All heads of departments and branch managers are responsible to overlook sustainability practices and ensure that the Bank's operations are aligned with industry accepted sustainability norms and practices.

All operational changes and significant designation variations are informed to the employees on a timely basis through a global mail. All significant operational changes are initially executed under a User Acceptance Testing (UAT) environment, and are implemented in a live environment subsequent to obtaining approval from respective authorities. Further, employment contracts of the Bank precisely disclose the terminating mechanism and notice periods have been imposed in due course, enabling employees to make informed decisions with regard to their profession.

### Material Topics

Significance to the External Stakeholders	H		22, 23	1,15,18, 31,32
	M		24	4,5,6,8,16, 19,20,33
	L	2,3,7,9,10, 11,12,13,14, 21,25,26,27, 28,29,30	5,6	17
		L	M	H
		Significance to the Internal Stakeholders		

Issues indicated in this area are of high significance and impact on both the stakeholders and the organisation. All indicators shown in this are fully discussed in the Annual Report.

Issues indicated in this area have a relatively moderate impact on our business. They too were addressed during the reporting period and are fully or partially reported in the Annual Report.

Issues found in this area of the grid have only minor impact thus may only be reported in the Annual Report.

## REPORT PROFILE

1. Economic Performance	18. Training and Education
2. Market Presence	19. Diversity and Equal Opportunity
3. Indirect Economic Impacts	20. Non Discrimination
4. Procurement Practices	21. Freedom Association and Collective Bargaining
5. Anti Corruption	22. Child Labour
6. Anti Competitive Behaviour	23. Forced and Compulsory Labour
7. Materials	24. Security Practices
8. Energy	25. Rights of Indigenous People
9. Water	26. Human Rights Assessment
10. Bio Diversity	27. Local Communities
11. Emissions	28. Supplier Social Assessment
12. Effluents & Waste	29. Public Policy
13. Environmental Compliance	30. Customer Health Safety
14. Supplier Environmental Assessment	31. Marketing & Labelling
15. Employment	32. Customer Privacy
16. Labour/ Management Practices	33. Socio Economic Compliance
17. Occupational Health and Safety	

**Contact** (GRI - 102-53)

With regard to concerns and clarifications on this integrated Annual Report, please contact:

The Chief Financial Officer  
 Union Bank of Colombo PLC  
 No. 64, Galle Road,  
 Colombo 03, Sri Lanka.  
 Tel: 0112374100  
 E-mail: info@unionb.com

To facilitate better engagement and formal feedback, an investor/ stakeholder can communicate through the feedback form attached on Page 303 in this report.

(GRI 102-40)

Creating sustainable corporate values





## STAKEHOLDER ENGAGEMENT

The table below illustrates how we engage with our important stakeholder groups (GRI 102-43/102-44)

Stakeholder	Engagement Method	Key topics /Issues raised	Responses / Action Plan	Frequency
Shareholders	<ul style="list-style-type: none"> <li>▷ Annual General Meetings</li> <li>▷ Investor feedback form</li> <li>▷ Publications and announcements through CSE</li> <li>▷ Access via email/ telephone</li> </ul>	<ul style="list-style-type: none"> <li>▷ Financial results</li> <li>▷ Strategy and goals</li> <li>▷ Enhancing shareholder wealth</li> <li>▷ Return on equity and share price</li> </ul>	<ul style="list-style-type: none"> <li>▷ Implementation of planned business strategy</li> </ul>	<ul style="list-style-type: none"> <li>▷ Quarterly /Annually</li> </ul>
Customers	<ul style="list-style-type: none"> <li>▷ One to one interviews and feed-back from customers who visit the Bank</li> <li>▷ Customer surveys</li> <li>▷ SMS alerts and call centre</li> <li>▷ Internet banking</li> <li>▷ Social media interaction</li> <li>▷ Official web site</li> </ul>	<ul style="list-style-type: none"> <li>▷ Relationship management</li> <li>▷ Products and services</li> <li>▷ Accessibility and reach</li> <li>▷ Return on investments and cost of borrowing</li> </ul>	<ul style="list-style-type: none"> <li>▷ Customer Charter</li> <li>▷ Seasonal offers</li> <li>▷ Investment in ATMs across Sri Lanka</li> <li>▷ Customer suggestions and recommendations approach</li> </ul>	<ul style="list-style-type: none"> <li>▷ Ongoing</li> </ul>
Employees	<ul style="list-style-type: none"> <li>▷ Town hall meetings</li> <li>▷ Open door policy</li> <li>▷ Circulars, email notifications</li> <li>▷ Employee survey by third party</li> <li>▷ Employee intranet</li> <li>▷ Exit interview upon resignation</li> </ul>	<ul style="list-style-type: none"> <li>▷ Career path and development opportunities</li> <li>▷ Work-life balance</li> <li>▷ Ethical employee practices</li> <li>▷ Talent management approach</li> <li>▷ Promotions and salary increments</li> </ul>	<ul style="list-style-type: none"> <li>▷ Adhering to the HR policy of the Bank</li> </ul>	<ul style="list-style-type: none"> <li>▷ Ongoing</li> </ul>
Society & Environment	<ul style="list-style-type: none"> <li>▷ Feedback forms</li> <li>▷ Call centre</li> <li>▷ Employee involvement in local community projects</li> <li>▷ CSR Projects</li> <li>▷ Registration of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>▷ SME development</li> <li>▷ Community development</li> <li>▷ Employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>▷ Focused SME lending practices</li> <li>▷ Green procurement practices</li> <li>▷ Funding towards relevant causes through CSR/ Sponsorships</li> <li>▷ Reduce wastage and energy consumption</li> </ul>	<ul style="list-style-type: none"> <li>▷ Ongoing</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>▷ Industry forums</li> <li>▷ Meetings with Central Bank</li> <li>▷ Reporting to the Central Bank and CSE to ensure compliance</li> </ul>	<ul style="list-style-type: none"> <li>▷ Compliance with the regulatory requirement</li> <li>▷ Mergers and acquisitions</li> <li>▷ Compliance with the Code of Best Practices</li> </ul>	<ul style="list-style-type: none"> <li>▷ Strengthening relationships with public and professional institutions</li> <li>▷ Monitoring and responding on time</li> </ul>	<ul style="list-style-type: none"> <li>▷ Monthly/ Quarterly/ and whenever required</li> </ul>

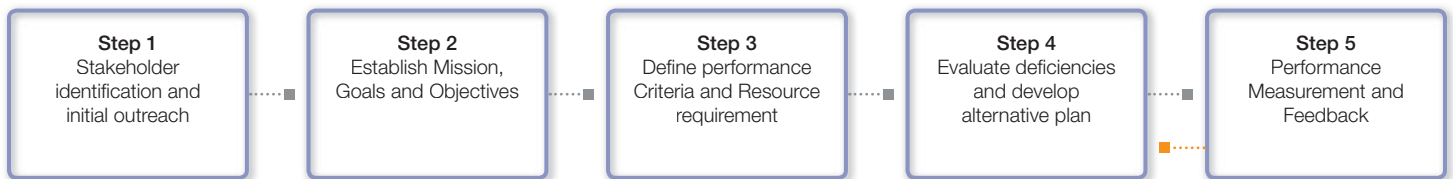
## STAKEHOLDER ENGAGEMENT

### Stakeholder Identification and Engagement Process (GRI 102-42)

As a financial services provider we regard stakeholder management as a strategic focus in the process of building a sustainable business and promoting good governance. All our stakeholders are considered as key partners that contribute to and witness the successive growth achieved over the years. In its stakeholder identification process, the Bank outlines its stakeholders along two main categories as described below;

- ▷ Primary stakeholders – direct beneficiaries and users of banking services (shareholders, customers and employees)
- ▷ Secondary stakeholders – intermediary and external authorities that bear influence over the banking activities (regulators, society and environment)

Both of the above segments relate to the stakeholder engagement process as follows;



### Feedback

We value your suggestions to help enhance our processes. To facilitate better engagement and formal feedback, an investor / stakeholder could communicate through the feedback form attached on page 303 in this report.

## ENVIRONMENT



Trees saved



36

KWH of electricity



8,440

Cubic meters of land fill



5.2

Oil litres



3,422

Water litres



61,773

Green house gas (kg) reduced



9,759

## EMPLOYEES



Per employee contribution to PBT



61%  
(Growth)

Employee composition ratio



1:1.7  
(Female : Male)

Growth in Work Force



75

## NETWORK



No. of Branches  67

On-Site/Off-Site ATMs  124

## SHAREHOLDERS



**ROE** 2.64%

**Dividend Yield** 17%  
(Growth)

## REGULATORS



Taxes Paid to the Government  398Mn

Taxes Collected on behalf of the Government  254Mn

## FINANCIAL



Result From  
Operating  
Activities



782Mn  
36% (Growth)

Profit  
Before  
Tax



534Mn  
23% (Growth)

Assets



119Bn  
28% (Growth)

Capital  
Adequacy  
Ratio



18.85%  
TIER 1 & TOTAL  
CAPITAL RATIO

Loans



71Bn  
27% (Growth)

NPA  
Ratio



2.69%

Deposits



70Bn  
36% (Growth)

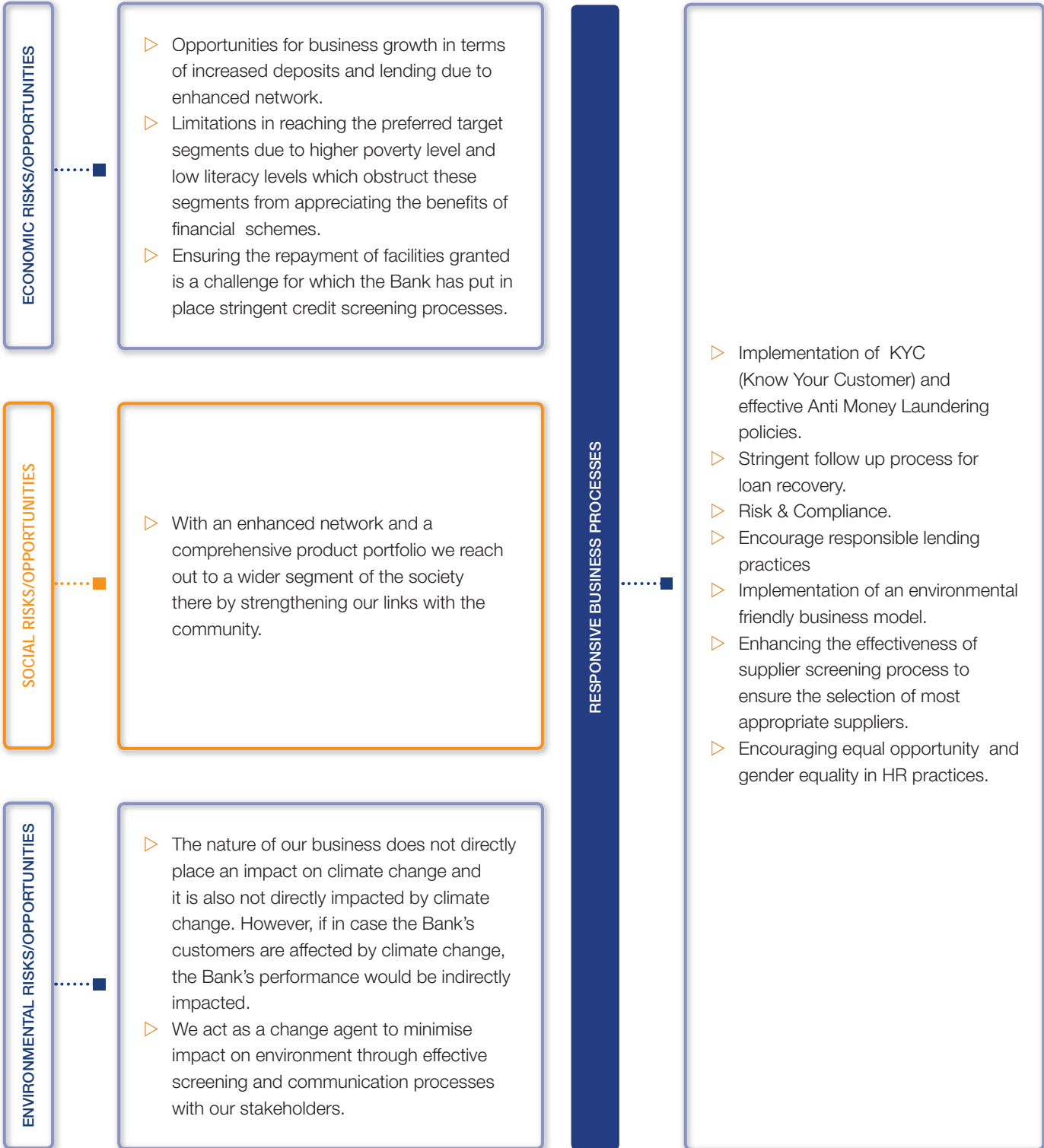
CASA



16Bn  
32% (Growth)

(GRI 102-15/201-2)





## DELIVERING ENHANCED VALUE

We will stay focused on producing enhanced value to all our stakeholders, ignited by a strategic vision that will deliver sustainable growth opportunities.









“The foundations on which this franchise has been built has been strong and the Bank is now poised to take advantage of the growth opportunities which this exciting market has to offer.

With a sound capital base and a focused strategic drive for smart deployment of capital, your Bank is geared to take advantage of these macroeconomic opportunities to create a more robust bank for the future.”

#### Operating in tough times

2017 was a challenging year for the banking industry of Sri Lanka. From a macroeconomic perspective consumer demand was relatively muted leading to slower loan growth, markets were volatile, credit quality was challenging and there were significant cost pressures as banks continued to make investments in initiatives like digitisation, compliance and distribution.

I'm pleased to state that your Bank endeavoured to deliver considerable value to its stakeholders amidst tough market conditions during the year under review. The collective performance of the Bank's Corporate, SME and Retail banking segments, contributed to a satisfactory core banking growth and portfolio expansion.

The year gone by marked the conclusion of Union Bank's three year strategic plan, put forward with the management change that occurred when TPG, one of the world's foremost private equity funds brought in capital to take management control of the Bank in late 2014. The foundations on which this franchise has been built has been strong and the Bank is now poised to take advantage of the growth opportunities which this exciting market has to offer.

Looking into 2018 and beyond, the prospects of Sri Lanka seems promising and with the national policy asserting its commitment to further fiscal consolidation and fast-paced reforms in 2018, the country is seemingly on a forward thrust towards growth and progress. With the National Budget 2018 slated to provide a host of policies geared towards reforms and tax simplification, this is indeed an exciting time to be doing business in Sri Lanka.

With a sound capital base and a focused strategic drive for smart deployment of capital, your Bank is geared to take advantage of these macroeconomic opportunities to create a more robust bank for the future.

#### Becoming the preferred Retail/SME and Transactional Bank

Beginning 2018 and beyond, we will continue to focus on building a bank that is responsible towards all our stakeholders. The three year strategy which will be rolled out in 2018 will place emphasis on creating a bank built on strong stakeholder relationships, as we aspire to be the preferred Retail/SME and Transaction Bank by 2020.

In 2018 and the ensuing three years, Union Bank will embark on a new growth trajectory in our preferred segments and strengthen our franchise value, while nimbly capturing opportunities and resolutely addressing challenges. The cohesive growth strategy of the Bank

## CHAIRMAN'S MESSAGE

**“Technology will be a key enabler in providing us with competitive advantage. We will leverage technology to innovate, to optimise usage of channels, to improve productivity and to create a superior customer experience. Our goal is not merely to satisfy our customers but to wow them.”**

will strive for market share growth in select customer groups to build scalable, profitable portfolios across Corporate, SME and Retail businesses. The key enablers for this ambitious growth will be our people, technology, risk management practices and our commitment to contribute to the real economy.

To drive the strategic priorities of the future, our people agenda will be intensified to acquire, nurture, and develop best-in class talent. We will continue to be focused on being a performance based meritocracy. We will continue to invest in learning and development opportunities for our people. We will ensure optimum utilisation of our group synergies to provide the right products to the right customer segments and also provide career opportunities for our people across the entire group.

Technology will be a key enabler in providing us with competitive advantage. We will leverage technology to innovate, to optimise usage of channels, to improve productivity and to create a superior customer experience. Our goal is not merely to satisfy our customers but to wow them.

The Bank's portfolio growth - however ambitious it may be, would be deeply grounded on good risk management and governance principles which will secure and safeguard the Bank's interests at all times.

Such concerted efforts to build scale, profitability and growth across our portfolios, customer bases and channels will be targeted towards the key objective of delivering true contribution to the country's economy and national economic growth. Placing distinctive focus on supporting SME growth, creating employment, sizing up national savings, and reducing inflation; your Bank will continue to support the national vision to make Sri Lanka an upper-middle income country, while our communal ethos of responsible corporate citizenship will resonate through the Bank's focused CSR strategy that would strive to protect and enrich the lives of children and youth - the cornerstones of Sri Lanka's future.

**Appreciation**

The Bank has received support from multiple stakeholders through the year 2017. The Central Bank, and particularly the Governor and the Deputy Governors, have provided sage counsel which has been greatly beneficial. Customers, the touchstone upon which the Bank's success is determined, have continued to place their confidence in the Bank and continued to build and strengthen relationships. Within the Bank, members of the Board of Directors, the former Chairman Mr. Jayendra Nayak and specially the Chairpersons and members of Board Committees, have provided sharp guidance which has charted the successful direction of the Bank's growth. To all these institutions and individuals, and many other counter-parties and well-wishers, I would like to record the Bank's deep appreciation of the support provided. In addition I would like to thank our shareholders, both retail and institutional, for reposing their trust in the Bank.

Finally, a big salute and thank you to the Union Bank employees for their efforts in making the most out of a tough year in 2017. The energy and the enthusiasm displayed at all levels of the Bank, the courtesies extended to our customers, and the excellent team-work, have been outstanding. Our employees continue to make our customers the cornerstone of whatever they do and I have no doubt in my mind that with such an outstanding team the Bank will live up to the expectations of all our stakeholders.



Atul Malik  
Chairman



“FY2017 ended a period of transformation and the implementation of a 3 year strategic plan that resulted in significant enhancements to the business model resulting in transformational growth in the Bank’s performance.

Our strategic aim is to be amongst the preferred Retail/SME and Transactional Banks by 2020 with greater focus on building relationships. Beginning 2018, we will achieve this by embarking on an enhanced growth trajectory in our preferred segments and strengthening our franchise value.”

Dear valued stakeholders,

#### FY2017 Performance round up

The 2017 financial year has been challenging and our business performance and financial results reflect some of the effects of these challenges.

The Bank’s top line growth was strong despite moderate economic activity, subdued capital market activities, extreme weather conditions and cautious consumer sentiments. Amidst a tough operating landscape, your Bank reported a Profit After Tax (PAT) of Rs. 461 Mn which was a 2.1% growth above December 2016 and a Profit Before Tax of Rs. 534 Mn which was a growth of 22.5% YoY. The Bank’s net worth increased significantly by Rs. 774 Mn reporting a 4.5% growth.

Corporate Banking reported good growth within the year, despite tough economic conditions that compelled corporates to take on rather conservative approaches to business expansion and investment. However, a focused strategy to drive growth across industries such as retail, construction, and services aided the Bank to maintain healthy growth prospects within this sector. Unfavourable weather posed a major threat to the SME segment especially affecting businesses in the agriculture sector. Through timely intervention and prevention strategies, the Bank was able to assist its SME clients to weather the challenges of the year. Retail Banking continued to grow at a healthy pace and contributed to the Bank’s core banking growth while expanding its portfolios across identified key segments including high net worth individuals, minors and employed professionals.

Net Interest Margin (NIM) compression stemming from unfavourable macroeconomic conditions that prevailed throughout the year, posed a challenge to the Bank’s bottom line performance. However, in an industry perspective Union Bank was able to drive a healthy credit growth and expand its loan portfolios across Corporate, Retail and SME segments. Loans and advances of the Bank stood at Rs. 70,578 Mn as at end December recording a growth of 27.3% YoY, as a result of a carefully executed strategy for building profitability and scale within the loan portfolio.

The drive for low cost funding remained a key strategic priority and the Bank’s liability book expanded by 33.2% within the year under review, an impressive growth compared to the industry growth rate of 7%. The Current and Savings (CASA) balances commanded a healthy growth of 32.0% despite consumer demand shifting towards longer term deposits. A higher contribution for CASA growth stemmed from the Bank’s Retail operations, aptly supported by Wholesale Banking which contributed 30.0% of CASA growth. The growth has also come in from an increase in payroll and cash management accounts acquired through the state of the art digital transaction management solution – Union Bank Biz Direct.

## CHIEF EXECUTIVE OFFICER'S MESSAGE

Asset quality continued to be a positive highlight of our performance. Timely risk management, selective lending strategies and overall efforts for maintaining a balanced portfolio, resulted in timely recoveries – a commendable feat to achieve in challenging times. The gross NPL ratios remained at 2.7% as at year end, in line with industry standards.

Union Bank reported significant growth in non-interest income and an increase in overall fee income through Cards, CASA related fees and other auxiliary businesses such as Bancassurance also contributed to the Bank's core banking growth during 2017.

In 2017, Union Bank continued to deploy strategic investments towards expansion of its distribution channels, bringing its systems up to speed and enhancing its workforce. The Bank invested in two new branches within the year under review while expanding the offsite ATM network as well as introducing a novel digital banking platform. Strategic investments in infrastructure, process and system enhancements along with investments in the development and acquisition of required skills of staff resulted in a rise in operating costs by Rs. 336 Mn within the year under review. Despite successful cost management efforts, subdued revenue growth coupled with higher taxes weighed on the bottom line. The Bank's cost-to-income ratio was 76.4%. However, we have remained proactive in the way we manage our expenses and investing for growth while achieving a balance in cost and operational efficiency remains a top management priority of the Bank.

Finally on capital management, our capital levels remain well above statutory requirements giving us further impetus to execute aggressive growth in the coming years. The sound capital base also supports the implementation of the proposed BASEL III and IFRS 9 requirements which will be major regulatory priorities in the coming year. Union Bank will continue to place sharp focus on capital allocation in preparation for anticipated growth plans that will allow us better returns in the years to come.

**Business plans and strategy - 2018 and beyond**

FY2017 ended a period of transformation and the implementation of a 3 year strategic plan that resulted in significant enhancements to the business model resulting in transformational growth in the Bank's performance.

Our strategic aim is to be amongst the preferred Retail/SME and Transactional Banks by 2020 with greater focus on building relationships. Beginning 2018, we will achieve this by embarking on an enhanced growth trajectory in our preferred segments and strengthening our franchise value.

The starting point of our strategy for the next three years is to identify the areas in which we want to grow. In light of this, the Bank plans to capture opportunities within the local market by building a business

model that delivers sustainable returns and growth, which in turn creates significant value for our stakeholders and adds value to our customers while supporting the development agendas of the nation. The strategic aim would be to build scales and franchised growth in target segments within the Retail, SME and Corporate Banking markets. There will also be focused efforts on winning in faster-growing segments as well as attaining leadership in key products.

To support our strategic priorities, a broader people agenda has been developed to ensure we are amongst the best employers. The strategy will also take into account the strengths of the group companies, with a focus on leveraging on the expertise of a finance company and a leading asset management company to offer a more comprehensive bouquet of financial solutions to serve a diverse clientele, thus distributing risks and synergising stability across the portfolios within the group. With the guidance of a learned Board of Directors, my corporate management team and I have placed critical focus and effort to develop our new three-year Group strategy, and I am pleased to report that the top management across the Bank has embraced the ambitious road map as we aspire to be the preferred Retail/ SME and Transaction Bank by 2020.

Using a cohesive growth strategy over the next three years, the Group plans to expand its market share in selected target segments. An immediate strategy is to unlock latent values across the organisation through reorganisation of resources, leveraging on our existing customer relationships to explore cross sell opportunities and exploring internal collaboration opportunities. A strategically focused unveiling of Credit Cards in 2018, will give us the much needed impetus to compete more effectively in the retail banking space.

In the next three years we will focus on key areas that are profitable and scalable and compete in products that would help us build long term relationships with clients. The Bank will enhance its corporate banking relationships while a focus on aggressive SME banking expansion will contribute to the national vision of empowering this vital sector. An active Treasury operations with focus on Fees, Foreign Exchange and Trading will continue to strengthen the Bank within these decisive three years of growth.

Using digital technology and data, the Bank would compete in niche markets within under penetrated segments that have not been served adequately. This will also support the Bank's aim to achieve channel optimisation and expand its reach in the most cost effective ways while delivering an exceptional service experience to its clients. Our focus on building economies of scale will help the Bank to manage operational cost increases while greater emphasis on Return on Equity (ROE) and Return on Assets (ROA) will drive the business lines towards profitable portfolio growth and selective acquisition tactics.

## CHIEF EXECUTIVE OFFICER'S MESSAGE

The Bank has also set clear goals and milestones to measure its progress, placing emphasis on building profitable and scalable businesses. Our strategy will also target value creation across the organisation, prioritising quick wins, monetising collaboration opportunities, improving funding costs, developing talent to build competency and increasing efficiency by streamlining operations and improving distribution productivity.

Our focused growth strategy will deliver a unique product-based value proposition to preferred customer segments. We will harness the power of digital transformation and use analytics to capture new sources of competitive advantage. Other key initiatives involve constant review of front and back office operating models, capital structure efficiency in products that can build relationships in Retail Banking and enhancing our brand visibility whilst continuously developing our people and culture and building a performance based organisation in which the high performers are aptly rewarded and recognised.

**'Connect and Grow' with us**

We understand that our customers' financial needs are constantly evolving. This is a welcome challenge at Union Bank as it opens up more opportunities for us to serve them better and in more innovative ways. We are investing to transform our digital banking capabilities; this will allow us to improve our efficiency and to respond better to our customers' expectations. We are committed to improving the customer experience and grow revenues while managing our cost structure. The Bank will place greater emphasis therefore in strengthening and nurturing our client relationships to help them connect and grow along with the evolution of the Bank within the next three years.

At Union Bank, we cherish the fact that our people are our most valuable asset. Recruiting and developing talented people is high on our agenda. Any business that wants to succeed must attract and keep the right employees to ignite growth, and we will stay focused to achieve this. We have infrastructure and capabilities in place, such as equipping our staff with critical training and development programmes, including job rotation to nurture and grow them professionally. As we steer towards our aspiration of being a preferred employer in the country, we would also ensure that our organisation and our culture are aligned to support our strategy. The Bank will look at realigning its business-critical functions and roles in order to optimise the talent within while recreating a working environment which is rewarding and nourishing.

Delivering augmented shareholder value will remain a top priority and to this portfolio profitability, stringent risk management and opportune deployment of capital will be critical areas in which the Bank will place continued emphasis on in the coming year and beyond.

As a responsible corporate citizen we would continue to comply and be guided by the regulatory standards while maintaining the highest levels of corporate governance possible within the organisation. Delivering on our promise to 'make the rest of your life the best of your life' Union Bank will engage with the communities in which it operates, while focusing on the empowerment of children and youth of the country in its corporate social responsibility agenda.

The course is now set for our next phase of growth. Looking into the future the prospects seem promising and I invite you to connect and grow with us as we turn on another exciting page in our story of evolution and growth.

**Appreciation**

Our journey in 2017 would not have not been possible without the support of our stakeholders, especially our valued clientele who have continued to place their confidence in us and built stronger relationships with us.

I extend my sincere gratitude to the leadership team, management and staff members at all levels who have played a pivotal role in successfully implementing the strategic objectives, and extending their commitment and support especially during this important phase of growth of the Bank.

My grateful thanks to our former Chairman Dr. Jayendra Nayak, for the guidance and counsel provided to the Board and to me personally in building a strong foundation for the Bank, following the landmark investment by TPG in 2014. I would like to record my sincere thanks to the current Chairman Mr. Atul Malik, Deputy Chairman, and members of the Board of Directors for their unstinted support and guidance throughout the year.



**Indrajit Wickramasinghe**  
*Director/ Chief Executive Officer*



## DELIVERING ENHANCED CONVENIENCE

We will connect and grow across cities and backvelds, serving our clients island-wide through their channel-of-choice. Our inclusive channel strategy enlivened by automated channel growth and digitalisation will deliver greater convenience, while our brick and mortar presence will continue to convey a caring service experience.







Our business model (GRI 102-2/102-6)



The year 2017 saw Union Bank further building on the strong fundamentals that were laid during the previous two years, to maintain its robust growth momentum despite the challenging macroeconomic conditions that dominated the year.

#### MACROECONOMIC REVIEW

##### Sri Lanka's macroeconomic overview

Sri Lanka's economy saw a number of key developments during the year with improving macroeconomic fundamentals indicating that, albeit at a slow pace, the reforms are on the move. This is, in spite of the unfavourable changes in the global political landscape and severe weather conditions - droughts, floods and tropical storms - which had a widespread impact on the domestic economy as a whole. With the national policy asserting its commitment to further fiscal consolidation and fast-paced reforms in 2018, the country is moving forward with the Extended Fund Facility (EFF) programme offered by the International Monetary Fund (IMF).

With the severe adverse weather conditions crippling the agrarian sector, the Central Bank of Sri Lanka (CBSL) predicted economic growth to register within the 4.0-4.5% range in 2017 -close to the 4.4% growth seen in 2016. During the first nine months of the year, the economic growth moderated to 3.7% from the 4.0% seen during the same period in 2016. This is largely on the back of a poor performance in the Agriculture sector, which contracted by 3.2% owing to adverse weather conditions. Regardless, healthy growth in the Services sector continued to drive overall GDP growth, which rose by 4.2%, due to increased activity in Financial Services and Telecommunications as well as Wholesale and Retail trade. The Industrial sector also contributed positively to overall economic growth, recording a 4.5% increase during the same period, supported largely by robust growth in the Construction, Mining and Quarrying sectors. The CBSL expected growth to be driven by the Industrial and Services sectors in the latter part of 2017 as well, along with modest recovery in the Agriculture sector.

Following the decision by the Department of Census and Statistics (DCS) to rebase the Colombo Consumer Price Index (CCPI) from 2006/07 to 2013, the headline inflation recorded a considerable acceleration, remaining at around 6-7% and reaching a high of 7.8% year on year (YoY) in October 2017. This was largely

attributed to the impacts of the tax revisions reintroduced in late 2016 and the adverse weather conditions disrupting food supplies in the domestic market. By end of November, food inflation recorded a 13.8% YoY growth, while non-food inflation rose 5.0% YoY. In contrast, core inflation observed an overall declining trend through most of the year, moderating to 5.2% YoY in November from the 7.3% YoY record high reached in March.

In an effort to curb rising excess credit demand and keep inflation in check, the CBSL continued monetary tightening in 2017 as well. Despite the high interest rate environment, credit to the private sector continued to be on its high-paced growth rate, rising at around 20% YoY in the first four months of the year. Accordingly, the CBSL effected another policy rate hike of 25 basis points in March. This saw credit growth moderating slightly to 18% YoY from May onwards. The CBSL expected the credit growth to moderate further towards end 2017. In absolute terms, however, credit growth remained strong, increasing by Rs. 454.7 Bn for the first 3 quarters of the year.

Sri Lanka's Balance of Payments (BOP) improved considerably in 2017, recording a surplus of USD 2,027 Mn during the first nine months, notably higher than the USD 243 Mn seen during the corresponding period in 2016. This was largely due to higher capital inflows to both the CSE and government securities market that reflected improved investor sentiment, despite the deteriorating trade balance. However, the growth in tourism earnings and workers' remittances showed lacklustre performance in 2017. Although the slowdown of tourist arrivals during the first few months of the year was attributed to the renovations of the Bandaranaike International Airport, poor climate conditions coupled with the spread of Dengue epidemic saw tourist earnings further reduce towards the remainder of the year - registering a mere 2.9% YoY growth in the first three quarters of 2017 compared to the 14.6% YoY increase recorded during the same period in 2016. Meanwhile, workers' remittances reported a 7.4% YoY contraction over the first nine months of the year, which is largely attributed to the unexpected geopolitical tensions that arose in the Middle East. Regardless, the gross official reserves strengthened during the year from the lows of USD 5.4 Bn in January to USD 7.3 Bn by end November, supported by the issuance of a USD 1.5 Bn dual-tranche sovereign bond and inflows from the IMF EFF agreement.

The deficit in the trade account widened by 11.7% in the first nine months of 2017, as the 8.2% YoY improvement in export earnings was outdone by expanding import expenditure. Exports growth was mainly led by an increase in Tea exports owing to higher prices in the international market. It was also supported by increased access to the European Union market following the lifting of the fish exports ban and regaining of the GSP+ concession. Accordingly, Textiles

## MANAGEMENT DISCUSSION AND ANALYSIS

and Garments as well as Spices exports saw significant growth during the period. Increased fuel imports for coal and thermal power generation under the drought conditions was the primary cause for the acceleration in the import expenditure, while higher rice imports to meet domestic market shortages also contributed significantly. Nevertheless, imports of vehicles recorded a contraction due to the measures taken to curtail vehicle imports, and the growth in Investment Goods imports remained subdued. Foreign Direct Investments (FDI) witnessed a sizable improvement in the first half of 2017, reaching USD 711 Mn, compared to the USD 293 Mn in the same period in 2016.

The first half of 2017 saw some depreciatory pressure on the Sri Lankan Rupee (LKR), owing to net foreign fund outflows from local government securities market and high debt repayments. However, these pressures eased off towards the latter half of the year along with the return of foreign inflows and reduced debt repayments, enabling CBSL to maintain a more flexible exchange rate regime. Most emerging markets experienced strong inflows to their respective equity markets in 2017. The Colombo Stock Exchange witnessed a similar trend with year to date (YTD) net foreign inflows reaching approx. Rs. 19 Bn by end November 2017. In contrast, the experience of the All Share Price Index (ASPI) has been more tumultuous with the index recording a +2.0% YTD return as at 26th December 2017.

Looking ahead, the Budget for 2018 is slated to bring a host of policies geared towards reforms, liberalisations and tax simplification which are expected to drive the national economy along a positive growth trajectory.

#### Global economic overview

The IMF forecasts updated in October, for global economic growth of 3.6% in 2017 and 3.7% in 2018, represents some upward momentum from the 3.2% seen in 2016. While 2017 began with the political uncertainties of a Trump presidency in the USA and a number of elections in Europe, the global economy had performed better than expected in the first half of the year, compelling the IMF to slightly upgrade its forecasts. Thus, the IMF has upgraded economic growth prospects of advanced economies to 2.2% in 2017. Similarly, emerging market and developing economies have been upgraded to 4.6% in 2017 and 4.9% in 2018.

In its latest Regional Economic Outlook report, the IMF forecasted the Asia-Pacific region to grow at a rate of 5.6% in 2017 and 5.5% in 2018, with higher growth in China, Japan, South Korea, and ASEAN economies helping to compensate for the weaker outlook in Australia and India.

The Chinese economy is predicted to show relatively robust growth in 2017, growing at 6.8%. But growth is predicted to slow down to 6.5% in 2018, most likely in line with the national policy for transition to an economy with a focus on quality over numbers.

The year has been positive in terms of foreign capital inflows to Emerging Markets (EMs). According to the Institute of International Finance (IIF), total capital inflows to developing economies would exceed \$ 115 Bn in 2017, a partial reversal from the \$ 550 Bn outflow last year.

The US Federal Reserve has carried out three quarter point rate hikes in 2017 and started off its balance sheet shrinking process, leading the way in what is being called monetary policy normalisation. Normalisation in the sense of bringing to an end the extraordinary monetary stimulus policies enacted following the 2008 financial crisis. The European Central Bank (ECB) has announced that its bond buying programme will continue until September 2018, but has been cut by half in terms of the quantity of monthly bond purchases.

The end of easy monetary policy has raised concerns about changes in investor behaviour in the coming years. But so far, the forward guidance given by major central banks has prevented markets from returning to a 2013 'taper tantrum' like scenario. Going forward, markets are likely to look carefully at the possible impacts of these changes with the US Fed projected to carry out 3 to 4 rates hikes in 2018.

Oil prices have been on an overall upward trajectory this year, breaching the \$60 mark and reaching two-year highs in November and December. The price recovery from the lows seen in recent years has been largely driven by the production limitation agreement between OPEC and major non-OPEC oil producers, put in place to curb the supply glut in the market. In recent months, the upward movement has been aided by geopolitical tensions in the Middle East. However, price gains have been capped by increased output from the US shale oil sector and increased US petroleum exports. Going forward, the price outlook is likely to depend on US oil output, geopolitical tensions, compliance on the production limits and demand from economies like China and India.

#### Sri Lanka's financial services industry overview

The measures taken by the CBSL in 2016 to tighten monetary policy to address the issues arising from high credit growth bore fruit in 2017 with a slowdown in domestic credit demand being observed during the period. Banks recorded a 20.6% YoY growth in total loans and advances in the first eight months of 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the CBSL tightened monetary policy in March with the aim of curbing excess credit growth in particular. Since then, the Monetary Board has held policy rates despite the IMF noting the uptick in inflation and continuing high absolute credit growth, albeit at a slower pace. This has been largely due to the challenging environment for consumer demand which is reflected in the low GDP growth recorded over the first three quarters of the year and the supply related drivers of inflation, amidst severe weather conditions.

Term loans continued to dominate the loan books of the banks, while the overdraft category too saw an expansion, while leasing experienced only a marginal increase over the same period due to macro prudential measures such as tighter Loan to Value Ratios which were introduced in early 2017. Sectors such as construction, trading and manufacturing absorbed a significant portion of bank lending.

Profitability of the sector during the first eight months improved, supported by improvements in both Net Interest Income and Non-Interest Income. The ROA and ROE ratios improved accordingly to 2.0% and 17.6%, from 1.9% and 16.9% respectively, compared to the corresponding period in the previous year.

The banking sector added 19 new branches during the first six months of the year, along with 335 new ATM machines.

The Banks' asset base growth continued to be fuelled by the deposit base expansion, which amounted to an increase of Rs. 767.9 Bn during the first eight months of the year, corresponding to a YoY growth rate of 20.6%. Deposit growth was primarily accounted for by term deposits and savings deposits, while demand deposits dipped over the same period. Overall, the CASA ratio deteriorated further during the period ending August 2017.

#### Asset quality under greater stress but remains stable

Asset quality of the banking sector came under greater stress, partly driven by the tighter monetary stance adopted by the regulator. In line with this, Total Non-performing loans (NPLs) increased by Rs. 26.8 Bn during the first eight months of 2017. Nevertheless, the Gross NPL ratio recorded only a marginal increase from 2.6% (as at end December 2016) to 2.8% by end August 2017 and hence continues to remain at relatively low levels compared to the past.

#### Recent developments in the sector

The key challenge for Banks in the short to medium term would be with regard to fulfilling a number of regulatory requirements that would come into effect in the ensuing years.

In October 2017, the CBSL announced a minimum capital requirement for all existing domestic Licensed Commercial Banks (LCB's) to be Rs. 20 Bn by the end of 2020. The corresponding capital requirements for Licensed Specialised Banks (LSB's), foreign banks with assets up to Rs. 100 Bn and foreign banks with assets over Rs. 100 Bn are Rs. 7.5 Bn, Rs. 5 Bn and Rs. 10 Bn respectively. This has been done to support the implementation of the Basel III framework in Sri Lanka where banks are required to adhere to higher hurdle rates of capital adequacy requirements. With stringent capital requirements coming into play, capital raising activities are likely to be a focus for banks in the near term.

Another key development of the sector would be the implementation of the SLFRS 9 accounting standards which came into effect on January 1st 2018. The most significant impact of the standards is expected to be on the loan provisioning as the standards broaden the factors that are to be looked at in terms of credit loss and banks would be required to provide for future non-performing loans under the new Expected Credit Loss (ECL) model. Going forward it's anticipated that the Banks would be required to develop the necessary institutional knowledge and systems capabilities in order to fully adhere to the requirements of SLFRS 9.

## FINANCIAL PERFORMANCE REVIEW

## Bank's Performance

- ▷ Net Interest Income up 21.5% YoY to Rs. 3,046 Mn
- ▷ Net Fee and Commission Income up 17.1% YoY to Rs. 673 Mn
- ▷ Total Operating Income grew by 17.1% YoY to Rs. 4,376 Mn
- ▷ Results from Operating Activities grew by 35.6% YoY to Rs. 782 Mn
- ▷ Total Assets grew by 28.0% YTD to Rs. 119,007 Mn
- ▷ Net worth increased by Rs. 774 Mn YTD
- ▷ Strong Balance Sheet with Total Capital Adequacy Ratio at 18.9%

## Group Performance

- ▷ Net Interest Income up 22.6% YoY to Rs. 3,702 Mn
- ▷ Net Fee and Commission Income up 11.5% YoY to Rs. 827 Mn
- ▷ Total Operating Income grew by 14.9% YoY to Rs. 5,261 Mn
- ▷ Results from Operating Activities grew by 22.3% YoY to Rs. 1,026 Mn
- ▷ Total Assets grew by 26.9% YTD to Rs. 127,601 Mn

2017 was another challenging year for the Bank from an operational perspective, given the continuous uncertainty that prevailed in the local markets due to economic volatility experienced during the year.

Deposit interest rates continued to remain high and cost of funds was seen as a challenge impacting the net interest margins of the Bank. AWPLR remained flat in comparison to a 11% increase in AWDR. While the Rupee depreciated Treasury Bill rates fluctuated during the year showing a point to point reduction in 3 months Treasury Bills from January to December.

Despite the volatile macro environment the Bank performed exceptionally well in 2017 resulting in a 35.6% increase in results from operating activities to Rs. 782 Mn in comparison to Rs. 577 Mn recorded in 2016. Gross Income of the Bank improved by 39.7% to Rs. 11,938 Mn in comparison to Rs. 8,546 Mn recorded in 2016. Income growth of the Bank in 2017 was mainly driven by the core banking operations. This highlights the Bank's continuing progress in its swift transition to a fully-fledged Commercial Bank with a wider focus on Retail, Corporate and SME sectors. The impressive results, reflect the success of the rapid expansion initiatives, implemented by the Bank following the capital infusion made in the latter part of 2014.

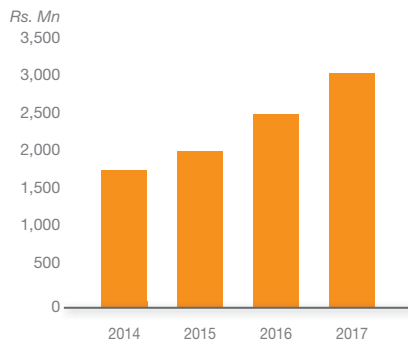
Effective tax rate of the Bank increased significantly year on year (YoY) due to the change in the asset mix. Profit from exempted sources as a percentage fell significantly in comparison to 2016. Profit after taxes of the Bank for the year is Rs. 461 Mn. Net assets value per share of the Bank improved to Rs. 16.36 from Rs. 15.65 in 2016. Total assets of the Bank grew by 28.0% to Rs. 119,007 Mn in comparison to Rs. 93,009 Mn in 2016.

Profit after tax of the group is Rs. 551 Mn. Net asset value per share of the group improved to Rs. 15.98 from Rs. 15.22 in 2016. Total Assets of the Group grew by 26.9% to Rs. 127,601 Mn in comparison to Rs. 100,533 Mn in 2016.

## Financial Indicator

## Performance

## Net interest income



The Net interest income of the Bank recorded Rs. 3,046 Mn during the year, significantly improving by Rs. 539 Mn which translates to an increase of 21.5%.

Rise in Net interest income was mainly driven by the balance sheet growth of the Bank.

Net interest margin marginally dropped YoY to 2.9% from 3.1% in 2016. This is mainly due to the increased investments in unit trust investments of which the return is recorded as a capital gain under trading income. Carrying cost of units are recorded in the interest expense of the Bank.

Despite the increase in deposit cost at a faster pace the Bank managed to hold the overall spreads at the same levels in comparison to 2016. Despite a CASA growth of 32% a decline in average CASA ratio to 22.0% from 23.1% was one of the key reasons for increase in the overall cost of funds.

Financial Indicator	Performance
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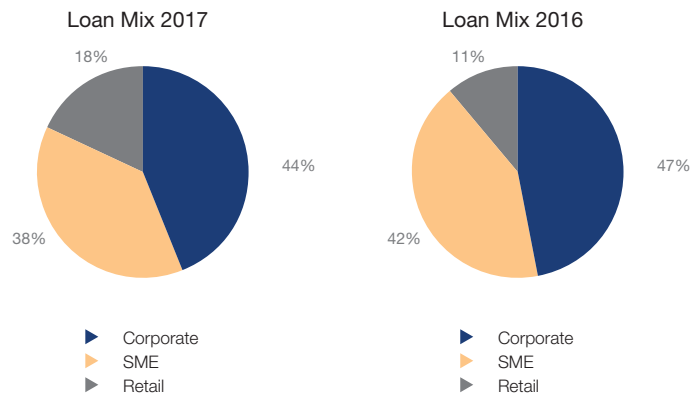
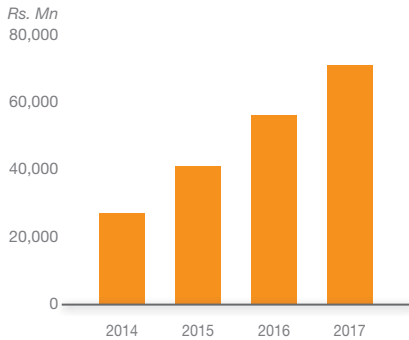
**Loans & receivables**

The Bank's loans and receivables stood at Rs. 70,578 Mn as at the end of 2017. This was a growth of Rs. 15,140 Mn which translated to a healthy increase of 27.3%.

Composition of the loans and receivables of the Bank changed in line with the Bank's strategy for the year.

Loan book is primarily led by Corporate loans, followed by SME and Retail. However, the growth was up kept by Retail loans followed by Corporate and SME. Retail growth was navigated by higher focus on personal loans followed by mortgage backed loans.

Retail banking share increased to 18% from 11% of the previous year. As at the end of the year loans and receivables mix stood as follows:



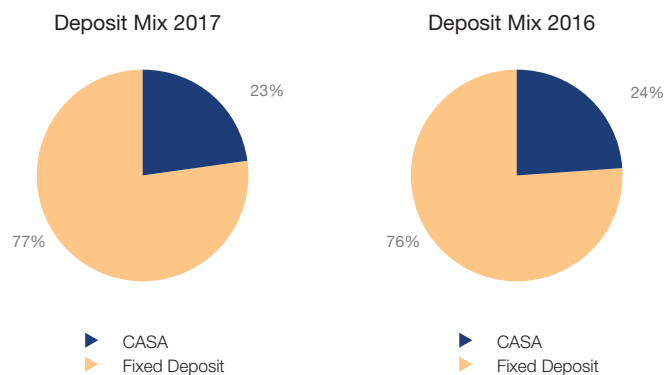
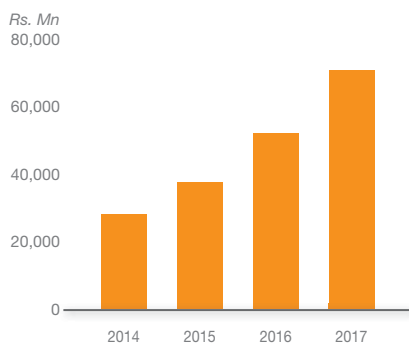
**Deposit base**

The Bank's deposit mobilisation strategies yielded good results with deposit base of the Bank standing at Rs. 70,326 Mn along with a growth of Rs. 18,484 Mn which is an impressive 35.7% increase in 2017.

Much of this growth is steered by retail fixed deposits growth of Rs. 13,284 Mn, a 58.7% growth over the previous year, driven primarily by the Elite channel.

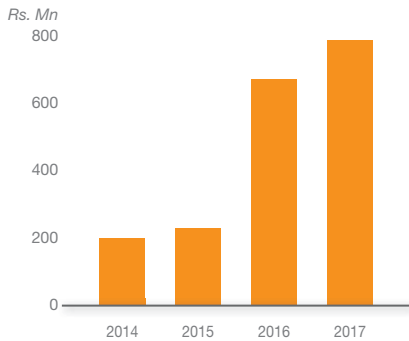
The Bank continued to focus on CASA supported by several strategic initiatives such as the offsite ATM network, Debit Cards, sales force and enhanced brand awareness. CASA recorded Rs. 3,952 Mn growth which translated to 32.0% in comparison to 2016.

CASA mix was at 23% in 2017.



Financial Indicator	Performance
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**Fee & commission income**

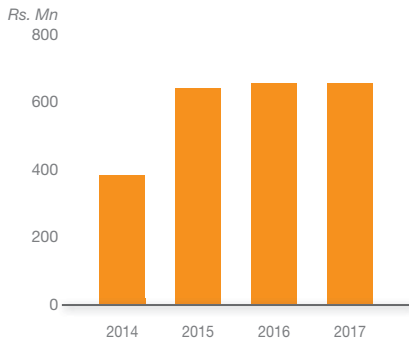


The Bank has made significant efforts to improve its fee and commission income using the key enablers established during the current and the previous years.

Fee and commission income which mainly comprises of deposit related fees, trade and remittances, loans, cards and other fees increased to Rs. 783 Mn an increase of 17.4% as opposed to Rs. 667 Mn recorded during the corresponding period in 2016.

Overall growth in fees was mainly due to; loan related fees reflected a 62% growth YoY and card related fees showed 56% growth. Trade and remittances reflected a 12% growth and deposit related fees reflected a 9% growth.

**Net trading & other income**

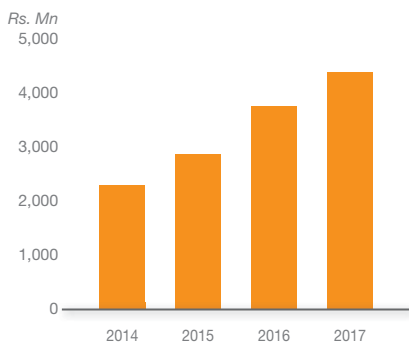


The Bank reported a net trading and other income of Rs. 656 Mn. This remained flat mainly due to the fact that the Bank had reduced investments in unit trust which caused a Rs. 86 Mn reduction in revenue.

Net of the income from investments in units, net trading and other income reflected a strong 35.0% growth in income to Rs. 335 Mn in comparison to Rs. 248 Mn in 2016. The increase is mainly attributable to an increase in capital gains from trading securities.

The Bank has no trading equities and has not invested in any equity funds as at Balance Sheet date.

**Total operating income**

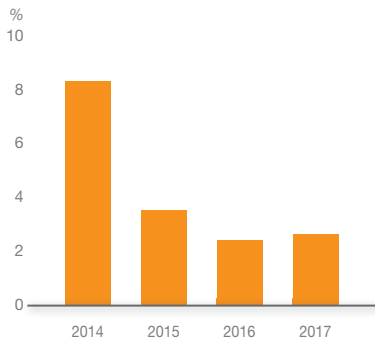


Reflecting the effectiveness of the strategies adopted, in a backdrop of testing market conditions the Bank recorded Rs. 4,376 Mn total operating income for the year. This increase of Rs. 638 Mn is a 17.1% growth YoY.



Financial Indicator	Performance
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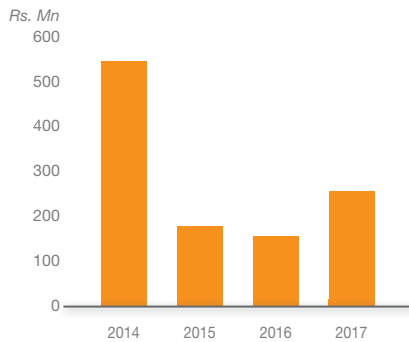
**Non performing loans ratio (NPL)**



The Bank has achieved a significant improvement in asset quality through the adoption of robust risk management frame work and by implementing rigorous risk management practices including stringent appraisal processes, strong collections efforts and risk based pricing. NPL ratio which was the highest in the industry in mid 2014 has drastically improved to be in line with industry average in 2017.

Gross NPL ratio increased marginally from 2.4% in 2016 to 2.7% in 2017 as a result of seasoning of the portfolio which is relatively newer.

**Impairment and credit quality**

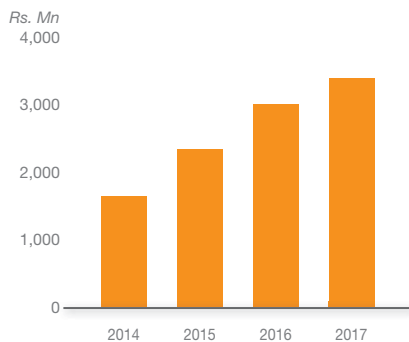


The Bank assesses approximately 75% of the portfolio under individual impairment. The individual threshold remained similar to last year. Loans meeting the criteria were analysed on a case by case basis for actions on recovery.

Collective impairment was made based on the product categories of the Bank. Historical information of individual products were analysed to assess the probability of default and loss given default, enabling a more comprehensive assessment of default in arriving at the impairments.

The credit loss expense of the Bank increased to Rs. 249 Mn from Rs. 152 Mn in 2016. This is a 63.4% increase YoY.

**Operating expenses**



Operating expenses of the Bank was well managed and increased to Rs. 3,345 Mn during the year, as opposed to Rs. 3,008 Mn in 2016, which is only an increase of 11.2%. This is in comparison to the total operating income increase of 17.1% during the same period.

Lower cost increased is due to prudent cost management strategies adopted by the Bank during the year. The Bank focused on operational efficiencies jointly with centralisation and automation which restrained excessive operating expenses.

Total head count of the Bank is 1,268 and is a 6.2% increase over the previous year.

Cost to Income Ratio improved to 76.4% from 80.5% in 2016.

Financial Indicator	Performance																				
<b>Share of profit of equity accounted investees, net of tax</b>	<p>Share of profit of equity accounted investees is Rs. 56 Mn and is a 27.2% decrease over the previous reporting period. This is mainly due to the drop in profit share of UB Finance Limited as a result of a non recurring gain reported in 2016.</p> <p>Bank increased the holding in UBF to 73.3% by subscribing to a rights issue towards the latter part of December 2017. Previously it was 66.2%.</p>																				
<b>Financial services VAT, NBT and corporate tax</b>	<p>Total taxes for 2017 was Rs. 377 Mn, is a 86.6% increase in comparison to 2016.</p> <p>Increase in VAT and NBT on financial services is due to the increase in VAT rate to 15% from 11% which was effective for the whole year in 2017. Increase in Corporate Tax is due to the increase in the taxable income as a proportion in comparison to 2016.</p>																				
<b>Liquidity</b>	<p>The Bank maintained a healthy Liquid Assets Ratio throughout the year</p> <table border="1"> <thead> <tr> <th>Liquid Asset Ratio</th> <th>2017</th> <th>2016</th> <th>2015</th> </tr> </thead> <tbody> <tr> <td>Year End</td> <td>21.3</td> <td>22.2</td> <td>21.9</td> </tr> <tr> <td>Maximum</td> <td>23.0</td> <td>22.7</td> <td>51.9</td> </tr> <tr> <td>Minimum</td> <td>20.7</td> <td>20.8</td> <td>21.4</td> </tr> <tr> <td>Average</td> <td>21.5</td> <td>21.8</td> <td>31.9</td> </tr> </tbody> </table>	Liquid Asset Ratio	2017	2016	2015	Year End	21.3	22.2	21.9	Maximum	23.0	22.7	51.9	Minimum	20.7	20.8	21.4	Average	21.5	21.8	31.9
Liquid Asset Ratio	2017	2016	2015																		
Year End	21.3	22.2	21.9																		
Maximum	23.0	22.7	51.9																		
Minimum	20.7	20.8	21.4																		
Average	21.5	21.8	31.9																		
<b>Capital Adequacy Ratio</b>	<p>The Bank maintained a robust Capital Adequacy Ratio throughout the year reporting a 18.9% core capital ratio as at the year end.</p> <table border="1"> <thead> <tr> <th>Capital Adequacy Ratio</th> <th>2017</th> <th>2016*</th> </tr> </thead> <tbody> <tr> <td>Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.75%)</td> <td>18.9%</td> <td>-</td> </tr> <tr> <td>Tier 1 Capital Ratio (Minimum Requirement - 7.25%)</td> <td>18.9%</td> <td>22.7%</td> </tr> <tr> <td>Total Capital Ratio (Minimum Requirement -11.25%)</td> <td>18.9%</td> <td>22.1%</td> </tr> </tbody> </table> <p><i>* Comparative figures are reported based on Basel II.</i></p>	Capital Adequacy Ratio	2017	2016*	Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.75%)	18.9%	-	Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	18.9%	22.7%	Total Capital Ratio (Minimum Requirement -11.25%)	18.9%	22.1%								
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Total Capital Ratio (Minimum Requirement -11.25%)	18.9%	22.1%																			
<b>ROA, ROE &amp; NAV</b>	<p>Pre Tax Return on Assets of the Bank is 0.5%.</p> <p>Pre Tax Return on Equity of the Bank is 3.1%.</p> <p>Net Assets per share improved to Rs. 16.36 in comparison to Rs. 15.65 in 2016.</p>																				

### Group Performance (GRI 102-45)

The Group, consists of the Bank and its two subsidiaries - UB Finance Company Limited, National Asset Management Limited and the special purpose entity Serendib Capital (Pvt) Limited. The operations of these companies are briefly described in the section on Subsidiaries, on page 178. YoY performance of the Group was affected by a one-off income reported by UB Finance in 2016. The Bank accounts for 93.3% of the Balance Sheet size of the group and hence the group performance is mainly driven by the Bank.

### Impact Assessment on SLFRS 9 – Financial Instruments

The Bank performed the Diagnostic Phase (Impact Assessment exercise) and identified the gaps during 2016. Further, the Bank involved in the process of developing and calibrating models/solutions based on the diagnostic findings which are subject to audit and further validation.

## MANAGEMENT DISCUSSION AND ANALYSIS

## REPORT ON BUSINESS PERFORMANCE

The year 2017 saw Union Bank further building on the strong fundamentals that were laid during the previous two years, to maintain its robust growth momentum despite the challenging macroeconomic conditions that dominated the year.

As explained under the macroeconomic review, the tight monetary and fiscal conditions and adverse weather phenomena that prevailed through most parts of 2017 limited the consumption and investment activities, which to an extent curtailed the business activities and thereby the demand for bank credit. However, due to proactive and timely decision making coupled with efficient execution of strategies, Union Bank was able to forge-ahead and record a healthy business performance. The Bank's business and support functions performance is discussed in the report herein.

## WHOLESALE BANKING

## Corporate Banking

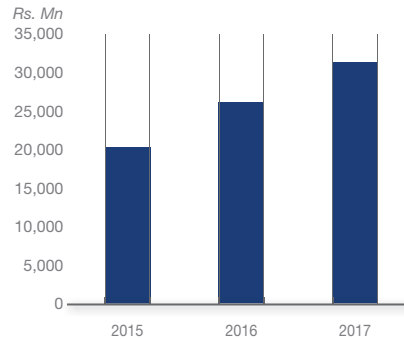
Union Bank's Corporate Banking portfolio, recorded a notable performance in the year 2017, amidst subdued economic activity and moderate private sector growth that prevailed throughout the year.

The Corporate Banking proposition of the Bank for the year 2017, was converged towards enhancing customer value by offering a comprehensive product package supplemented by Union Bank Biz Direct - a state of the art transaction banking and cash management solution launched in 2016. Union Bank Biz Direct which was rolled out throughout the year as a customisable solution, enabled greater cash management efficiency for the Bank's corporate clientele and continued to pay dividends to the Bank through increased fee income and enhanced customer loyalty.

While intense competition within the sector resulted in margin pressure selective lending strategies, concerted focus on enhancing fee based income via increased trade volumes and income generated from the transaction banking platform enabled the Corporate Banking portfolio to reap projected revenue objectives of the year under review.

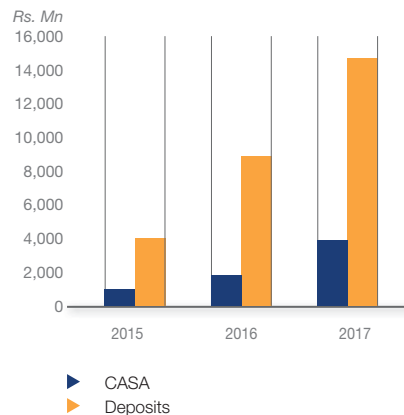
The unit recorded a growth of 20% in the loan book despite intense competitiveness within the sector and moderate economic activity. This growth stemmed from both local currency and foreign currency books with Union Bank extending its support towards the growth of nationally important sectors such as construction, agriculture, financial services, manufacturing and exports. The portfolio growth was maintained across a healthy mix of term financing, working capital facilities and trade financing in the year under review.

## Advances



The introduction of specialised investment solutions resulted in the expansion of the liabilities portfolio which grew by 66% vs. 2016, thus contributing towards financing up to 14.7 Bn of the Corporate Banking unit's funding requirements. The collections and payments module of the digital cash management platform commenced paying dividends in 2017, resulting in an increase of CASA by 119% YoY.

## Deposits



The noteworthy growth of Rs. 39 Mn in fee income was a direct outcome of the Bank's focused efforts to penetrate and capture a larger wallet share. Adding further traction to its Corporate Banking portfolio, the Bank capitalised on the growth in export performance despite a challenging external environment by capturing a larger wallet share of the existing clientele whilst capturing new clients through strategic market development initiatives.

The NPL ratio of the Corporate Banking portfolio stood at 0.31% – a lucid reflection of the prudent risk management procedures in practice coupled with the deliberated collections mechanisms that have been implemented and stringently adhered to by the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS

The commitment of the Corporate Banking team along with the continuous up-skilling of its relationship managers geared with relationship and risk management skills, trade and treasury product knowledge and enhancement of soft skills contributed to the performance of the unit during the year under review.

### Prospects for 2018

Considering increased competition, margin compression and rising capital costs in the ensuing year, Union Bank's Corporate Banking unit will focus on optimising portfolio performance by improving customer profitability, enhancing process efficiencies and refining the portfolio quality. The Bank's state-of-the-art digital transaction banking platform Union Bank Biz Direct, will accelerate the aggressive growth of CASA and fee based income while facilitating end-to-end corporate banking solutions supported by value-based pricing and continuing to play a pivotal role in achieving the objectives of 2018.

With a strong belief that building lasting relationships leads to shared growth of the Bank and its stakeholders, the Bank's Corporate Banking unit will continue to enhance client experiences with the delivery of customised, innovative banking solutions enriched with the technological upswing of the transaction banking platform and the personalised service of the experienced team of relationship managers. Implementation of a concerted growth strategy will propel the evolution of the Corporate Banking portfolio in 2018, by supporting the growth plans of the large and emerging corporate businesses while contributing to the GDP growth of the country.

### SME Banking

Having identified the importance of the Small and Medium Enterprise (SME) sector to rural economies as well as the nation's economy as a whole, Union Bank remained empathetic in serving this vital segment with customisable SME Banking solutions designed to empower and stimulate the growth of this sector. In addition to extending its credit facilities, the Bank continued to participate in credit schemes rolled out by the Central Bank of Sri Lanka and other government agencies, offering specialised credit lines to fulfil the varied funding needs of this sector.

The SME Banking portfolio of Union Bank recorded steady growth in 2017 based on a focused lending approach. The SME portfolio grew by Rs. 3.3 Bn during the year under review, recording an expansion of 14% during the year.

The three year strategic initiatives launched in 2015, brought to fruition continuous growth of the SME Banking portfolio of the Bank through 2017, while optimisation of the Central SME Asset Centre contributed to improved turnaround and enhanced service levels. Centralisation of loan processing resulted in greater efficiency and made way for more proficient loan evaluation that contributed

to enhanced portfolio quality supplemented by speedy delivery for better client satisfaction. Consolidation of the Bank's regional presence was continued in 2017 with 'Regional Managers' playing a more pivotal role in identifying uncharted niches which the Bank could penetrate into with its wide-ranging, customisable SME Banking solutions.

Placing continued emphasis on nurturing client relationships, in the year 2017 dedicated SME Relationship Managers were appointed within selected geographic zones in order to identify, coordinate and deepen the already established relationships as well as explore new business opportunities in these strategically important localities.

A rather sluggish macroeconomic milieu and unfavourable weather conditions that prevailed throughout the year bore an adverse effect on SMEs, making 2017 a rather challenging year for the sector. Although extreme climate conditions such as prolonged drought and excessive rainfall took a toll on a number of industries, timely intervention and preventive action ensured that the Bank was secured of possible portfolio losses. Despite the numerous challenges of 2017, non-performing loans quota of the SME banking portfolio was contained at 7.23%. The Bank's strategic lending focus to the mid and upper range SMEs enabled to further minimise any potential losses since this segment is identifiably more resilient to external shocks caused by natural and macroeconomic downturns.

A decline in lending interest rates and an increase in deposit rates were inevitable macroeconomic influences of 2017 that resulted in a contraction of margins. Cross-selling opportunities were pursued more vigorously in order to increase fee based income to compensate the tightened margins. The resultant cost savings of centralisation contributed positively to the improvement of the bottom line.

In line with the Bank's strong belief of empowering its team for enhanced service delivery, up-skilling and proficiency building of the Bank's SME Banking team was continued in a quest to improve staff skills and knowledge. Several training and development programmes were carried out throughout the year to enhance the skills of the Bank's SME credit personnel as well as staff members involved in SME Credit within identified geographic zones.

### Prospects for 2018

Looking into 2018, Union Bank will stay true to its commitment to contribute towards SME development with a view to cultivate a sound entrepreneurial culture that supports national development goals. With the completion of its centralisation process, the SME Banking unit of Union Bank is well poised to meet the challenges of 2018 with a well-coordinated line of authority and enhanced efficiencies. Anticipating a continuance of tight interest spreads in 2018, the Bank will place prioritised focus on improving fee based

## MANAGEMENT DISCUSSION AND ANALYSIS

income while leveraging on technology to deliver an enhanced customer experience in order to differentiate its service delivery amidst intense competition. In tune with the Bank's commitment to build on existing relationships while fostering new, lucrative client relationships, Union Bank will continue to invest in sharpening the skills of its SME Banking team with a strong belief that in a rapidly changing business environment, a skilled workforce which is adaptable to change will provide a distinctive edge in developing this segment.

## RETAIL BANKING

## Retail Liabilities

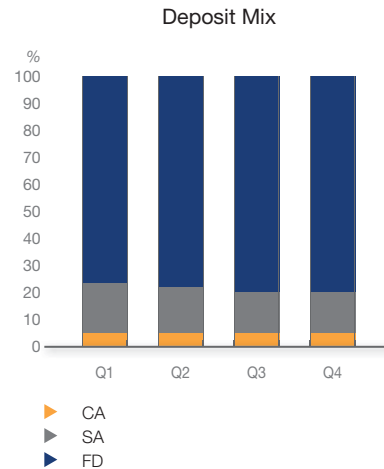
The retail deposit base of the Bank grew notably in the year 2017, on the back of a successful, focused strategy driven through identified key segments. A liability growth of Rs. 15.8 Bn was recorded under the retail segment which is a significant 54% growth in comparison to the previous year. Clear customer segmentation along with the delivery of customised solutions catering to each segment's differing needs was a key success factor that contributed to this impressive portfolio growth.

The year 2017 depicted a marginal upward movement in deposit interest rates compared to the year 2016 that further challenged the task of sourcing low cost funds which remained as one of the key objectives of the Bank in 2017. Despite customer demand shifting towards time deposits due to the notable interest rate variance, Retail Banking was able to make a significant contribution to the Bank's overall CASA (Current and Savings Accounts) growth in 2017. In the face of intense competition and increasing rate trends, the CASA growth recorded from the Retail Banking operations of the Bank stood at Rs. 2.5 Bn contributing 39% to the Bank's overall CASA growth. The YoY CASA growth of the Bank recorded a noteworthy 32% in comparison to the industry growth rate of approximately 7% as per the projected statistics for the year under review.

The growth of Fixed Deposits compared to the previous year was recorded at a notable high of 59% which resulted in an overall deposit growth of 54% within Retail Banking while maintaining a healthy CASA mix of 20% during the year 2017.

While the healthy portfolio growth showed the success of the Bank's focused Retail Banking strategy, the notable performance is also a clear reflection of the overall team effort of the network of 67 branches and the aggressive sales force deployed around the island. The retail liability drive continued to progress through four primary channels, namely the island wide branch network, the Institutional CASA channel, the Elite Banking proposition and the sales force which in collaboration contributed to the overall portfolio growth of the year 2017. Contribution from children's savings and the investment planner accounts contributed towards

the acquisition of medium term low cost funds. While continued emphasis on key liability products launched during the recent years also paid dividends in the year 2017, along with investments in channel expansion and value driven propositions which further supplemented the impressive CASA growth in Retail Banking.



Consumer promotions and competitions played a pivotal role in driving the acquisition of low cost funds in the year 2017. The 'Kalin Avurudu' savings campaign, the five year Fixed Deposits marketing campaign and localised promotional activities in 2017 made a significant contribution towards the Retail deposit growth by supporting the sales push of the Bank.

## Cards

2017 was an exciting year for cards and payments business of the Bank with multiple strategic initiatives been brought to life that widened the product offering to its Retail Banking clientele.

In the year under review, Debit Card issuance was made simpler with the introduction of the CASA welcome kit which resulted in an improved cross-sell ratio and a steady growth of the Union Bank Visa International Shopping Debit Card base. The Bank continued to offer value-added merchant offers to the debit cardholders resulting in better engagement of the cardholders, particularly during festive seasons.

Marking a significant turning point in data security protection, in 2017 Union Bank became the first bank in Sri Lanka to receive the international Payment Card Industry Data Security Standard (PCI DSS) by the Security Standards Council. The PCI Security Standards Council is a global open body formed to develop, enhance, disseminate and assist with the understanding of security standards for payment account security. The PCI certification is a robust assurance of Union Bank's data security standards across all systems and processes through which card and account transactions are effected.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Retail Assets****Personal Loans**

The Retail Personal Loan proposition with the youngest vintage in the market was a successful loan scheme that produced significant results in the year 2017. Despite its low vintage, a healthy growth was recorded in the Union Bank Personal Loans portfolio, with the Bank capitalising a market share of over 10% during the year under review. The customised service and faster turnaround with flexibility of processes were key ingredients for the impressive portfolio growth. The portfolio also maintains one of the best standards in the industry for managing 'Non-Performing Loans to Book Balance Ratio' and service level standards to disburse funds to customers. The product has since made a name for itself in the market and is channelled through a dedicated direct sales team supported by the island wide branch network. Union Bank Personal Loans have seen an impressive growth of 101% YoY and now constitutes over 58% of the Retail Asset book.

**Home Loans and Loans against Property**

The Union Bank Home Loan is a competitive proposition that offers speedy processing and personalised service through an experienced and dedicated sales team. Union Bank Home Loans proposition which caters to wide ranging home and property financing needs, was further expanded in 2017 to accommodate condominium financing for pre-approved developers; gearing for wider portfolio growth by capitalising on the rapid urbanisation and real-estate boost taking shape in the country. The condominium financing product has since made steady inroads across all provinces and is already displaying great potential by providing convenient and fast financing at attractive interest rates for those seeking to realise their lifelong dream of home-ownership.

To further strengthen the Bank's asset product suite, Loan Against Property (LAP) was introduced during the year 2017. Whilst the home loan proposition serves the financing desires for living spaces, the Loan Against Property pursues to fulfil personal financial requirements of individuals by extending funds against the mortgage of an immovable property held as collateral. Introduction of this suitably structured loan proposition with a relatively longer repayment tenure would benefit the Bank's clientele whilst widening the Bank's market scope and allowing the acquisition of new client segments. The security of a mortgaged asset will enable the Bank to build a balanced loan portfolio.

**Branch Network**

Union Bank's brick and mortar presence, plays a key role in maintaining a positive perception of the Bank while providing the much needed fertile ground for nurturing client relationships in nooks and corners of the island. Therefore, at Union Bank the branch network is not only considered as a key distribution channel of products and services but is also an important customer touch

point through which the Bank connects with its existing and potential clients while delivering a differentiated banking experience by maintaining distinctive service standards.

In line with its channel strategy, the Bank expanded its foot print across the island by opening two new branches in Peradeniya and Bandarawela, increasing its total network to 67 branches. With the focus of offering an enhanced banking experience to its clientele, Union Bank also invested in relocating three of its key branches for better accessibility and refurbishing ten branches to meet the new brand outlook of the Bank within the year under review.

The Bank's branch network operates under four geographic zones and the revived zonal focus played a key role in supporting the noteworthy business growth and reaching desired service standards across the network. The branch network continued to engage with respective communities through local activations and campaigns conducted throughout the year to create brand visibility and promote targeted financial solutions to the market. To support the portfolio growth of the Bank, seasonal promotions were carried out targeting major cultural events and promotions to maximise on the unique retail opportunities within the localities.

Team building initiatives were conducted via zonal offices to create better engagement amongst branch staff while the branch staff were also encouraged to engage in Bank's CSR activities conducted in relevant localities. Especially during natural calamities that prevailed during the year, Union Bank branches played an active role in helping to re-build the lives of the people affected in the communities in which the Bank operates, while placing special focus on empowering the children in the areas in line with the Bank's strategic CSR focus.

Maintaining regulatory compliance, frequent checks and controls throughout the network was managed effectively under the restructured zonal organisational structures. Extensive efforts were also taken to develop skills and knowledge of new recruits whilst each zone was engaged in team building activities and zonal events that saw the staff and the communities coming together throughout the year.

**Alternate Channels****Offsite ATMs**

The Bank's strategy to increase its customer reach by promoting the usage of ATMs have brought in key benefits amongst which the brand visibility and increased acceptance and increasing transaction volumes are paramount. The Bank expanded its remote ATM network to 56 by year-end with the total ATM network sizing up to 124 as at end of 2017. Customers are also able to access over 4,000 ATMs across the island through the LankaPay Common ATM switch.

## MANAGEMENT DISCUSSION AND ANALYSIS

Union Bank is the first Bank in Sri Lanka to be PCI DSS certified indicating the focus on security of its customers. Remote ATMs located in strategic tourist destinations helped the Bank earn higher volumes of acquiring fees and forex. In addition, the heightened brand awareness saw the 'off-us' transactions increasing by over 30% during the year with cash disbursements trebling over the previous year. As part of its customer mandate to provide ease of access at the lowest possible cost, Union Bank refrains from charging its customers for withdrawals on its own ATM network.

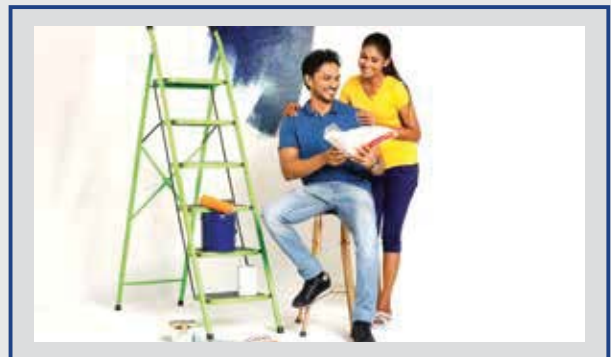
The Bank's focused efforts in promoting the usage of its ATM network was well received at Sri Lanka's first ever Fintech award ceremony held in June 2017, where the Bank won the award for the Best Common ATM Acquirer of the Year (Category B) conferred by Lanka Clear. In addition, the growing ATM network together with the great strides made under the Bank's digital platforms resulted in Union Bank being awarded as the Winner for Bank of the Year for Customer Convenience in Category C and Winner for Bank of the Year for Financial Inclusivity under Category C.

#### Digital Banking

As part of its efforts to offer a seamless banking experience to the Bank's clients dispersed across the island, Union Bank offers an omni-channel state-of-the-art digital banking platform that combines and integrates the services offered through its Internet Banking and Mobile Banking channels. The digital banking platform that delivers innovative and feature-rich online banking solutions, provides remarkable convenience to its users while facilitating a gamut of banking and non-banking transactions via Mobile Banking as well as Internet Banking channels through integration across internet and mobile platforms.

Union Bank's all new Mobile Banking app launched in the third quarter of 2017 was aimed at fulfilling the pledge to continue to offer a differentiated banking experience to the Bank's clients. This was an extension to the Bank's efforts in advancing its influence within the digital banking landscape. Earlier in 2017, Union Bank introduced a unique online banking platform, and taking a step further the Bank increased its online presence by introducing Mobile Banking with more adoptability and flexibility to deliver ultimate convenience to its customers and non-customers alike.

Union Bank Mobile Banking app offers a host of banking services at the users' fingertips. The app enables the users to conduct routine banking activities such as account balance inquiry, cheque status and float inquiry, transaction summary, statement request, loan inquiry, fund transfers between Union Bank accounts as well as other bank accounts, bill payment, managing standing instructions and many more. The app also provides up-to-date information on the Bank's promotions and offers and the latest information on interest rates and foreign exchange rates to the convenience of its users; along with a loan calculator that enables



## MANAGEMENT DISCUSSION AND ANALYSIS

quick self-assessment on the loan instalments payable for a desired loan value and an interactive ATM and Branch locator enabling further convenience. The Bank's Mobile app is supplemented with lifestyle features including real-time weather updates, news updates, and even train schedules. It is also a more secure App with dual authentication and additional convenience offered by way of one-time registration for both Mobile App and Internet Banking platforms. Additionally, all profile modifications made on one platform would get automatically synced with both the Mobile app and online platforms offering a truly seamless banking experience.

The Digital Banking system includes all the standard security measures required for operating Internet Banking platforms. To confirm sensitive functionalities the platform works on a two factor authentication mode for critical functions.

Union Bank's online platform including the Mobile app had recorded over Rs. 1 Bn worth of transactions which includes utility bill payments, inter-bank and intra bank fund transfers within a short span from the official launch, signalling the overwhelming positive response from its clientele.

In recognition of this revolutionary digital banking platform, the Bank was conferred the overall Merit Award for Excellence in Interbank Payments at Sri Lanka's first Fintech award ceremony organised by Lanka Clear Pvt. Ltd within the year under review.

### Customer service experience

#### Contact Centre

The Bank's Contact Centre continued to provide convenient, 24-hour assistance to clients with the dedicated, well-trained customer support specialists consistently providing expedient services via both inbound and outbound calls. Further, the Contact Centre also offers trilingual services in Sinhala, English and Tamil in order to provide widespread convenience to the Bank's diverse clientele and acting as a first level help desk. It is backed by state of the art technology which provides the highest level of security, simplicity and convenience to the Bank's customers. The Bank maintains some of the best in market benchmarks on drop call, wait time and abandoned call rates among other KPIs.





## MANAGEMENT DISCUSSION AND ANALYSIS

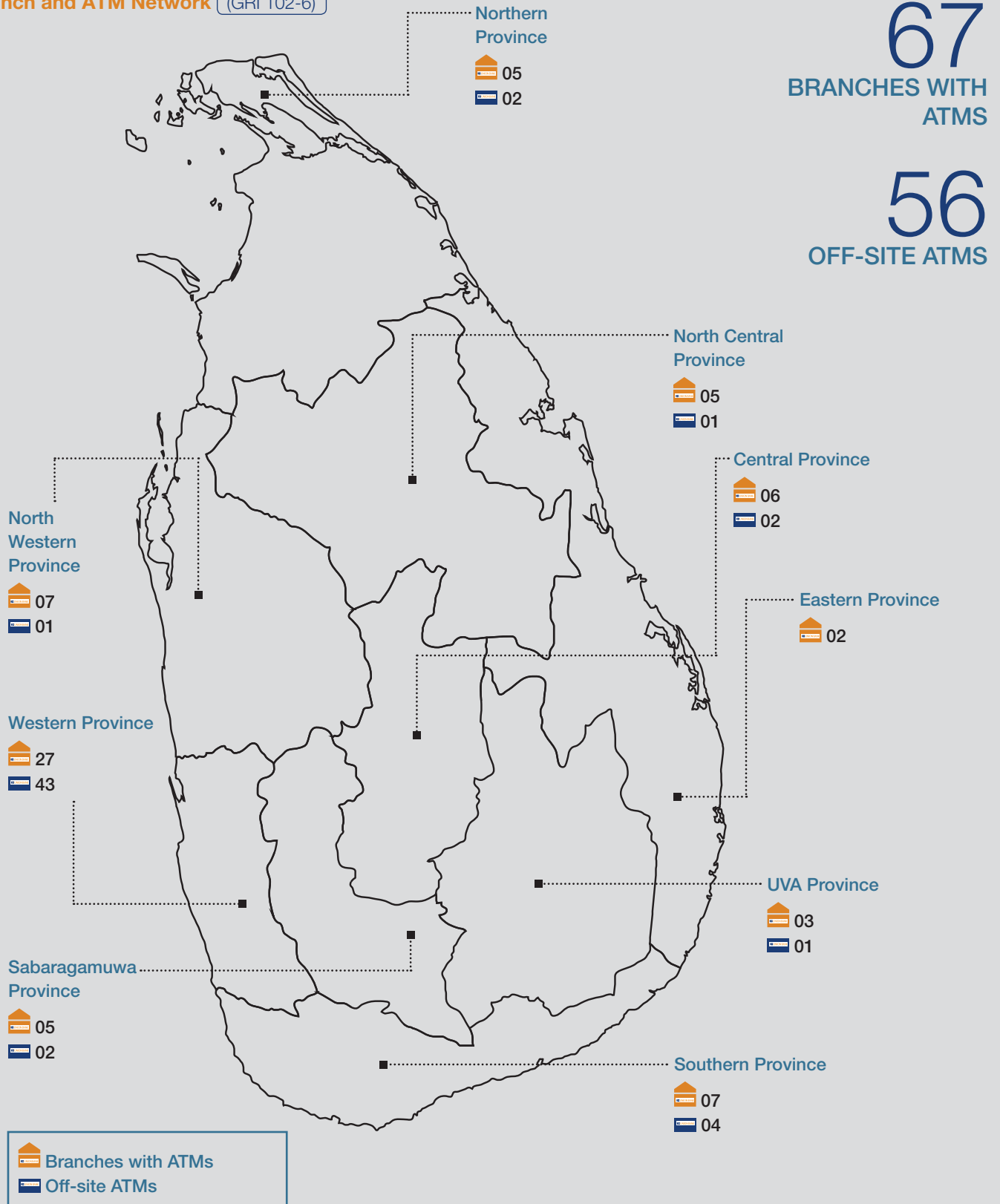
**Prospects for 2018**

Retail Banking continued to support the core banking growth of the Bank and the building of the CASA base of the Bank in 2017. The retail loan portfolio growth, which signals the prospects available for further growth in the coming years will be continued to be expanded. In the wake of increasing interest rates and market volatility, retail banking will continue to support the Bank as an invaluable source of balance sheet funding through growth of assets. The Bank proposes to introduce credit cards and further streamline its asset portfolio in 2018, giving greater focus on key products that have a greater demand in the market.

The Bank will further focus on identified key segments to profitably grow its portfolios. Fee-based revenues will increase as a percentage of the total contribution from retail banking as the Bank has ventured aggressively into new markets during the last 2 years and have invested in technology for greater convenience and process improvements as well as new products.

The Bank will continue to build on the foundation it has laid in the retail space and will focus on increasing customer convenience with the adoption of technology. The smart device will grow in importance, and take its place alongside cards as the primary medium for consumer payment and Union Bank will endeavour to be in the fore-front to offer convenience and flexibility to its customers.

Branch and ATM Network (GRI 102-6)



 **Branches with ATMs**
**Northern Province**

01. Atchuveley
02. Chunnakam
03. Jaffna
04. Mannar
05. Vavuniya

**North Western Province**

06. Chilaw
07. Ibbagamuwa
08. Kuliyapitiya
09. Kurunegala
10. Marawila
11. Narammala
12. Wennappuwa

**Western Province**

13. Attidiya
14. Borella
15. Gampaha
16. Ganemulla

17. Head Office
18. Horana
19. Ja-Ela
20. Kadawatha
21. Kohuwala
22. Kollupitiya
23. Kotahena
24. Maharagama
25. Matugama
26. Minuwangoda
27. Moratuwa
28. Nawala
29. Negombo
30. Nugegoda
31. Old Moor Street
32. Panadura
33. Pelawatte
34. Pettah
35. Piliyandala
36. Rajagiriya
37. Ratmalana
38. Wattala
39. Wellawatte

**Southern Province**

40. Akuressa
41. Ambalangoda
42. Ambalantota
43. Angunakolapelessa
44. Elpitiya
45. Galle
46. Matara

**North Central Province**

47. Anuradhapura
48. Horowpothana
49. Kebithigollewa
50. Kekirawa
51. Medawachchiya

**Central Province**

52. Dambulla
53. Gampola
54. Kandy
55. Nawalapitiya
56. Pilimathalawa
57. Peradeniya

**Eastern Province**

58. Batticaloa
59. Trincomalee

**UVA Province**

60. Badulla
61. Bandarawela
62. Monaragala

**Sabaragamuwa Province**

63. Balangoda
64. Embilipitiya
65. Kegalle
66. Ratnapura
67. Warakapola

 **Off-site ATM Network**
**Northern Province**

01. Kandy Road, Jaffna
02. Thirunelveli, Jaffna

**North Western Province**

03. Colombo Road, Kurunegala

**Western Province**

04. Mahabuthgamuwa, Angoda
05. "Pora" Athurugiriya
06. Thalagama North, Battaramulla
07. Divulapitiya, Boralessgamuwa
08. Ambalama Junction, Boralessgamuwa
09. Egaloya, Bulathsinhala
10. Cotta Road, Colombo 08.
11. Elvitigala Mawatha, Colombo 08
12. Maradana, Colombo 10
13. Marine Drive, 10th Lane, Colombo 3
14. Marine Drive Wellawatte, Colombo 06
15. Prince of Wales Avenue, Colombo 14
16. R A De Mel Mawatha, Colombo 05
17. Karagampitiya, Dehiwala
18. Kandeliedhapaluwa, Ganemulla
19. Hospital Road, Kalubowila

20. Kandy Road, Kelaniya
21. Jinadasa Nandasena Mawatha, Kiribathgoda
22. Highlevel Road, Kirulapone
23. Bogahawila Road, Kottawa
24. Pamunuwa, Maharagama
25. Makola South, Makola
26. Pittugala, Malabe
27. Angulana, Moratuwa
28. Gorakana, Moratuwa
29. Ethukala, Negombo
30. Colombo Road, Negombo
31. Gangodawila, Nugegoda
32. Mirihana, Nugegoda
33. Highlevel Road, Pannipitiya
34. Kottawa, Pannipitiya
35. Makumbura, Pannipitiya
36. Galagedara Junction, Padukka
37. Walana, Panadura
38. Modarawila Road, Panadura
39. Batakettara, Piliyandala
40. Colombo Road, Pokunuwita
41. Maradana Road, Punchi Borella
42. Belekade Junction, Ratmalana

43. Madiwala Road, Thalawathugoda
44. Thalpitiya, Wadduwa
45. Hendala, Wattala
46. Mabola, Wattala

**Southern Province**

47. Kurundugahahethekma, Elpitiya
48. Church Street, Galle Fort, Galle
49. Galle Road, Hikkaduwa
50. Matara Road, Unawatuna

**North Central Province**

51. Bandaranyake Mawatha, Anuradhapura

**Central Province**

52. Peradeniya Road, Kandy
53. Karaliedha, Theldeniya

**UVA Province**

54. Sirigala, Monaragala

**Sabaragamuwa Province**

55. Sannasgama, Lellopitiya
56. New Town, Ratnapura

## MANAGEMENT DISCUSSION AND ANALYSIS

## TREASURY

Treasury consists of Interbank, Fixed Income and Corporate Sales desks. While contributing significantly to the Bank's bottom line the Treasury Department of the Bank acts as the intermediary in facilitating funding and investing for Bank's business units namely Corporate, retail and SME.

Further, treasury maintains the Bank's overall risk reward mix based on informed decisions and strategies. Alongside a tightened Monetary Policy in 2017, the country experienced a downturn in the economic growth. The overall drop in credit and the natural calamities contributed significantly for lacklustre market performance.

Treasury's primary focus was to provide the necessary funding at the best possible yields resulting in the unit making a remarkable contribution to the Bank's revenue in the year 2017. In order to achieve this challenging task, Treasury continued to exploit and enter into strategic partnerships with both local and foreign funding agencies and Banks. As such in the year 2017 witnessed a successful conclusion of a long term funding arrangement which amounted to USD 10 Mn and a LKR borrowing of Rs. 3 Bn.

The interbank desk being the prime operational focus, the Treasury continued to manage overall regulatory ratios such as Liquid Asset Ratio (LAR), Statutory Reserve Requirement (SRR) along with the Banks cash flows both in rupees and foreign currency and currency swaps which are used as funding options. The Corporate desk with greater focus on serving the requirements for institutional, corporate and individual clients with Foreign Exchange Forward Contracts, import/export related transactions and advising clients continued to deliver an exceptional service to its clients. The Fixed income desk which constitutes the Primary dealer unit of the Bank, continued to provide bidding for the Primary auctions by the Central Bank Sri Lanka, sale/purchase of treasury Bills and Bonds, repurchase and reverse repurchase agreements, Leverage trading and interest rate swaps to customers both corporate and individual while liaising with the Bank's Corporate sales desk to serve customers.

In collaboration with the above strategies and business operations, the Treasury has contributed significantly to the Bank's overall profitability recording a healthy interest income of Rs. 2,374 Mn in 2017. The market volatility that prevailed in the financial markets throughout the year contributed largely to the trading profits of the Treasury. The trading on Fixed Income Securities recorded a profit of Rs. 247.9 Mn and Foreign Exchange income Rs. 79.1 Mn for the year 2017.

## Prospects for 2018

Although the adverse effects of 2017 would impact the overall prospects of 2018, the Bank's Treasury will continue to place strategic emphasis on strengthening contributions from its core businesses, namely investment and trading in the year 2018. Further, the Treasury will also focus on low cost funding opportunities and new business relationships.

In the year 2018, the Bank will engage in new business initiatives aimed at increasing the revenues. The Treasury unit of the Bank will also continue to provide customized financial solutions to diverse client needs, by identifying specific requirements and providing comprehensive financial solutions to deliver greater value for its clients. The Bank also hopes to increase its participation on the Foreign Exchange spot, forward markets, thereby generating improved liquidity and profitability for the Bank. Further, treasury will also actively engage in the Foreign Exchange and Fixed Income Securities trading business to maximize profitability for the Bank in the year 2018.

## OPERATIONS

## Central Operations

The Central Operations of the Bank plays a vital role in managing the majority of operational functions of the Bank and ensuring that the business of the Bank runs smoothly and cost effectively. During the period under review, the focus of Central operations was on further enhancing levels of efficiency in all centralised processes and reduction of costs towards which, several key initiatives were carried out.

Transaction Processing Operations (TPO) was amalgamated with Remittance Operations (REM Ops) in order to drive better efficiencies and improved service level standards. In addition, the incoming Real Time Gross Settlement (RTGS) funds transfer process was taken over by the Transaction Processing Operations keeping in line with the concept of bringing similar processes under one roof. With the introduction of online outward clearing data submission, the clearing operation has benefited with a number of cost savings amongst which, submission of outward cheques electronically has contributed to an overall cost reduction for the Bank. A roster-based inward cheques clearing process has reduced associated staff overhead costs considerably affording further cost savings for the Bank.

## MANAGEMENT DISCUSSION AND ANALYSIS

In order to streamline the Bank's revenue collection, in 2017 Credit Operations centralised its facility renewal fee collection, follow up on insurance renewals, valuation reports, stock statements and facility reviewing process etc. Disbursement of cash backed overdrafts and loans have been moved to Credit Operations thereby reducing operational work load of the branches and enabling greater focus by branch staff on business related activities and building customer relationships.

### Card Operations

Automation being the overall focus area of Operations for 2017, card operations unit was able to successfully roll out three new work flow based solutions in order to enhance processes and productivity. During the year under review, the digital banking platform extended its reach to mobile users, by extending its service through the Union Bank mobile app.

The Bank set up an in-house process with the purchase of required equipment and software for the issuance of cards enabling faster delivery times to customers while reducing transportation costs.

Further, ATM transactions via the Lanka Pay network was secured and upgraded to an EMV environment which will secure cardholder data when transacted through an Automated Teller Machine using the Lanka Pay channel. A significant achievement during the year was being the first in the industry to receive the Payment Card Industry Data Security Standards (PCIDSS) compliance certificate, issued by the PCI council after a rigorous process which entailed process and system audits carried out by PCI assessors.

### Trade and Treasury Operations

In a year when Sri Lanka's import and export earnings faced many challenges, the Trade Finance business of the Bank saw a noteworthy business volume growth of 18% in 2017. Further, the emphasis placed on growing the guarantee business resulted in transaction volumes registering a highlighted increase of 22%.

Treasury transaction volumes also grew by a healthy 58% and the Trade and Treasury operations were able to experience enhanced efficiencies through the integration of Treasury front and back end systems for passing of general ledger entries in a seamless manner.

The centralisation of processes at the Bank's Head Office, has given the bandwidth to manage growing transaction volumes in a more efficient and productive manner without compromising on the controls. Further, the introduction of the Work Flow Management System has contributed to streamline the flow of transaction related documents from branches to the centre.

The initiative of providing training on Trade and Treasury products and processes, continued in 2017 as well. While Operations staff were provided with opportunities of enhancing their technical skills as well as improving their soft skills, staff of branches were empowered with Trade and Treasury related product training and on Trade and Guarantee documentation.

### Administration and Premises

During the period under review, the Administration and Premises functions of the Bank supported the Bank's strategy on channel outlook and reach with the addition of two new branches and the relocation and refurbishment of several branches. Two new branches were opened in Bandarawela and Peradeniya, while branches in Pettah, Negombo, Balangoda and Gampaha were relocated for enhanced customer convenience. Refurbishments were carried out at the Jaffna Zonal Office, Gampola, Kotahena, Chilaw, Marawila, Kadawatha, Ambalangoda, Mannar, Batticaloa, Piliyandala and Kurunegala branches. Several areas of the Head Office were also refurbished providing an enhanced working environment for staff.

Further, a number of significant initiatives were implemented by the Administration and Premises department during the year 2017, in view of affording further cost efficiencies for the Bank. Some of the key initiatives included the;

- a) Addition of a capacitor bank to the electrical system at Head Office in order to reduce the maximum demand for power (KVA).
- b) Installation of a new Radio Frequency Identification Device (RFID) access control system inside the building
- c) Installation of temperature sensors to control the temperature of the floors for optimised energy consumption
- d) Conversion of the SLT billing system from Master Invoice Discount Corporate (MICD) to Call In Circle Discount (CICD)
- e) The fire protection system of the building was enhanced by re-designing the wiring of the fire pump panel through the generator backed up power connection.
- f) Implementation of a service breakdown Work Flow system to report the breakdowns /repairs in order to maintain a proper control mechanism
- g) Introduction of supplier re-registration process for enhanced transparency in procurement
- h) Continuation of the paper recycling process

### Process Control and Operational Excellence

In 2017, the unit automated the issuance of balance confirmation letters, adding value to the process by reducing the turnaround time. The unit played a major role in supporting the Bank to obtain PCI DSS certification. The team continues to focus on further improvements to the processes by automation.

## MANAGEMENT DISCUSSION AND ANALYSIS

Fourteen processes were prioritised and implemented to the Work Flow Management System (WFMS) in the year 2017. This platform has assisted the Bank to manage and track the turnaround time of processes and improve delivery levels at customer touch points. The WFMS has assisted the Bank as a MIS tool to identify gaps in certain processes and enabled the management to take timely remedial action, wherever necessary.

**Prospects for 2018**

The operational units will continue to support the business units to enhance business growth. Focus will be placed on identifying opportunities for realigning of processes through centralising, outsourcing and automation with a view of enhancing the customer experience while improving controls, productivity and process efficiencies.

Extensive plans have been developed focusing on key aspects such as enhancing customer experience through innovation and improved customer service, building process efficiencies via improved productivity as well as using technology as an enabler while strengthening the internal control environment. Further opportunities for outsourcing and centralisation have been identified and are slated for implementation in 2018, while certain processes will be re-engineered and streamlined. These initiatives will make the Operations team be a positive enabler in supporting the bank's performance.

Operations function of the Bank will continue to work on enhancing the knowledge and skill levels of the staff through initiatives such as cross-functional training, round table discussions and knowledge sharing sessions. In addition, staff will also be nurtured and groomed to further their career aspirations, keeping in line with the ambitious growth plans of the Bank.

**INFORMATION TECHNOLOGY**

Information Technology at Union Bank plays a pivotal role as an enabler for business growth by redesigning business models significantly to meet the challenges of a competitive market.

In the year 2017, a sophisticated Online Banking and Mobile Banking platform were launched successfully, redefining the digital banking sphere by providing seamless account accessibility across multiple devices and platforms.

The digital cash management platform introduced for corporate customers in 2016, was further fortified in the year under review adding more flexibility and security. Also during the year, the IT department initiated the technology aspects to enable the proposed Credit Card platform, gearing for the Credit Cards launch in 2018.

To be named the first and only bank which holds the PCI DSS (Payment Card Industry Data Security Standards) Certificate in the country was the highlight of the year, which was with a collective effort of cross functional collaboration supported by technological finesse of the Bank's team of IT professionals. This is a testament of the Bank's commitment to maintaining best in class security standards in banking services.

During the year under review, the Bank strengthened its Disaster Recovery infrastructure especially on cards and other critical systems to bring in maximum up-time for its clients during a time of crisis. Further, the Bank has invested a considerable amount of time and money on security related improvements, which remains a priority for the Bank amidst rising trend of cyber security threats in the milieu in which it operates.

**Prospects for 2018**

Information Technology unit of Union Bank will continue to enable business growth by facilitating uninterrupted service delivery and enhanced customer experience to the Bank's clientele. The IT unit of the Bank will continue to invest in infrastructure developments while introducing new products and services that support the aggressive business growth of the Bank projected for the year 2018.

**MARKETING**

During the period under review, the brand focus was placed on further building on its positioning as a fully-fledged commercial bank. The brand gained further progress on its standing amongst the LMD leading 100 brands in Sri Lanka climbing 6 notches in its ranking during 2017.

Integrated communications across a multitude of platforms from mass media to below the line activities supported to create greater awareness for the brand. Creating awareness for convenient reach was aptly supported by the many initiatives carried out to enhance channel outlook at branches and ATMs across the island.

Building product awareness across geographies and differentiated consumer segments, several product communication campaigns, activations and promotions were carried out including the launch of the Bank's Mobile Banking app. (Refer details under retail banking)

The Bank continued to drive a cohesive public relations strategy to further augment the brand positioning, which saw a highlighted increase in vernacular brand presence in mass media and digital platforms.

Several networking events for retail and business clientele further added value to the Bank's relationship building initiatives that focused on building stronger bonds.

## MANAGEMENT DISCUSSION AND ANALYSIS

Recognising the efforts of the small and medium entrepreneurs, the Bank once again partnered the National Chamber of Exporters as a sponsor of the 2017 NCE Export Awards.

The Bank placed much emphasis in enhancing its brand presence on digital platforms taking into consideration the fast changing lifestyles of the consumers. The Bank's social media campaigns received international recognition with the Bank winning the Best Facebook Campaign 2017 and Best Customer Orientation awards at the annual CMO Asia awards held in Singapore.

The Bank's annual report once again received an accolade of compliance whilst Union Bank once again became the first Bank to publish its annual report in 2017.

### Prospects for 2018

Marketing will act as a key strategic enabler to support business growth in the ensuing year. The Bank will continue to build and strengthen its corporate image and further build on the customer value proposition of "make the rest of your life the best of your life".

Focus will be placed on enhancing brand presence on social media and digital platforms as key communication channels that will continue to drive engagement with clients and prospective clients. The communication strategy will place emphasis on supporting the growth of the Bank's retail product portfolio with a key focus on CASA and mortgage backed loans. It will further support the business growth of the corporate and SME sectors with enhanced awareness for technologically enabled banking solutions. The Bank will strengthen SME relationships with area specific capacity building and networking initiatives while supporting community engagement through strategic, localised promotions and large-scale corporate sponsorships.

## CORPORATE HIGHLIGHTS

### NETWORK EXPANSION



Extending reach, two new Union Bank branches were opened in 2017 in Peradeniya and Bandarawela. Offering enhanced convenience, branches in Gampaha, Balangoda and Pettah were relocated while branches in Marawila, Batticaloa, Negombo and Ambalangoda were reopened with a new outlook offering an enhanced banking experience. Two new off-site ATMs were opened in Boralesgamuwa and Unawatuna in 2017.

### PROMOTIONS



'Kalin Avurudu Ganudenu' promotion was held for the fifth consecutive year giving exciting gifts for Savings, in lieu of the Sinhala and Tamil New Year.



An island-wide activation was carried out to promote pawning supported by an attractive gift offer and an inter-branch competition.

### CUSTOMER ENGAGEMENT



Further enriching its customer relations, Union Bank hosted an evening of cocktails and networking for the Bank's SME clients.



## CORPORATE HIGHLIGHTS



The Bank, together with Epic Technologies, hosted the Bank's Elite Banking clients to an evening of networking and cocktails in celebration of the launch of the Union Bank Mobile Banking app.



The Bank introduced Union Bank BizDirect to its SME clients creating awareness of the many benefits of the electronic cash management solution.



Supporting to recognise and felicitate local exporters, Union Bank was a principal sponsor of the 25th Annual National Chamber of Exporters of Sri Lanka (NCE) Awards.

## AWARDS & ACCOLADES



Union Bank received overwhelming recognition at the LankaPay Technnovation Awards winning 4 coveted awards.



Union Bank was recognised for its efforts in building its brand presence with a key focus on social and digital platforms at the CMO Asia Awards held in Singapore.



Union Bank was once again commended for its excellence in financial reporting at the 2017 Annual Report Awards organised by the Institute of Chartered Accountants Sri Lanka (CA).



Two staff members of the Union Bank Asset Sales Team, Chamil Karunaratne and Nandika Bogahawatte were recognised at the SLIM NASCO Awards, the premier national level event that recognises and rewards the outstanding sales forces of Sri Lanka.

## EMPLOYEE RELATIONS



Union Bank staff members enjoyed the traditions and games of the Sinhala and Tamil New Year at an event held at the Bloomfield Grounds.



In celebration of Vesak, Union Bank held 'Bodu Bathi Gee Saraniya 2017' at the Bank's head office.



Staff members along with their families enjoyed a fun filled weekend and star class hospitality at the annual staff trip in Ahungalla.

## CORPORATE HIGHLIGHTS



The Bank's Sports Club held its first inter-department cricket tournament at Thurstan College Grounds.



The Union Bank teams kept the Bank flag flying high at mercantile tournaments of Chess, Football, Basketball and Badminton held during the year.



The Annual Dinner Dance of Union Bank, held at the Water's Edge Hotel, was a gala, fun-filled event for staff with entertainment in abundance.



The Bank acknowledged the long standing commitment of employees who have been a part of the Bank's growth for over 20 years. Mr. Rajan Shanmugeswaran, Ms. Oshadi Gunasekara and Ms. Nirosha Dissanayake received awards.



The Bank's Annual Christmas Carols programme, presented by staff members was held at St. Andrew's Scots Kirk Church with the participation of staff and their families.

BACK TO SCHOOL- CSR INITIATIVE



Union Bank's Corporate Social Responsibility Committee together with the Bank's Southern and Sabaragamuwa regional offices and the Sports Club of the Bank, extended a relief programme towards school children affected by the severe weather conditions that struck the island in the month of May. The programme was implemented at Athuraliya Central College in Akuressa and R/Haldola Primary School in Ratnapura, which were amongst the worst affected. The schools were provided with books, stationery and school shoes covering over 1500 students.





# Union Bank strengthens network with new branch in Bandarawela

UNION Bank extended its footprint in the Uva Province with the opening of its 67th branch at No. 384, Badulla Road, Bandarawela. Bandarawela plays a significant role in contributing to the country's economy with a thriving agricultural community, lush tea estates that produce high quality tea for the world market and a booming tourist industry which attracts thousands of travellers due to its scenic setting.

The new branch at Bandarawela would reflect the new and vibrant outlook of Union Bank. Its modern branch layout which incorporates a customer centric, welcoming ambience would be geared to provide a redefined banking experience with greater convenience and better engagement with customers. Union Bank in Bandarawela will extend support to the aspiring entrepreneurs, professionals, farmers, and traders in the area to benefit from the bank's customisable SME financing facilities and advisory services. The new branch will offer a broad spectrum of Retail Banking



Union Bank VP - Retail Banking Chaya Jayawardana declares open the branch at an official ceremony. Also present from left are Bandarawela Branch Manager Jeewantha Bandara, AVP Network Management Mahendra Hlangasinghe and Zonal Head Sarantha Kotteawatte

Savings Accounts, NRFC/RFC Accounts, Fixed Deposits, Housing Loans, Personal Loans, Pawning services, Remittances and Visa International Debit Cards coupled with the convenience of an enhanced Online Banking platform and an extended network of over 4,000 ATMs linked through the LankaPay common ATM switch.

# Union Bank wins big at CMO Asia Awards 2017

Union Bank was conferred three prestigious awards for excellence at the CMO Asia Awards 2017, concluded in Singapore recently.

These accolades were presented at two awards ceremonies held on 1st and 2nd August 2017. At the CMO Social Media and Digital Marketing Awards 2017 the Bank won the title for Best Facebook Campaign within the Banking sector in Sri Lanka while at the Asia Banking, Financial Services and Insurance Awards Union Bank managed to clinch two titles for Sri Lanka namely, Bank with the Best Customer Orientation and Bank with the Best Technology Orientation.

Commenting on the awards Assistant Vice President - Marketing at Union Bank, Thshanai Dissanayake said, "We are honoured and delighted to receive this international recognition for the success in building customer confidence in our brand through customised financial services enhanced with the latest in technology that enables greater convenience. Further, it's of great significance to be recognised especially for the efforts in building the Bank's brand identity on social media as a vital part



of Union Bank's focus to establish its positioning as a fully-fledged commercial bank in a bid to propel our new and energized strategic direction."

"Following a landmark investment by the global investment giant TPG in 2014, today Union Bank has made great strides in its new business model and the fresh brand outlook; having embarked on an ambitious journey towards becoming a leading, household financial name in Sri Lanka. In line with this dynamic strategic direction, Union Bank developed a products and services approach that places the consumer at the heart of its business. Over the past two years, the Bank

has introduced numerous customer-oriented financial solutions in a bid to meet the financial requirements of the diverse Corporate, SME and Retail clientele we serve. Such customised financial solutions are delivered through our multi-channel strategy which strives to create optimum value to our customers through enhanced technology and greater convenience. These awards are therefore, an endorsement of Union Bank's continued commitment to keeping the customer at the heart of its business while making optimum use of the latest technology to reach its customer base effectively.

Further, the bank's strategic marketing initiatives have paved the way for Union Bank to become one of Sri Lanka's well established brands within a brief period. Our focused communications strategy is extended to social media platforms in a bid to encourage its clients to engage with the brand more meaningfully and frequently. The award for Best Social Media Campaign is an affirmation of Union Bank's growing brand presence within the digital marketing arena," Dissanayake further observed.

# Union Bank records impressive 9-month performance in 2017

**Core banking growth and profitability**  
In the third quarter of 2017, Union Bank continued its strong growth momentum, adding further traction to its strategic business focus of core banking growth and profitability. As a result of focused efforts on portfolio expansion, the Bank's Loans and Advances grew by 23% year-to-date (YTD). The Net Interest Income (NII) rose to Rs. 2,318 m in the third quarter of 2017 - an impressive increase of 46% year-on-year (YoY). During the period under review, the bank continued to focus on improving NII through prudent management of the Net Interest Margin (NIM) coupled with Total Asset growth. Union Bank's well executed strategic initiatives for Fee Income growth continued throughout the reporting period, resulting in a healthy growth

times which emphasized core banking growth. Profit after Tax for the period was Rs. 201 m, 6% growth YoY. The YoY PAT growth was impacted due to one-off income recorded from subsidiaries during the comparative period last year. Total Assets of the bank grew to Rs. 116,299 m, a 23% growth YTD. Corresponding to this growth, the Loans and Receivables of the bank grew to Rs. 67,381 m, a 23% increase YTD in line with the bank's strategic priority to expand its liability product portfolio. Customer Deposits saw a further build up by 36% YTD, reporting Rs. 67,200 m as at end of September 2017. The continued focus on strategic CASA development initiatives resulted in the CASA portfolio growing by a significant 23% YTD. The maintenance of strong capital ratios continues to be a management



Union Bank CEO Indrajit Wickramasinghe

of the bank grew by 23% YTD as at end September 2017. The bank's continued momentum of Assets growth resulted in SME Loans book growth of 8%, while the Corporate Banking loan book expanded by 18% by the end of September 2017. Adding value to the banking experience of its account holders, the bank continued to offer attractive savings and discounts of up to 36% on the Union Bank Visa International Debit Shopping Card for lifestyle related purchases. Adding further traction to its valued banking relationships, Union Bank continued to extend its full-fledged cash management solution, Union Bank Biz Direct, to leading corporates and SMEs in the country. The bank hopes to further capitalise on this unique solution. In order

Key Take

Results at a glance Group performance	
Net Interest Income	up 37% YoY to Rs. 2,795 m
Net Fee and Commission Income	up 14% YoY to Rs. 607 m
Line Operating Income	grew by 32% YoY to Rs. 3,343 m
Profit before Tax	grew by 28% YoY to Rs. 562 m
Total Assets	grew by 24% YTD to Rs. 116,648 m

Bank's performance	
Net Interest Income	up 40% YoY to Rs. 2,319 m
Net Fee and Commission Income	up 21% YoY to Rs. 456 m
Total Operating Income	grew by 24% YoY to Rs. 3,207 m
Net Profit	grew by 26% YoY to Rs. 631 m

## සුභිසන් බැංකුවේ මිලමුද්දි ආධාරවට හවු පෙනුමක

සුභිසන් බැංකුව සිය පාරිභෝගික විවිධ මට්ටම බැංකුකරුවන්ගේ පහසුකම් වැඩි කිරීමට සමත්වන බවට තීරණය කර ගෙන ඇත. මෙහිදී සුභිසන් බැංකුවේ (Elite Banking) ඇදවීමට අවබෝධය ලබා දෙන බැංකුකරුවන්ගේ අවශ්‍යතා සපුරාලීමට සුදානම්ව සිටීමට බැංකුව තීරණය කර ඇත. මෙහිදී සුභිසන් බැංකුවේ සේවකරුවන්ගේ සුදානම්ව සිටීමට බැංකුව තීරණය කර ඇත.

# Union Bank introduces new mobile banking experience

Union Bank announced the launch of its mobile application with the aim to offer an easy, quick and convenient banking experience to its clients. Union Bank's all new mobile banking app offers a host of services that include general lifestyle services in addition to the banking services which are typically offered, making it a versatile and ingenious application even for non-customers to add on to their smartphones. The mobile app is braced with optimum security features and is expected to make banking simpler for users through its unique feature of automatic synchronization with the Union Bank Online Banking service. Commenting on the launch of the Mobile Banking app, Vice President - Retail Banking at Union Bank Chaya Jayawardana said, "We are pleased to present Union Bank's all new Mobile Banking app, which pledges to continue to offer a differentiated banking experience to

our clients. This is an extension to our efforts in advancing the bank's influence within the digital banking landscape. Earlier this year, Union Bank introduced a unique online banking platform, and now taking one step further we have enriched this online presence by extending it to mobile with more adaptability and flexibility to deliver ultimate convenience to our customers and non-customers alike." Union Bank's mobile banking app offers a host of banking services at the users' fingertips. The app enables the users to conduct routine banking activities such as account balance inquiry, cheque status and floor inquiry, transaction summary, statement request, loan inquiry, fund transfers between Union Bank accounts as well as other bank accounts, bill payment, managing standing instructions and many more. The app would also provide up-to-date information on the bank's promotions and

offers and the latest information on interest rates and foreign exchange rates to the convenience of its users, along with a loan calculator that enables quick self-assessment on the loan installments payable for a desired loan value and an interactive ATM and Branch locator making travel convenience. The bank's mobile app is supplemented with lifestyle features including real-time weather updates, news updates, and even train schedules which makes it an "all-in-one" application that eliminates the need to crowd the smartphone with numerous apps for banking, lifestyle etc. Union Bank's mobile banking app is available for download on any smart phone via Google Playstore and the Apple iStore. Existing Online Banking users of Union Bank could simply download the app and get connected through the automatic synchronization feature.



## இலங்கைக்கு செளக்யமாக பணப்பரிமாற்றம் யூனியன் வங்கியுடன் கைகோர்த்துள்ள Instant Cash

யூனியன் வங்கி இலங்கைக்கு செளக்யமாக பணப்பரிமாற்றம் செய்யும் வகையில் யூனியன் வங்கியுடன் கைகோர்த்துள்ள Instant Cash சேவையை வழங்கும். இது மிகவும் எளிதான மற்றும் பாதுகாப்புடன் பணப்பரிமாற்றம் செய்யும் வகையில் யூனியன் வங்கியுடன் கைகோர்த்துள்ள Instant Cash சேவையை வழங்கும். இது மிகவும் எளிதான மற்றும் பாதுகாப்புடன் பணப்பரிமாற்றம் செய்யும் வகையில் யூனியன் வங்கியுடன் கைகோர்த்துள்ள Instant Cash சேவையை வழங்கும்.





## BUILDING A WORLD-CLASS TEAM

We will continue to partner the growth of our employees - our most valued asset. In a performance driven culture, our team will continue to be empowered to perform at their peak and enjoy attractive rewards, with greater opportunities for career advancement and personal progress.







The social and environment report focuses on the key stakeholder groups of customers, employees, and the community and aims to provide our investor community a clear and sufficient view on our engagement with these stakeholders and how our operations impact these key stakeholder groups.

## CUSTOMERS

The Bank's customer base comprises of individuals, SMEs and large to medium corporates, spread across different parts of the island. With a determination to place the customer at the heart of the banking experience, Union Bank consistently strives to serve the emerging needs of its customers while enhancing their banking experience. The Bank endeavours to consciously pay heed to customer needs to offer customisable, and relevant products and services to meet their financial needs.

Providing its clients convenient access to banking services is a key priority of Union Bank's omni-channel distribution strategy. The Bank's channel strategy spans beyond an island wide brick and mortar presence, to reach customers at their convenience via automated and online channels such as ATMs, Internet Banking, and Mobile Banking. The segment wise approach allows the Bank to offer a customised service to its discerned client segments, where high- net-worth, corporate and even some of the SME clientele are serviced by dedicated relationship managers that deliver a personalised service experience. In addition, a sales force dispersed around the island takes banking convenience to the clients' doorsteps while acting as a channel for building awareness of the Bank's products and services amongst the masses.

Further consolidating our commitment towards customers, the Customer Charter mandated by the Central Bank of Sri Lanka (CBSL) is in full application at Union Bank. The Customer Charter sets the standards for fair banking and provides guidance on customer rights, grievance mechanism and special provisions for selected customer groups.

### Product responsibility (GRI 417-1)

The Bank provides a comprehensive range of products and services that are relevant and effective in meeting the needs of its clientele at various lifestyle stages and milestones of their personal/commercial endeavours. Sustainability and relevance of products and services are assessed prior to introducing new products to ensure that the products and services of the Bank deliver optimum value to clients.

On the above basis in 2017, the Bank introduced Loans against Property, extending the mortgage loans facility for the benefit of the self-employed and professional segments, providing them

the opportunity to avail a loan against an existing commercial or residential property with flexible repayment options, less hassle and greater convenience. The loan is offered at an attractive interest rate and the loan value may be extended up to a maximum of Rs. 15 Mn. The flexible repayment schemes could be extended up to 10 years, and applicants would also enjoy the freedom to apply jointly with spouse, to obtain a higher loan value. The facility is open for salaried individuals earning a minimum monthly salary of Rs. 35,000 while professionals and self-employed individuals earning Rs. 50,000 and above monthly, are also encouraged to apply.

In addition within the year under review, the Bank diversified its distribution channels with the introduction of a state-of-the-art digital banking platform that offers a seamless banking experience to its clients through an integrated Online Banking and Mobile Banking proposition.

To enable the Bank's customers to make well-informed decisions, details of products and services offered at branches are made available on printed material such as leaflets, posters and banners prominently displayed for easy access. Details of the Bank's products are also available on Bank's corporate website in English, Sinhala and Tamil along with advise on how to contact the Bank; providing customers with direct access to such details. Further, in compliance of the Customer Charter of the CBSL, a 'Key Fact Document' on all products is made available on the website in Sinhala, Tamil and English outlining features, eligibility criteria, documentation and related fees and charges for each product. Interest rates, fees and charges are clearly communicated via rate sheets displayed at branches as well as on an updated tariff sheet published on the Bank's corporate website. In addition, the Bank's customer agreements, terms and conditions documents as well as applications are designed in a customer-friendly, easily comprehensible format and are made available in native languages upon request. Additional details may also be inquired through the Bank's 24- hour contact centre hotline where trained customer service personnel will assist customers with requested information and queries.

### Sustainable Banking Initiative (SLBA SBI)

Ascertaining Union Bank's commitment towards sustainable banking practices, in the year under review the Bank entered into a collective agreement with 18 other banks in the country in support of establishing a sustainable banking code in the industry. The SLBA-SBI initiative is spearheaded by Sri Lanka Banks' Association and is partnered by four European Development Financial Institutions (DFIs) namely DEG of Germany, FMO of the Netherlands, OeEB of Austria, and Proparco of France. The sustainable banking initiative aims to be a multi-stakeholder

## SOCIAL AND ENVIRONMENT REPORT

engagement within the banking industry, geared towards funding a 'green economy'. The initiative is also endorsed by the CBSL which is increasingly focusing on sustainable banking practices to help banks to effectively manage environmental and social risks in the projects and promote sustainable banking for the future.

The aims of the initiative include creating a platform where banks can work together on sustainability issues. This platform will facilitate decision-making and coordinate efforts to increase efficiency and effectiveness while ensuring of a level playing field. The platform will also facilitate suggesting and jointly agreeing on minimal standards for integrating environmental and social considerations into core operations, products and services and to level the playing field through joint principles or standards. By being a signatory to the initiative, Union Bank will receive necessary inputs to implement the clauses agreed to which include 11 sustainable banking principles. The Bank's staff will also gain access to tailor-made E-Learning and E-coaching platforms through the association where staff will be better equipped to implement sustainable banking practices. Other benefits of being a part of the SLBA SBI initiative include, being involved in the latest discussion on relevant issues, improving overall risk management, better understanding of the business case of proper E&S management and receiving the knowledge to market the information to clients and stakeholders. The main benefit however, will be the ability to contribute to sustainable development for a beautiful, clean and green Sri Lanka.



### Communications

Communication of the Bank's products and services have been maintained via mass media (paid-for media such as TV, Radio and Press) supported by below the line activities such as branch/ outdoor visibility, localised promotions and activations conducted at targeted strategic locations.

A mix of communication tools including advertising, corporate literature, public promotions, corporate sponsorships, social media engagement etc. have been employed to target the diverse client segments of the Bank. In addition to paid-for media, awareness of the Bank's corporate image, products and services have been

created in the public domain via public relations activities in the print, electronic and online media. Incidents of non-compliance with regulations and voluntary codes concerning communications that include advertising, promotions and sponsorships did not occur during the year under review.

The marketing communications initiatives of the Bank focus on creating better knowledge and awareness of the Bank and its product propositions. Outdoor promotions in suburbs and main cities outside Colombo have been conducted within the year under review in order to raise awareness of the Bank's products and services, with a special focus on encouraging the public to save and invest. Outdoor visibility for the Union Bank brand and its products have also been enhanced in 2017, with the addition of new branch locations, off-site ATM sites as well as the acquisition of new outdoor branding sites in strategic locations.

The Bank adheres to a communication policy approved by the Board of Directors which governs the objectives, division of responsibilities and general guidelines for communicating with various target groups. Therefore, the communication policy encompasses the following aspects;

- ▷ The communication of public and non-public information
- ▷ Communications with media, shareholders, regulators and other stakeholder groups
- ▷ Business communication and usage of email etc.
- ▷ Web and social media activity
- ▷ Confidentiality and protecting of confidential information

The Bank's communications activities which include advertising, outdoor branding for visibility, outdoor promotions as well as sponsorships, community engagement etc. Are conducted according to the guidelines specified in the said policy in addition to compliance to laws and regulations governing the industry as a whole.

### Complaints

Union Bank maintains a comprehensive online complaint management system where the complaints are resolved within a stipulated time frame based on the nature and complexity of the complaint. Customers could also contact the Bank via email to [info@unionb.com](mailto:info@unionb.com) (displayed on the website) or via the 24-hour Contact Centre (0115 800800) with feedback, queries or suggestions for improvement. In addition a complaints and suggestions drop box is also maintained at all branches. Various precautionary measures are adopted from time to time, in order to minimise negative implications to customers with a view of decreasing customer dissatisfaction as a whole.

## EMPLOYEES

### Human Resources

Extensive investment and work have been done to continue supporting the Bank's strategic initiatives which commenced in 2015 from a people management and development perspective.

Human Resource initiatives were centred around the areas of Select - how we choose an employee for his / her role; Develop-the tools that an employee is given to grow; Energise - the ways employees are motivated and engaged to perform at their best and Value - how an employee's contributions are recognised and rewarded.

The efforts and investments made by the Bank have yielded positive outcomes and have created an environment in which employees can perform at their best. This is reflected through a significant increase in the employee engagement score.

### Recruitment and selection (GRI 102-8/102-7)

The focus on recruitment and selection in 2017 was on strengthening the resources within the Branch Network, Corporate and SME Banking, Treasury as well as the Liability and Asset Sales teams.

Our efforts to build the Bank's employer brand continued this year with greater emphasis on providing careers in banking for those who joined the Liability and Asset Sales teams. The focused and targeted branding initiatives through meticulously selected sources, helped those interested in getting a head-start in a banking career to gain insights about roles in Liability and Asset Sales.

Mid and Senior level recruitments continued to be filled through market benchmarking exercises and our efforts to source well experienced candidates from the industry for key roles have been fruitful. The candidates' perception of the Bank as an organisation that offers in-depth experience within an accelerated growth phase and as a centre for progressive career advancement and opportunity, is evident based on the numerous responses received to vacancy announcements.

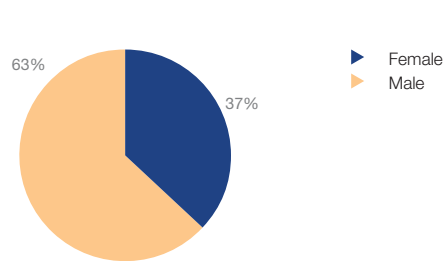
### Employee profile based on employment type and gender (GRI 102-8)

Employment Type	Gender		Total
	Male	Female	
Permanent	502 (62%)	363 (78%)	865 (68%)
Contract	184 (23%)	32 (7%)	216 (17%)
Trainee	118 (15%)	70 (15%)	188 (15%)
<b>Total</b>	<b>804 (63%)</b>	<b>465 (37%)</b>	<b>1269 (100%)</b>

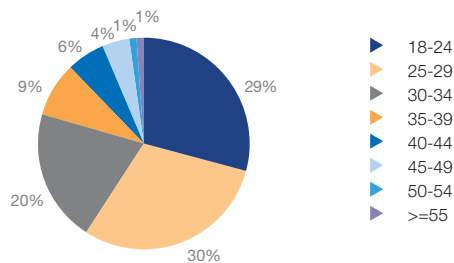
The Bank's total employee count as at 31st December 2017 is 1269. This is a growth of 75(6.3%) new employment opportunities during the year reviewed. Of the 1,269 employees, 865 were permanent employees with 188 being trainees, 201 being business development officers and 15 being specialist employees on fixed term contracts. The Bank does not currently employ any part time employees.

30% of our composition of employees is between the ages of 25-29 with the second highest of 29% being amongst employees between the ages of 18-24. This significant number is a clear reflection of the Bank's position as a youthful and dynamic organisation. It is noteworthy that 28% of our first time managers and middle managers are between the ages of 35-39 years. This is an indication of steady career progression of a young workforce and our development interventions have also been geared to give greater focus towards honing their leadership capability.

Employee profile based on gender – as at end December 2017 (GRI 102-8)



Employee profile based on age – as at end December 2017



## Employee profile based on employment type and province (GRI 102-8)

Province	Employment Type			Total
	Permanent	Contract	Trainee	
Western Province	637 (74%)	137 (63%)	124 (66%)	898 (71%)
Central Province	38 (4%)	21 (10%)	7 (4%)	66 (5%)
Eastern Province	11 (1%)	2 (1%)	4 (2%)	17 (1%)
Northern Province	33 (4%)	11 (5%)	12 (6%)	56 (4%)
North Western Province	41 (5%)	13 (6%)	5 (3%)	59 (5%)
Southern Province	47 (6%)	10 (5%)	8 (4%)	65 (5%)
Uva Province	11 (1%)	5 (2%)	10 (5%)	26 (2%)
Sabaragamuwa Province	27 (3%)	11 (5%)	9 (5%)	47 (4%)
North Central Province	20 (2%)	6 (3%)	9 (5%)	35 (3%)
<b>Total</b>	<b>865 (68%)</b>	<b>216 (17%)</b>	<b>188 (15%)</b>	<b>1269 (100%)</b>

## Employee profile based on age and gender by grade -as at end December 2017 (GRI 405-1)

Age Category	Corporate Management		Chief Manager		Senior Manager and Manager		Assistant Manager		Management Trainee		Non-Executive and Trainee		Fixed Contract		Minor Staff and Fixed Contract		Total
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	
18-24									3 (100%)		153 (41.2%)	123 (40.9%)		1 (10%)	84 (45.7%)	10 (45.5%)	374 (29.5%)
25-29							21 (21%)	16 (22%)		3 (100%)	140 (37.7%)	110 (36.5%)		2 (20%)	77 (41.8%)	10 (45.5%)	379 (29.9%)
30-34				1 (33.33%)	26 (23%)	12 (26%)	50 (51%)	32 (43%)			67 (18.1%)	48 (15.9%)	1 (20%)	1 (10%)	16 (8.7%)	2 (9%)	256 (20.2%)
35-39	2 (15%)		2 (13%)	1 (33.33%)	31 (27%)	14 (30%)	19 (19%)	15 (20%)			7 (1.9%)	14 (4.7%)			2 (1.1%)		107 (8.4%)
40-44	4 (31%)	1 (17%)	6 (40%)	1 (33.33%)	33 (29%)	9 (20%)	5 (5%)	3 (4%)			2 (0.5%)	5 (1.7%)	1 (20%)		2 (1.1%)		72 (5.7%)
45-49	4 (31%)	3 (50%)	6 (40%)		19 (17%)	9 (20%)	4 (4%)	6 (8%)			1 (0.3%)				3 (1.6%)		55 (4.2%)
50-54	2 (15%)	2 (33%)	1 (7%)		3 (3%)	2 (4%)		2 (3%)				1 (0.3%)	1 (20%)	1 (10%)			15 (1.2%)
>=55	1 (8%)				2 (1%)						1 (0.3%)		2 (40%)	5 (50%)			11 (0.9%)
<b>Total</b>	<b>13 (1%)</b>	<b>6 (0.5%)</b>	<b>15 (1.2%)</b>	<b>3 (0.2%)</b>	<b>114 (9%)</b>	<b>46 (3.6%)</b>	<b>99 (7.8%)</b>	<b>74 (5.8%)</b>	<b>3 (0.2%)</b>	<b>3 (0.2%)</b>	<b>371 (29.2%)</b>	<b>301 (23.7%)</b>	<b>5 (0.4%)</b>	<b>10 (0.8%)</b>	<b>184 (14.5%)</b>	<b>22 (1.9%)</b>	<b>1269 (100%)</b>

**Staff recruitments - as at end December 2017** (GRI 401-1)

PROVINCE	Age category						Total
	<30		30-50		>50		
	Male	Female	Male	Female	Male	Female	
Western Province	157 (69.6%)	59(72.9%)	39 (79.6%)	20 (91.0%)	1 (100%)	5 (100%)	281 (74%)
Central Province	8 (3.6%)	5 (6.2%)	1 (2.0%)				14 (4%)
Eastern Province	4 (1.8%)						4 (1%)
Northern Province	6 (2.7%)	1 (1.2%)					7 (2%)
North Western Province	9 (4.0%)	1 (1.2%)	2 (4.1%)				12 (3%)
Southern Province	13 (5.8%)	8 (9.9%)	2 (4.1%)	1 (4.5%)			24 (6%)
Uva Province	11 (4.9%)	3 (3.7%)	1 (2.0%)	1 (4.5%)			16 (4%)
Sabaragamuwa Province	8 (3.6%)	3 (3.7%)	2 (4.1%)				13 (3%)
North Central Province	9 (4.0%)	1 (1.2%)	2 (4.1%)				12 (3%)
<b>Total</b>	<b>225 (58.7%)</b>	<b>81 (21.1%)</b>	<b>49 (12.8%)</b>	<b>22 (5.7%)</b>	<b>1 (0.4%)</b>	<b>5 (1.3%)</b>	<b>383(100%)</b>

**Staff resignations - as at end December 2017** (GRI 401-1)

Province	Age category						Total
	<30		30-50		>50		
	Male	Female	Male	Female	Male	Female	
Western Province	102 (64%)	30 (65%)	29 (60%)	19 (86%)	3 (100%)		183 (66%)
Central Province	8 (5%)		3 (6%)				11 (4%)
Eastern Province	4 (3%)	2 (4%)					6 (2%)
Northern Province	3 (1%)	1 (2%)	1 (2%)				5 (2%)
North Western Province	7 (4%)	1 (2%)	3 (7%)	2 (9%)			13 (5%)
Southern Province	14 (9%)	4 (10%)	4 (8%)	1 (5%)			23 (8%)
Uva Province	4 (3%)	1 (2%)	1 (2%)				6 (2%)
Sabaragamuwa Province	8 (5%)	7 (15%)	3 (7%)				18 (6%)
North Central Province	9 (6%)		4 (8%)				13 (5%)
<b>Total</b>	<b>159 (57%)</b>	<b>46 (17%)</b>	<b>48 (17%)</b>	<b>22 (8%)</b>	<b>3 (1%)</b>		<b>278 (100%)</b>

**Performance and reward** (GRI 404-3)

In the Bank's efforts to strive towards a culture that recognises and rewards employee performance, the entire performance management process received a makeover with the launch of SAP SuccessFactors' Performance and Goals Module, which was implemented in partnership with IBM Sri Lanka.

Whilst the system facilitates the performance management process through a leading edge cloud solution, the entire process was

revised to be more transparent, efficient and objective. Leveraging SuccessFactors' capability, the Bank created goal libraries across the organisation so that employees have objective and measurable goals directly aligned to Bank goals. The new system and upgraded process is applicable to all permanent employees of the Bank and the process was fine-tuned to ensure all employees and line managers had sufficient information for performance reviews and opportunity for engagement. All line managers were trained on how to conduct a feedback discussion, how to set goals as well as on

## SOCIAL AND ENVIRONMENT REPORT

how to navigate the system, together with insights into the system's key features for team perspectives. Over 100 employees were trained on the new system and process as departmental or branch trainers to ensure business adoption and change management was at its optimum. As an outcome of these efforts, employees completed their Year End Reviews for 2016 and Goal Setting for 2017 in the new system. The Bank also introduced an Interim Review in July.

Annually, the Bank's goals are derived subsequent to the strategic planning initiative, where the direction of the organisation for the next one year is deliberated and agreed by the Board and the Leadership Team. This year too, the annual goals were agreed between the Director / Chief Executive Officer and the Leadership Team and approved by the Board. All goals were focused on the Financial and Non Financial (People and Process) outcomes expected for the year. These goals were cascaded by the business and functional heads to their respective teams.

The Bank's remuneration practices are governed by a Remuneration Policy which has been approved by the Human Resources and Remuneration Committee of the Board. In keeping with the

objective of maintaining transparency and integrity, all proposals on the mechanisms for employee salary adjustments in 2017 were tabled at the Board Human Resources and Remuneration committee for deliberation and approval prior to being implemented; thereby strengthening the governance on employee remuneration in the Bank and ensuring an equitable approach to rewards management.

In order to strengthen the link between performance and reward, bonus payments for 2017 across all grades were linked to the annual performance rating of the employee. This resulted in higher levels of performance being recognised with higher bonus payments and thereby motivating and encouraging employees to perform better.

The remuneration of the CEO and Key Management personnel (KMP) are linked to delivering the Bank's strategic objectives and are measured via the performance score card. CEO and KMP performance is reviewed by the Human Resources and Remuneration Committee of the Board which is responsible for evaluating performance and recommending any changes in remuneration to the Board of Directors.

### Benefits provided to employees (GRI 401-2)

All employees in the permanent cadre are eligible for the following benefits based on their grade in addition to remuneration.

Benefits provided	Permanent employees	Trainees
Private Provident Fund with the option for increased contribution	√	x
Loans for staff members at concessionary interest rates for housing, motor vehicle, personal needs, furniture loans, festival advances	√	x
Medical reimbursement, Spectacle reimbursement	√	x
Personal accident and Life Insurance	√	√
Special Critical cover insurance covering employee and spouse	√	x
Reimbursement of course fee and exam fees in relation to Banking exams conducted by IBSE	√	x
Reimbursement of cost of obtaining a Master's degree for staff in the grade of manager and above	√	x
Payment of membership subscriptions of Professional bodies for Assistant Manager and above grades	√	x
Difficult station allowance	√	√
Travelling allowance	√	x
Incentives for high performing sales staff	√	x
Bonuses based on Bank's performance	√	√
Awards for high performing teams	√	√
Recognition of long standing employees for those who completed 20 years of service	√	x

### Equal opportunity and equal remuneration

(GRI 406-1/408-1/409-1)

Union Bank continues to uphold its commitment towards equal opportunity and equal remuneration. All aspects of human rights are upheld by the Bank, at all times. The Bank does not employ workers under the legal minimum age and prohibits the use of all forms of forced labour. All employees irrespective of age, race, religion, nationality and gender are treated equally and with respect. The Bank has zero tolerance towards any form of harassment; sexual or otherwise and is committed to ensuring all employees are treated with respect and dignity at all times.

Opportunities for career progression, remuneration, and training are purely based on performance and merit. It is noteworthy that there have been no incidents reported with regard to discrimination during the year reviewed. This is a clear indication of the Bank's assurance to employees that diversity is valued and respected throughout the organisation. All HR processes and policies have been designed to provide equal opportunity. This is evident from the key ratios below.

### Ratios of standard entry level salary by gender (GRI 405-2)

The standard Entry Level Salary ratio at all grades is 1:1

### Ratio of basic salary by gender – as at end December 2017

	Male	Female
Corporate Management	1.0	0.9
Chief Manager	1.0	1.2
Senior Manager	1.0	0.9
Manager	1.0	1.0
Assistant Manager	1.0	1.0
Management Trainee	1.0	1.1
Officer	1.0	1.0
Trainee Officer	-	1.0
Banking Assistant	1.0	1.0
TBA	1.0	1.0
Sales Staff	1.0	1.1
Support Staff	1.0	-

### Employee engagement

Employee engagement remains a key pillar in our 'People Strategy' and an essential component in delivering the Bank's overall strategy.

The Bank conducted an employee engagement survey in partnership with the Great Place to Work Institute (GPTW) as a follow up to the baseline survey done in 2015. This year, the Bank leveraged on GPTW's dual-perspective Trust Index® survey to which employees provided their feedback to questions where one perspective was on their opinion of the immediate team and the other perspective was their opinion of the organisation as a whole. The survey which was trilingual and online, received a response rate of 78%. It was encouraging to note that the overall engagement score had increased significantly against the survey conducted in 2015. Positive feedback was received on several low scoring areas

which emerged from the 2015 survey, indicating that the efforts made since then by the Bank have reaped positive results in the minds of employees.

An additional component of this year's survey was a Culture Audit® conducted by GPTW in conjunction with the survey. This assessed the Bank's people practices, policies and procedures in correlation with the perceptions employees had of them as revealed from the survey.

The outcome of the survey has been shared with the leadership team and the action planning has already commenced in order to identify key drivers for engagement within teams and the Bank as a whole.



Whilst measuring employee engagement is of utmost importance to the progress of the Bank, the Employee Value Proposition (EVP) and its definition was considered a timely intervention as well in 2017. Once again, leveraging GPTW's expertise, the Bank commenced the activities to derive its EVP through a series of focused group discussions, the identification of key roles as well as input from a sample survey conducted to identify the various facets that form the EVP. The Bank's EVP will have a significant impact on its people practices, policies and processes as well as its Employer Brand. Action plans are currently on the way to finalise the EVP and its associated facets which we aim to launch and operationalise during 2018.

### Employee relationship management

The Bank continued to focus on expanding communication channels with employees. Quarterly updates via town hall meetings as well as meetings addressed by the CEO with the Leadership Team and the Senior Management teams were also held with the objective of communicating the Bank's achievements, strategies and ambitions.

Regular Branch visits by the CEO and Leadership Team also continued. This provided Branch Managers and staff with opportunities to meet with and carry on one-to-one dialogues with members of the Leadership Team.

The formal grievance management policy of Union Bank provides a platform which employees could use to raise formal grievances. There were no such grievances reported in 2017. The Bank's open-door policy provides ample opportunity for staff to meet with the CEO and members of the Leadership Team to voice their opinions, grievances and suggestions.

Employee requests for transfers due to personal circumstances are considered favourably at all times within available opportunities. In order to ensure swift response to transfer requests the frequency of reviewing such requests were increased in 2017 and 28 employees were provided transfer opportunities. Employees are also encouraged to participate in the numerous Bank initiatives and sports activities that foster teamwork and collaboration. We are proud to say that our employees are breaking boundaries especially in the sporting arena and have done well in Basketball and Badminton in particular. The Bank strongly believes in facilitating an environment where employees can maintain a healthy work-life balance and makes every effort to enable this.

We believe in fostering good relationships with our employees from the point they enter the organisation to the point they transition out. Whilst a minimum notice period of two months is required for

voluntary exists, we ensure all statutory and regulatory requirements are met on time to ensure a smooth transition.

### Career growth (GRI 102-41)

The Bank continued to provide accelerated career growth for its employees aligned with the purpose of choosing an employee for his or her role effectively. The Bank is committed to provide opportunities for career growth to employees who are high performing and show high potential. In 2017, Union Bank introduced a much needed Senior Banking Assistant grade in recognition of employees who have tenured and performed well within the Bank. We continued the acceleration programme for high performing Trainee Banking Assistants and 11 Trainees were confirmed as Banking Assistants this year.

With the objective of providing cross exposure, Union Bank encourages staff to apply for selected internal vacancies. Accordingly, 46 such vacancies were filled by internal staff during the year reviewed. In addition, aligned to the Bank's policy, employees who have completed 5 consecutive years of service in a Branch are rotated on a compulsory basis.

Union Bank employees are not covered by collective bargaining agreements or represented by employee unions. The management propagates a culture of trust and professionalism and engages directly in dialogue with employees to recognise, reward and support them across all levels to pursue their career ambitions at the Bank.

### Employee well being and occupational health (GRI 403-2)

Ensuring employee health and safety is of prime importance at the Bank, as we prioritise employee well-being and have been consistently maintaining zero occupational health issues. All policies and procedures that are relevant have been documented and are strictly implemented to ensure well being and a secure work environment to our staff.

There were no workplace related injuries during the year under review. Standard safety measures such as periodic fire alarm checks, training of fire wardens, conducting fire drills etc. further ensured a safe working environment.

All permanent staff of the Bank are entitled to a comprehensive medical insurance cover for surgical, hospitalisation and critical illness. In addition, the Bank provides reimbursements of outdoor medical expenses such as OPD visits and costs of prescribed medicines to ease the burden of high medical costs on our employees.

In addition, physical security measures such as security guards, access controlled doors and CCTV cameras have been put in place to ensure the physical safety of our employees.

#### Learning and development (GRI 410-1)

The Bank continued to invest heavily on Learning and Development to drive a culture of learning, one that is built on a firm foundation of attitudes, skills and knowledge. Based on the training needs analysis and the critical business imperatives at a Bank-wide level, training was mainly focused on Leadership Development, Self-Development, Credit Skills, Operations and Compliance. However, training of third party and outsourced personnel lies outside the Bank's training policy's scope.

#### Training and development of new entrants to the Bank

The Bank firmly believes in developing and nurturing the young talent that joins the Union Bank team. As such, a comprehensive Training Road Map spanning 02 years was developed for all new recruits. The training offered included exclusive programmes at the Centre for Banking Studies to enhance their technical and banking knowledge and field visits to enable them to gain market exposure.

#### Compliance Training conducted for 2017 – Gender Wise

(GRI 205-2)

Gender	No of Employees	No of Hours
Female	91	177.5
Male	133	260.5
<b>Total</b>	<b>224</b>	<b>438</b>

#### Compliance Training conducted for 2017 – Grade wise

(GRI 205-2)

Grade	Province	No of Employees	No of Hours
Assistant Manager	Western Province	17	34
AVP	Western Province	12	24
Banking Assistant	Western Province	37	74
Chief Manager	Western Province	10	16.5
Fixed Term - Recoveries	Western Province	2	4
FTC	Western Province	8	16
Management Trainee	Western Province	1	2
Manager	Western Province	12	24
Officer	Western Province	33	66
Senior Manager	Western Province	19	31.5
Trainee	Western Province	65	130
VP	Western Province	8	16
<b>Total</b>		<b>224</b>	<b>438</b>

#### Branch manager leadership development

People management is considered one of the most important leadership skills, as it directly influences the productivity of staff and impacts staff morale and motivation. With the rapid changes the Bank was undergoing it was imperative that the branch managers in the network were up-skilled to meet the challenges of such change. The result was the introduction of 'Insight' - a specially designed leadership and people development programme for thirty high potential branch managers. The programme was facilitated by an external consultant and was received very well by the participants.

#### Compliance training (GRI 205-2)

Considering the importance of the subject, a comprehensive plan for Compliance training was initiated to update all categories of staff and a special section on Compliance training was added to the Training Policy of the Bank. Heavy emphasis was placed on training related to Anti-Corruption and Anti Money Laundering. Special emphasis was given to all high risk categories of staff. The Leadership Team of the Bank also attended a programme facilitated by the Senior Assistant Directors of the FIU.

**Compliance Training conducted during 2017 for Leadership Team - Vice Presidents** (GRI 205-2)

	No of Employees	No of Hours
Male	6	12
Female	2	4
<b>Total</b>	<b>8</b>	<b>16</b>

**Personal development**

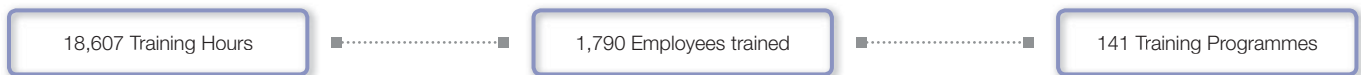
A specially designed programme facilitated by an external consultant was offered to selected staff who were aspiring to move forward in their careers. The programme focused on achievement oriented thinking and professionalism.

**Credit evaluation skills**

Credit Skills training continued for all credit staff in branches. The programmes were facilitated by the Centre for Banking Studies and internal faculty. The staff in the Credit Operations Department attended a specially designed programme on Credit Operations facilitated by an external trainer.

**Partnerships with external training institutes**

In addition to an increase in the in-house training, the Bank continued to partner with the Institute of Bankers Sri Lanka, The Centre for Banking Studies, Central Bank of Sri Lanka, and other key training institutes in Sri Lanka, to provide specialised training for its employees. A substantial number of staff were provided opportunities within the year, to attend special conferences and seminars of international repute which helped them to enhance their knowledge and also network with the industry contemporaries. 216 staff attended 80 programmes on various topics, relevant to their job role.

**Employee category-wise training hours** (GRI 404-1)

Employee Category	No. of Staff	Total Training Hours	Average Hours
BDA/ BDO/SBDO/ PBA/ SPBA	125	2419	19.4
Out Sourced Staff	9	58.5	6.5
Support Staff	1	3.5	3.5
FTC	13	42.5	3.3
TBA	428	5051	11.8
BA	279	2388	8.6
SBA	44	337	7.7
Officer	262	2862.5	10.9
Management Trainee	19	166	8.7
Assistant Manager	242	2341	9.7
Manager	178	1751.5	9.8
Senior Manager	89	596	6.7
Chief Manager	48	316	6.6
CEO/ VP/ AVP	53	274.5	5.2
<b>Total</b>	<b>1790</b>	<b>18607</b>	<b>10.4</b>

## Gender-wise training hours details (GRI 404-1)

Gender	No of Staff	Total Training Hours	Average Hours
Female	708	7054.5	10.0
Male	1082	11552.5	10.7
<b>Grand Total</b>	<b>1790</b>	<b>18607</b>	<b>10.4</b>

## Skills management programmes (GRI 404-2)

Program	No. of Programmes	No. of Training Hours	Total No. of Participants	Average Hours
Leadership Training	6	1462	129	11.3
Personal Development	17	3615.5	455	7.9
Customer Service	2	608	76	8.0
Pawning	2	488	61	8.0
Compliance Training	8	438	224	2.0
Operations	7	1886	205	9.2
Credit	5	1779.5	141	12.6
Inductions	14	5720	283	20.2
<b>Total</b>	<b>61</b>	<b>15997</b>	<b>1574</b>	<b>10.2</b>

## COMMUNITY

Union Bank continues to engage with identified community groups with a view of maintaining long-term and sustainable outcomes and fostering healthy relations while contributing positively to the communities in which it operates.

The Bank's branch network dispersed across the island engages with their respective communities by being an active partner in the social and trade related activities in the localities while responding with empathy at times of crisis caused by natural disaster,

weather phenomena etc. Towards the Bank's supplier markets, the Bank ensures fair and transparent procurement practices and ensures timely payments in order to maintain mutually beneficial relationships. The Bank also dedicates donations and sponsorships towards worthy and charitable causes throughout the year guided by the Bank's Corporate Social Responsibility (CSR) policy which determines the parameters for CSR activities of the Bank. In engaging with the wider community, the Bank implements a focused CSR strategy that places emphasis on education and the well-being of children and youth of the country.

## SOCIAL AND ENVIRONMENT REPORT

**Supply Chain Management** (GRI 102-9)

The Bank's procurement policy was reviewed during the year and the reviewed policy was approved by the Board of Directors.

The main objectives of the policy are to;

- 1) Maximise economy, timeliness and quality in procurement resulting in the best value proposition for the Bank
- 2) Adhere to prescribed standards, specifications, rules, regulations and good governance;
- 3) Provide fair, transparent, equal and maximum opportunity for eligible interested parties to participate in procurement;
- 4) Expediently execute work and delivery of goods and services;
- 5) Ensure fairness, transparency and consistency in the evaluation and selection procedure; and
- 6) Retain confidentiality of information provided by bidders.

The supplier selection process gives preference to competitive pricing, quality and turnaround time for deliveries. Factors such as environment friendliness would give the suppliers an added

The following is an analysis done on the Bank's suppliers based on their location.

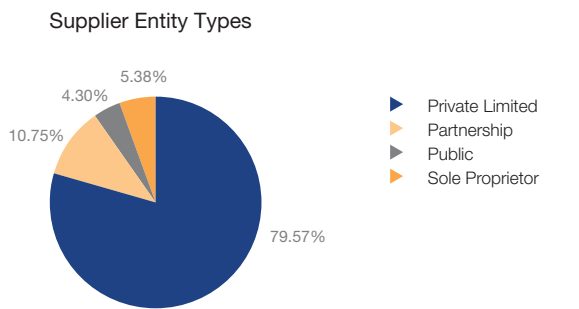
Types of Suppliers	Location (Local)
Janitorial services	Sri Lanka
Messenger (Office Assistants) services	Sri Lanka
Security services	Sri Lanka
Courier services	Sri Lanka
Supply of foliage plants and flowers	Sri Lanka
Pest control services	Sri Lanka
Supply of ATM consumables	Sri Lanka
Supply of toners/ribbons/fax cartridges	Sri Lanka
Supply of envelopes/registers/ledger binders/rubber stamps	Sri Lanka
Printing of security documents such as cheque books, vouchers, advertising materials etc.	Sri Lanka
Supply of all kinds of stationery/plastic material/advertising materials	Sri Lanka
Statement printing (pressure seal) and dispatching	Sri Lanka
Banking equipments	Sri Lanka
Telecommunication equipments and accessories (mobile phones, iPads, Chargers etc.)	Sri Lanka
Supply and maintenance of security related equipments (fire extinguishers, CCTV cameras, police alarm guard tour system etc.)	Sri Lanka
Office furniture including bank safes, lockers, Steel cupboards	Sri Lanka
Waste paper collectors	Sri Lanka
Movers/ Goods & Safes Transporters	Sri Lanka
Suppliers of vehicles on hire (vans/cars/three wheelers)	Sri Lanka
Services & maintenance of office equipment (Photocopy, fax machines etc.)	Sri Lanka

advantage. During the signing up and annual review process of outsourced service providers, their level of environmental friendliness is looked into.

## (GRI 204-1)

The Bank works with many types of suppliers, who are key stakeholders in the Bank's processes providing mutually beneficial solutions. During the year, the supplier re-registration process was carried out as per the Bank's procurement policy. Priority is given for local suppliers for ease of business, enhanced monitoring and control. More than 95% of the Bank's suppliers are based in Sri Lanka, while a few important technological service providers are based out of Sri Lanka. The Bank's archival management, inventory management, janitorial service, mail room service and catering services are outsourced to specialists in these respective industries. There have been no significant changes in the supply chain operations during the period under review.

Types of Suppliers	Location (Local)
IT Equipment/Hardware, Networking equipment	Sri Lanka
Complimentary & public materials	Sri Lanka
Gift items	Sri Lanka
Civil construction & Interior/Exterior decor, Architecture	Sri Lanka
Electrical contractors	Sri Lanka
Supply of sanitary items	Sri Lanka
Generators	Sri Lanka



The registered suppliers belong to different types of entities. While 79.57% of the Bank’s suppliers are private limited companies, 20.43% of the suppliers could be categorised as small and medium enterprises.

**Our existing and proposed commitment to sustainable business practices**

(GRI 206-1/417-2/ 417-3/418-1/419-1)

Measurement	Achievement
Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	No incidents recorded during the year under review
Incidents of non-compliance concerning marketing communications	
Non-compliance with laws and regulations in the social and economic area	
Incidents of non-compliance concerning product and service information and labelling	
Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	

**Corporate social responsibility**

Union Bank’s Corporate Social Responsibility projects are guided by a Board-approved CSR strategy that outlines the focus and boundaries of the CSR activities of the Bank. A dedicated CSR committee manages and coordinates the CSR initiatives with the guidance of the CEO of the Bank.

Having prepared a foundation in 2016 with the formation of CSR committee and development of a comprehensive policy to be guided by, in the year 2017 Union Bank conducted its first CSR project focusing on school children affected by severe weather that struck the island in May 2017.

The relief project themed ‘Back to School’ was conducted in line with Union Bank’s key CSR focus of elevating the lives of children and youth. With this project, the Bank reached out to over 700 school children in two schools in Ratnapura and Akuressa - two of the worst affected areas. Two deserving schools were identified with the involvement of the Bank’s branches in these two areas where the floods have cost the communities their livelihoods and belongings, thus making the children’s education prospects bleak and vulnerable. Through Union Bank’s ‘Back to School’ initiative, the Bank intended to support and encourage these children to overcome their dire circumstances and return to school to resume their studies as early as possible.

## SOCIAL AND ENVIRONMENT REPORT

In order to support the school children to resume their studies, a comprehensive pack of books and stationery items were provided along with school shoes to all children in the two selected schools. Phase one of Union Bank's 'Back to School' project was implemented at the Athuraliya Central College in Akuressa, one of the leading schools in the area, in which over 90% of children had been affected by the floods. The second phase of the project was completed at R/Haldola Primary School in Ratnapura.

The two programmes which were coordinated with the assistance of the school principals and staff members were also attended by Union Bank's staff including staff members of the regional offices and the respective branches. This CSR initiative of the Bank was also supported by the donations made by Bank's staff members.

Looking into 2018 and beyond, Union Bank's social responsibility will continue to reach far beyond philanthropy and will seek to uplift and empower the children and youth in deserving communities. The Bank will remain committed to bring respite and hope to children and youth of the nation through its CSR strategy which places special focus on development, empowerment, education and social well-being of this key segment of the society.

**Membership in associations**

(GRI 102-13)

The Bank has general membership in a number of, industrial and professional organisations and associations. The list of the Bank's corporate memberships with relevant associations are as follows:

- ▷ Sri Lanka Banks' Association
- ▷ Institute of Bankers Sri Lanka
- ▷ Ceylon Chamber of Commerce
- ▷ The Employees' Federation of Ceylon
- ▷ The Association of Primary Dealers



### Key Highlights 2017

- ▷ 36% YoY growth in AuM to Rs. 13.6 Bn in CY17
- ▷ NAMAL Equity Funds out-performed ASPI while Debt funds delivered superior returns
- ▷ Strong performance in equity funds with flagship National Equity Fund delivering an annualised return of 13.5% for the past 26 years
- ▷ Maintained Market Share of 8% in AuM in the unit trust industry
- ▷ PAT of Rs. 31 Mn
- ▷ Relocation of Head office to No.7, Glen Aber Place, Colombo 3

### Operating under tough market conditions

For the third consecutive year, the unit trust business had to operate under bearish equity markets with ASPI trading within a narrow range during CY17. ASPI gained + 2.3% during CY17 while showing a negative return of - 12.74% for the last 3 years. NAMAL was able to deliver positive returns to investors with NAMAL's flagship equity funds, National Equity Fund (+3.92%), NAMAL Growth Fund (+5.63%) and NAMAL Acuity Value Fund (+3.3%) significantly out-performing the ASPI during the year. National Equity Fund, NAMAL Growth Fund and NAMAL Acuity Fund were ranked amongst the top 3 best performing equity funds in their respective categories.

Interest rates continued on a downward trend during the year with benchmark 1 year TB yields falling by almost 125 basis points to 8.9% by year end while NDBIB-CRISL 91 day T-bill index reported a return of 9.54% during the year. NAMAL fixed income funds provided attractive tax adjusted returns with NAMAL High Yield Fund delivering returns of 11.83% during the year, to be within the top 3 best performing funds in its respective category.

Delivering superior fund performance is the company's key priority and continues to underpin the long term profitability of NAMAL's asset management business. NAMAL endeavours to differentiate in terms of investment strategy and style in order to maintain sustainable long term returns to its investors. It is noteworthy that

National Equity Fund which has the longest track record in the industry has delivered 13.5% compounded annualised returns to investors in its 26 years of existence, while NAMAL Growth fund with 20 years of existence reported a 14.8% annualised return, which is a benchmark set by NAMAL for the unit trust industry.

### Turbulent times due to vicissitudes to Taxation policies

The FY 2017 budget proposals withdrew the tax incentives available to corporate investors thus making unit trust investments significantly less attractive. The proposed tax amendment was to be effective from April 2017 where all the tax benefits offered to Fixed Income unit trusts would have been withdrawn, while making all unit trust tax neutral investment vehicles. As a result, the industry witnessed almost Rs. 30 Bn of Fixed income investments redemptions by institutional investors in 1H of FY 17.

This trend however, was reversed with the amendments to FY 17 Budget proposals in June 2017. The amendments stated that the existing tax advantages would be extended to unit trusts until March 2018. As a result, institutional investors reinvested in fixed income funds with industry growing back to Rs. 134.5 Bn, growth of 29.5% YoY.

NAMAL AuM grew by 36% YoY to Rs. 13.6 Bn in CY 2017. NAMAL's equity unit trust AuM remained resilient at Rs. 4.4 Bn in CY 17, while fixed income unit trust AuM stood at Rs. 6.7 Bn, a growth of 81% YoY. Private portfolio management business stood at Rs. 2.6 Bn in CY17, reporting a growth of 4% YoY. Overall, NAMAL maintained its 8.4% market share in CY 17 to be amongst the 5 largest managers in the industry.

Retail sales volumes too were affected during the year but NAMAL continued to maintain dominance in retail sales volumes and client acquisition in the market. Retail sales volumes were down 20% YoY to Rs. 650 Mn while account acquisition was down 30% YoY to 700 new clients with much focus being given to high ticket acquisitions.

### Earnings impacted by high fund withdrawal in 1H 2017

The asset management fees for the full year 2017 stood at Rs. 87.2 Mn (down 4.6% YoY). Income from equity unit trusts showed stable growth of 5% YoY to Rs. 63.46 Mn while income from fixed income unit trusts was most affected due to high redemptions witnessed in 1H of FY 17, showing a decline of 30.9% YoY to Rs. 20.8 Mn. Income from proprietary funds was Rs. 24.3 Mn, down 4.7% YoY due to lower than anticipated returns in its equity holdings. Total income reported a decline of 4.5% YoY to Rs. 126 Mn for CY17, while the total overheads were well managed at Rs. 93 Mn. Profit after Tax (PAT) for 12 months ending December 2017 stood at Rs. 31 Mn, showing a decline of 19.9% YoY.



## SUBSIDIARY UPDATE

**Relocation of the NAMAL head office**

NAMAL as a leading Unit Trust management company in Sri Lanka with widespread experience in both domestic and international capital markets, also made a strategic decision to shift its office premises to No.7 Glenaber Place, Colombo 3. The new premises will support the growth of the company, providing a more flexible and accessible business venue to accommodate its discerned clientele, thus delivering an enhanced client experience.

**Prospects for 2018**

With the new tax structure coming into effect by April 2018, the industry anticipates a considerable decline in AuM of the fixed income unit trust industry, namely money market and income funds in the 1Q of CY 18. This would bring the industry focus back to equity unit trusts, where equities as an asset class, still remains largely free of any income tax. As a pioneer in the unit trust industry, NAMAL strongly believes this opens a significant opportunity for NAMAL's equity unit trust business to capitalise on its 26 year track record and its well established retail sales force. While the company sees strong opportunity to distribute its retail equity products through the Wealth Management channel of the banking industry, NAMAL also sees openings in private wealth management for high net worth individuals and mid-scale enterprises. NAMAL remains optimistic of the future growth potential in the capital markets and remains committed to delivering long term capital appreciation and income to all its valued investors.

**Key Highlights 2017**

- ▷ 28.7% YoY growth in gross income to Rs. 1.9 Bn in CY17.
- ▷ 27.6% YoY growth in NII to Rs. 575.0 Mn in CY17.
- ▷ YoY increase of 15.0% in accommodations to Rs. 9.8 Bn in CY17.
- ▷ Customer deposits increased by 21.0% YoY to Rs. 7.1 Bn in CY17.
- ▷ Core capital adequacy ratio has increased to 11.7% in Dec 2017 from 8.8% in Dec 2016.
- ▷ UB Finance has further extended its asset backed and working capital product portfolio.

The year under review marks one of sustained growth and stability for UB Finance. While the economic conditions continued to be challenging, the organisation leveraged on well-orchestrated initiatives to ensure stability, which was the prominent focus for the year. The dedication and hard work of employees, the continued trust and confidence of customers, and the leadership and strategic direction provided by the management and Board of Directors all played a significant role in propelling the organisation forward to exceed targets and reach greater profitability.

**Key performance highlights**

The performance recorded by the company amidst these challenges was commendable. The results for the year highlighted an impressive growth over the previous year. Income for the period also increased by 28.7% to Rs. 1,933 Mn and total operating income for the period increased by 4.1% to Rs. 674 Mn.

The Profit Before Tax was Rs. 77 Mn and Profit After Tax was Rs. 62 Mn for the year 2017. Also during the period the depositor base increased from Rs. 5,839 Mn to Rs. 7,066 Mn being a 21% increase, highlighting the confidence placed by depositors in the company. Loans and receivables from customers grew from

## SUBSIDIARY UPDATE

Rs. 8,499 Mn to Rs. 9,774 MN, an increase from our network. The total assets increased by 20.9% with the asset base standing at Rs. 11,271 Mn as at 31st December 2017.

The organisation's asset and liability positions remained well matched and the Company maintained sound levels of liquidity during the year.

**Business Review**

UB Finance continued to focus on strengthening its core business of leasing while supporting growing customer needs through an enhanced suite of product and service offerings. The Company offers investment solutions such as fixed deposits and savings, coupled with financial solutions in the form of leasing, vehicle and mortgage loans as well as working capital solutions through factoring, cheque discounting and easy drafts. New additions to its portfolio were the introduction of flex-it, Easy Lease and Top Up. Flex-it is a flexible mid term product which guarantees a higher return. During the year UB Finance also promoted Easy Lease which is a tailor made leasing solution available for a range of unregistered / brand new vehicles at competitive rates with special flexible repayment instalments. Top-up was also added to the portfolio which is a hassle free quick loan available for existing long standing customers in appreciation of their loyalty to the organisation. UB Finance also continued to create innovative tailor made solutions for its customers that offer greater convenience, better support and enhanced flexibility. The range of products is conceptualised and designed to serve the financial needs of all industries and sectors, weaving strong and lasting relationships with customers.

During the year UB Finance's growing focus on the SME sector also continued to gain momentum. Several initiatives were carried out across the country to enhance its value proposition to the small and medium enterprise customers through a wide product and services range to meet the evolving needs of the sector. The company also celebrated the 2nd anniversary of its Premier Factoring Service Centre in Colombo. This centre has enabled UB Finance to further penetrate the SME sector at a rapid pace during the year.

The Company continued to enhance its deposit base despite numerous emerging challenges, once again reflecting the confidence placed by its depositors.

During 2017 UB Finance continued to review and improve business operations, documentation, procedures, processes and systems. Based on recommendations made by the Parent Company to align operating structures with that of the Bank, the lending process including marketing, channels, credit and operations were realigned and strengthened to improve business volumes and service standards while minimising risks. This move is to help the

organisation look inward to consolidate its competitive strengths and maximise opportunities in the industry. This has also helped to deliver financial discipline leading to a sustainable lending portfolio with minimal NPL.

As part of its consolidation efforts, the Management has also taken steps to introduce a core banking solution that would give UB Finance a competitive edge with reduced costs and faster turn-around times, relieving staff of routine responsibilities and enabling them to engage in alternative value added activities. The new system will also provide greater information accuracy to help with well informed and timely decision making. The improved technologies will also assist to expand the organisation's digital footprint in order to increase its reach.

UB Finance is also committed to the highest standards of Corporate Governance and compliance and is upgrading its practices in line with regulatory requirements that would help further strengthening them qualitatively in line with industry best practices. Thus, in-line with its sustainable growth and good governance structure in place, ICRA Lanka Limited gave UB Finance and issuer rating of BB with a stable outlook. The Company considers compliance with the regulatory requirements and guidelines as core to its business and good governance.

Technology continues to drive our core being. It plays an integral role in providing an effective platform that supports operations and helps to align the corporate strategy and plans. The organisation has in place a comprehensive IT framework which has been integrated in to most of the organisation's business activities to deliver greater customer satisfaction, service standards and efficiencies. During the year under review, UB Finance continued to strengthen its security features through its IT platform to ensure that high standards are maintained. A well-defined IT Security Policy is also in place which guarantees that all critical systems are validated and tested before implementation. This helped to enhance and maintain information, security controls and systems while safeguarding the confidentiality of the information. During the year UB Finance also adopted a state-of-the-art ERP system that provides a solid foundation to further improve customer service levels and launch differentiated financial solutions. This introduction will enable UB Finance to enhance the digital banking experience to customers by delivering online facilities such as internet banking, mobile banking and the future launch of ATM services.

Brand and image building initiatives also continued during the year to increase market share and augment the service offering.

UB Finance reputation is largely built on lease finance and in the year under review due to an decrease in the Loan to Value (LTV)

## SUBSIDIARY UPDATE

ratio for credit facilities for motor vehicles and changes in import duties, there was a significant impact on the leasing business. Although this created a challenging environment in the financial sector, UB Finance continued its focus to sustain and improve credit quality. We also adjusted our service offerings to adapt to the changing situation to enable the organisation to maintain a growth in leasing. The Organisation continued to offer leasing facilities across a wide spectrum of consumers with special emphasis on SME segment leasing with the main product being small trucks and lorries .

This is aptly supported by a strong regional presence and ability to offer tailor made facilities that support changing lifestyles. Salient efforts to build strategic alliances with vendors and dealers continued to also play a role in the leasing business.

Given the importance of human capital as a key driver of the business, UB Finance continues to provide an enriching work environment that motivates and inspires its employees to perform at peak. It's highly engaged and energetic team is the backbone of the Company and their commitment and dedication to their roles and the organisation, have resulted in UB Finance being able to make great progress during the year.

During the year UB Finance recognised and rewarded its outstanding performance achievers in appreciating the efforts of the individuals during the year. These initiatives encapsulate the core elements of the work culture at UB Finance which strongly focuses on performance, attitudes, team work and interpersonal relationships. Awards were also presented to staff members who had reached milestone years of invaluable service and dedication of 20 and 25 years.

### Looking ahead

The future looks promising for the Company's continued success. Whilst revelling in the achievements of the year, UB Finance also looks forward to greater success in the coming year. It will continue to form new and robust strategies that will provide a distinct edge in the industry and will continue to introduce innovative products that will help drive the business forward. The Company will continue to actively pursue organic growth opportunities such as increased output, customer base expansion, product development and geographical reach. It will strive ahead towards achieving its future objectives, not only in terms of profitability but also in terms of governance and corporate social responsibility. It is in this light that it also looks forward to a successful listing on the Colombo Stock Exchange to elevate the Company to the next level to benefit stakeholders. UB Finance will remain a strong, well- capitalised finance company backed by the strength of a bank, built on a foundation of trust, integrity and ethical practices that flow through all its business activities.



## SERVING OUR COMMUNITY

Resonating our communal ethos of responsible corporate citizenship, we will continue to support the national vision to make Sri Lanka an upper-middle income country by rolling out a manifesto that would contribute to create employment, develop small businesses, size up national savings and reduce inflation; while our focused CSR strategy will strive to protect and enrich the lives of children and youth - the cornerstones of Sri Lanka's future.





## INVESTOR RELATIONS

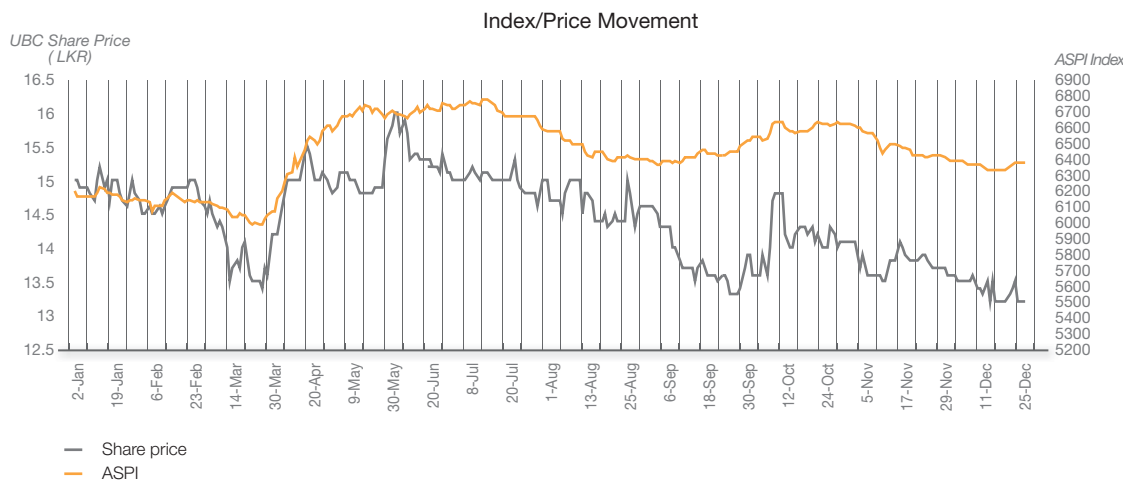
Effective communication and timely disclosure are essential elements of a robust governance framework as these enable us to manage and respond to expectations of our stakeholders, minimise reputational risk and form strong partnerships, all of which support our commercial sustainability. Thus, we place a high degree of importance on maintaining a constructive dialog with our investors and ensure that they are kept informed of significant company developments in order to provide them with the critical information they need to make informed decisions.

This segment intends to address concerns of the shareholders and provide additional information to support investors in their decision making process. This segment also deals with the mandatory disclosures that the Bank is required to comply with as required by the relevant regulatory authorities.

### 1. Stock exchange listing

The issued ordinary shares of the Bank are listed on the Main Board of the Colombo Stock Exchange (CSE) under the ticker symbol 'UBC'. Summary of trading activity and daily prices of shares are published in most daily newspapers, including Daily FT, Daily News, The Island and Daily Mirror.

### 2. Movement in ordinary voting shares of the Bank during the year 2017



### 3. Share information

There were 31,716 Shareholders as at 31st December 2017 (2016–32,640) distributed as follows,

#### 3.1 Shareholder distribution

Share Range	31st December 2017				31st December 2016			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1-1000	27,787	87.61	4,041,998	0.37	28,493	87.29	4,179,073	0.38
1001-10000	2,899	9.14	10,163,219	0.93	3,069	9.40	10,708,836	0.98
10001-100000	851	2.68	24,297,076	2.23	898	2.75	25,548,012	2.34
100001-1000000	142	0.45	39,875,169	3.65	142	0.44	39,713,312	3.64
1000001-10000000	30	0.10	97,451,083	8.93	32	0.10	106,207,450	9.73
10000001- & Above	7	0.02	915,577,704	83.89	6	0.02	905,049,566	82.93
<b>Total</b>	<b>31,716</b>	<b>100.00</b>	<b>1,091,406,249</b>	<b>100.00</b>	<b>32,640</b>	<b>100.00</b>	<b>1,091,406,249</b>	<b>100.00</b>

## INVESTOR RELATIONS

## 3.2 Analysis of shareholders

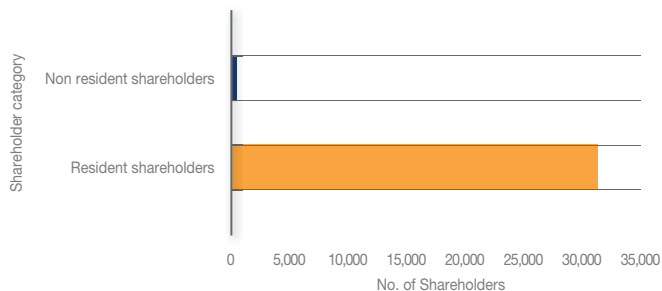
*Resident / Non-Resident*

	31st December 2017			31st December 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident shareholders	31,325	227,461,408	20.84	32,241	224,697,276	20.60
Non-resident shareholders	391	863,944,841	79.16	399	866,708,973	79.40

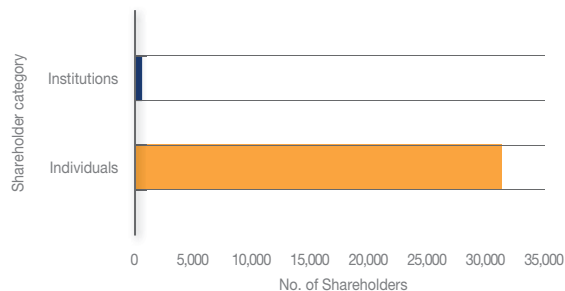
*Individuals / Institutions*

	31st December 2017			31st December 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	31,196	128,044,810	11.73	32,093	130,719,915	11.98
Institutions	520	963,361,439	88.27	547	960,686,334	88.02

Resident/non resident shareholders



Individual/institutional shareholders



## 4. Share trading

## 4.1 Market

	2017	2016	2015	2014	2013
No. of transactions	981,977	1,056,849	1,506,790	1,982,709	1,421,303
No. of shares traded	8,468,273,611	7,195,805,445	9,414,661,048	16,721,524,209	9,054,193,822
Value of shares traded (Rs. Mn)	220,591	176,935	253,251	340,917	200,468

## 4.2 Bank

	2017	2016	2015	2014	2013
No. of transactions	6,871	9,282	20,263	34,068	22,188
No. of shares traded	29,756,713	31,611,520	96,166,661	181,775,746	74,471,397
Shares traded as a % of total shares in issue	2.73	2.90	8.81	16.66	6.82
Average daily turnover (Rs. Mn)	1.81	2.22	10.30	16.90	5.56
Value of shares traded (Rs. Mn)	435	533	2,452	4,074	1,345

## INVESTOR RELATIONS

## 5. Top 20 shareholders and Public holding as at 31st December 2017

## 5.1 Top 20 shareholders

No.	Shareholder name	31st December 2017		31st December 2016 *	
		No. of Shares	Ratio (%)	No. of Shares	Ratio (%)
1	Culture Financial Holdings Ltd	763,984,374	70.00	763,984,374	70.00
2	Vista Knowledge Pte Ltd	64,677,973	5.93	64,677,973	5.93
3	Associated Electrical Corporation Ltd	29,237,387	2.68	29,237,387	2.68
4	Mr. A.I. Lovell	24,136,649	2.21	23,659,255	2.17
5	Dr. T. Senthilvel	19,830,860	1.82	16,825,244	1.54
6	Mr. C.P.A. Wijeyesekera	18,508,468	1.70	18,508,468	1.70
7	Mr. D.A.J. Warnakulasuriya	14,842,730	1.36	14,842,730	1.36
8	Ashyaki Holdings (Pvt) Ltd	7,792,806	0.71	7,792,806	0.71
9	Mr. M.D. Samarawickrama	7,660,582	0.70	7,660,582	0.70
10	Mr. S.P. Khattar	7,343,365	0.67	7,343,365	0.67
11	Sterling Holdings (Private) Ltd	7,207,557	0.66	7,207,557	0.66
12	Softlogic Life Insurance PLC – A/C 02 (Life Fund)	6,023,317	0.55	6,023,317	0.55
13	Anverally and Sons (Pvt) Ltd A/C No 01	5,203,602	0.48	4,422,277	0.41
14	Commercial Agencies (Ceylon) Ltd	4,050,833	0.37	4,050,833	0.37
15	Ajita De Zoysa & Company Limited	4,050,832	0.37	4,050,832	0.37
16	Ideal Motors (Private) Limited	3,300,000	0.30	1,500,000	0.14
17	Rosewood (Pvt) Limited - A/C No 01	2,876,063	0.26	4,684,901	0.43
18	Mr. A.I.T. Hettiarachchi	2,082,000	0.19	2,082,000	0.19
19	Ceylon Biscuits Limited	2,000,000	0.18	2,000,000	0.18
20	Ceylon Investment Plc A/C # 01	1,940,775	0.18	1,940,775	0.18
		<b>996,750,173</b>	<b>91.32</b>	<b>992,494,676</b>	<b>90.94</b>
	Total No. of shares registered	1,091,406,249	100.00	1,091,406,249	100.00
	Total No. of shares unregistered	-	-	-	-
	Total No. of shares issued	<b>1,091,406,249</b>	<b>100.00</b>	<b>1,091,406,249</b>	<b>100.00</b>
	Shares held by Directors	-	-	23,316,909	2.14
	Shares held by Institutions	963,361,439	88.27	960,686,334	88.02
	Balance held by other individuals	128,044,810	11.73	107,403,006	9.84
	Total No. of shares issued	<b>1,091,406,249</b>	<b>100.00</b>	<b>1,091,406,249</b>	<b>100.00</b>
	<b>% Shares held by Public</b>	<b>327,267,975</b>	<b>29.99</b>	<b>238,901,847</b>	<b>21.89</b>
	% Shares held by Directors and Related Parties	764,138,274	70.01	852,504,402	78.11
	Total No. of shares issued	<b>1,091,406,249</b>	<b>100.00</b>	<b>1,091,406,249</b>	<b>100.00</b>



## INVESTOR RELATIONS

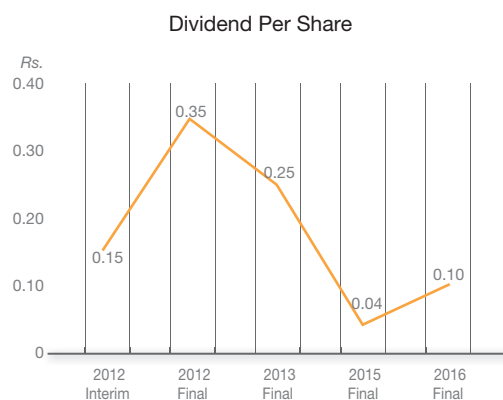
## 5.2 Public holding (GRI 102-7)

	31st December 2017
Market capitalisation (Rs.)	14,406,562,486.80
Public holding percentage	29.9858
Float adjusted market capitalisation	4,319,923,014.17
No. of shareholders representing public holding	31,707
Required minimum public holding percentage under option 4 of rule 7.13.1(a) of the Listing Rules of the CSE	10.0000

The Minimum Public Holding of Union Bank of Colombo PLC as at 31st December 2017 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

## 6. Dividends

Year	Total Dividend Paid Rs. Mn	Dividend per Share Rs.	Profit for the Period Rs. Mn	Dividend Payout Ratio (%)
2012 Final	122.2	Rs. 0.35	313.6	39.0
2013 Final	87.3	Rs. 0.25	112.7	77.5
2015 Final	43.6	Rs. 0.04	221.9	19.6
2016 Final	109.14	Rs. 0.10	451.2	24.2



## 7. Earnings

## 7.1 Value creation for shareholders

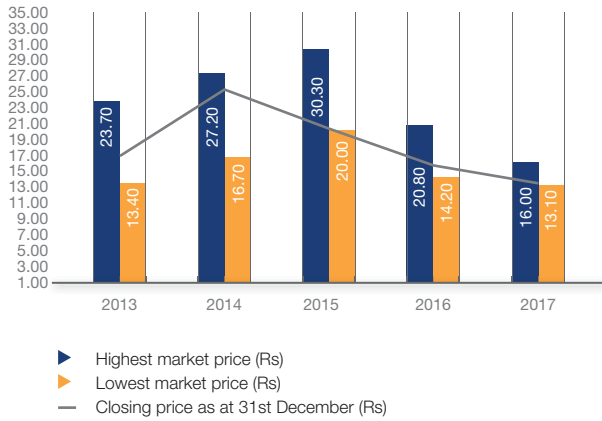
	2017	2016	Change %
Net asset value per share (Rs)	16.4	15.7	4.5
Group earnings per share - Basic (Rs)	0.47	0.46	2.2
Dividend per share (Rs)	0.10	0.10	0
Market price per share as at 31st December (Rs) closing	13.20	15.4	-14.3

## 7.2 Market value

	2017	2016	2015	2014	2013
Lowest market price (Rs)	13.10	14.20	20.00	16.70	13.40
Highest market price (Rs)	16.00	20.80	30.30	27.20	23.70
Closing price as at 31st December (Rs)	13.20	15.40	20.20	25.30	16.60

## INVESTOR RELATIONS

Market price details - Union Bank



### 8. Directors' shareholding including the Chief Executive Officer

Name of the Director	No. of Ordinary Shares as at	
	01.01.2017	31.12.2017
*Bodahandi Asoka Keerthi De Silva	8,900	-

\*Completed the term of the Directorate on 29th May 2017.

### 9. Material foreseeable risk factors

Information relating to the material foreseeable risk factors, that require disclosures in terms of Rule No. 7.6 (vi) of the Listing Rules of the CSE are discussed in the Section on Risk Management on pages 91 to 103.

### 10. Material issues pertaining to employees and industrial relations pertaining to the bank

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year 2017 which require disclosure.

### 11. Credit ratings

Fitch – BB+ (lka)

ICRA – (SL) BBB

### 12. Compliance report on the contents of annual report in terms of the listing rules of the CSE

We are pleased to inform you that the Bank has fully complied with all applicable requirements of Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a listed entity. The table below provides details of the relevant sections of this Annual Report where specified information is disclosed together with page references for the convenience of the readers.

## INVESTOR RELATIONS

Rule No.	Disclosure Requirement	Section Reference	Page/s
7.6 (i)	Names of persons who held the position of Directors during the financial year.	▷ Annual Report of the Board of Directors on the Affairs of the Bank	141-142
7.6 (ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein.	▷ Note 1.2 to the Financial Statements ▷ Annual Report of the Board of Directors on the Affairs of the Bank	178 138
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held as at the end of the financial year.	▷ Item 5.1 of the 'Investor Relations'	86
7.6 (iv)	The float adjusted market capitalisation and minimum public holding percentage.	▷ Item 5.2 of the 'Investor Relations'	87
7.6 (v)	Directors' and Chief Executive Officer's holding in shares of the Bank at the beginning and end of the financial year.	▷ Item 8 of the 'Investor Relations' ▷ Annual Report of the Board of Directors on the Affairs of the Bank	88 145
7.6 (vi)	Information pertaining to material foreseeable risk factors.	▷ Item 9 of the 'Investor Relations'	88
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	▷ Item 10 of the 'Investor Relations'	88
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties as at the end of the financial year.	▷ Note 31 to the Financial Statements on 'Property, Plant & Equipment'	220-223
7.6 (ix)	Number of shares representing the stated capital as at the end of the financial year.	▷ Note 39 to the Financial Statements on 'Stated Capital'	230
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as the end of the financial year.	▷ Item 3.1 of the 'Investor Relations'	84
7.6 (xi)	Ratios and market price information on:		
	Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share(highest and lowest values during the financial year and the value as at the end of the financial year).	▷ Note 17 to the Financial Statements ▷ Annual Report of the Board of Directors on the Affairs of the Bank ▷ Statement of Financial Position ▷ Items 6 and 7 of the Investor Relations	199 140 174 87-88
	Debt: Interest rate of comparable Government security, Debt/equity ratio, Interest cover,Quick asset ratio, market prices and yield during the year (highest and lowest prices and last traded price).	Not applicable as the Bank has not issued any listed debt securities.	
	Changes in credit ratings.	▷ Item 11 of the 'Investor Relations'	88
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 as at the end of the year.	▷ Note 31 to the Financial Statements on 'Property, Plant & Equipment'	220-223
7.6 (xiii)	Details of funds raised through a public issue, Rights Issue and a private placement during the year.	Not applicable as no funds were raised by the Bank through a public issue, Rights Issue or a private placement during the year.	

## INVESTOR RELATIONS

Rule No.	Disclosure Requirement	Section Reference	Page/s
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes:	▷ Note 41 to the Financial Statements.	231-232
	The number of options granted each category of Employees during the financial year.	No options were granted during the Financial Year.	
	Total number of options vested but not exercised by each category of Employees during the financial year.	No options were vested and exercised during the Financial Year.	
	Total number of options exercised by each category of Employees and total number of shares arising therefrom during the financial year.	No options were exercised by employees during the Financial Year.	
	Options cancelled during the financial year and the reasons for such cancellation.	No cancellations were reported during the Financial Year.	
	The exercise price.	No options were exercised by employees during the Financial Year.	
	A declaration by the Directors of the Bank confirming that the Bank or any of its subsidiaries has not, directly or indirectly provided funds for the ESOP.	▷ Annual Report of the Board of Directors on Affairs of the Bank.	146
7.6 (xv)	Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules.	▷ Annual Report of the Board of Directors on Affairs of the Bank ▷ Corporate Governance Report ▷ Profiles of the Board of Directors ▷ Report of the Board Audit Committee ▷ Report of the Human Resources and Remuneration Committee ▷ Notes to the Financial Statements.	138-148 104-111 158-161 131-132 136 178-269
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	The Bank did not have any related party transactions exceeding this threshold as at end of 2017.	

**Contact information**

Monday to Friday 8.30 a.m. to 5.00 p.m.  
+94 11 2374100

**The Company Secretary**

Union Bank of Colombo PLC, No. 64, Galle Road, Colombo 3,  
Sri Lanka.

**Useful links**

UBC share price, announcements, financials,  
company profile, quotes, charts: Colombo Stock Exchange  
<http://www.cse.lk>

**Ratings:**

Fitch Ratings Lanka Limited  
<http://www.fitchratings.lk>

**CBSL (Weekly economic indicators)**

[http://www.cbsl.gov.lk/htm/english/\\_cei/ei/e\\_1.asp](http://www.cbsl.gov.lk/htm/english/_cei/ei/e_1.asp)

**Union Bank of Colombo PLC**

[www.unionb.com](http://www.unionb.com)

## RISK MANAGEMENT

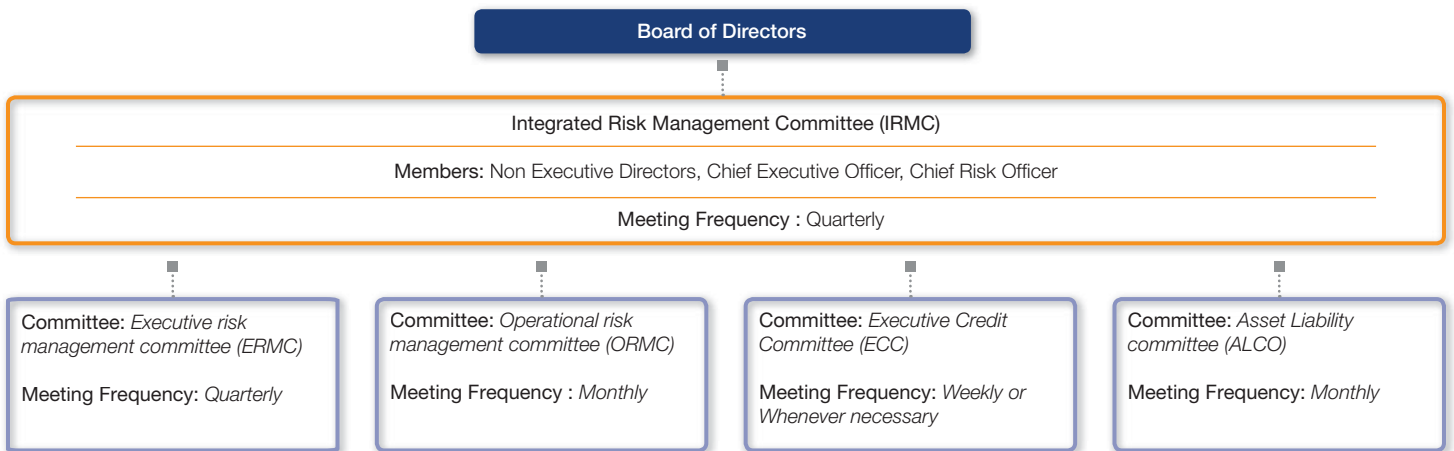
### Scope of risk management

At Union Bank, we understand that risk measurement, monitoring and control is vital in each and every aspect of our operational areas. We believe risk management cannot exist in isolation, and therefore the Bank takes all efforts to ensure that all its risk management policies and processes are robust and integrated with the business lines, in accordance with the overall risk management strategy.

The Bank is aware that it is exposed to many types of risks while operating within the business strategy in fulfilling shareholder expectations. These risks arise from the key areas of Credit,

Operational, Market, and Liquidity. The Bank takes conscious and calculated risk decisions in its overall operations keeping in mind the related risks, and the Board, through the Integrated Risk Management committee (IRMC) provides the strategic risk direction while striking a balance between the probable returns and acceptable risk levels.

The IRMC reviews, monitors and places additional processes, policies and procedures as the business continues to grow, covering a wide spectrum of risks other than the key areas, which could hinder the optimisation of the Banks performance.



### Risk related key management bodies

Committee	Key Objectives	Represented By
The Board Integrated Risk Management Committee (IRMC)	The committee ensures that Group wide risks are managed within the risk strategy & appetite as approved by the Board of Directors.	Please refer Page 133 (Board Integrated Risk Management Committee Report)
Board Credit Committee (BCC)	To approve high value credit in line with the Bank's risk appetite and in line with regulatory requirements.	Chairman, Representative Directors and CEO
Board Audit Committee (BAC)	To assist the Board in maintaining an effective system of internal control, compliance with legal and regulatory requirements of CBSL and SEC, external financial reporting and internal audit function itself.	Please refer Page 131 (Board Audit Committee Report)
Executive Credit Committee (ECC)	Review, and approve credit proposals under ECCs' delegated authority as directed by BCC	Wholesale Banking, Retail Banking, CEO and CRO

## RISK MANAGEMENT

Committee	Key Objectives	Represented By
Executive Risk Management Committee (ERMC)	Review, monitor and evaluate the policies and procedures in the areas of credit risk, operational risk, market risk in accordance with the IRMC guidelines.	Risk Management, Wholesale Banking, Treasury, Retail Banking, Operations, Finance, Compliance, Internal Audit and Information Technology.
Operational Risk Management Committee (ORMC)	Review and monitor the operational risk related areas including people, process and systems in accordance with the IRMC guidelines.	Risk Management, Operations, Compliance, Internal Audit and Information Technology
Asset Liability Committee (ALCO)	Optimise the financial resources and to manage the connected risks in the areas of Market and Liquidity.	Risk Management, Wholesale Banking, Retail Banking, Finance and Treasury.
IT Steering Committee	To monitor and review the IT infrastructure to support the optimisation of overall business strategy and mitigate technological risks.	Risk Management, Wholesale Banking, Retail Banking, Operations, Finance, Compliance and Information Technology.

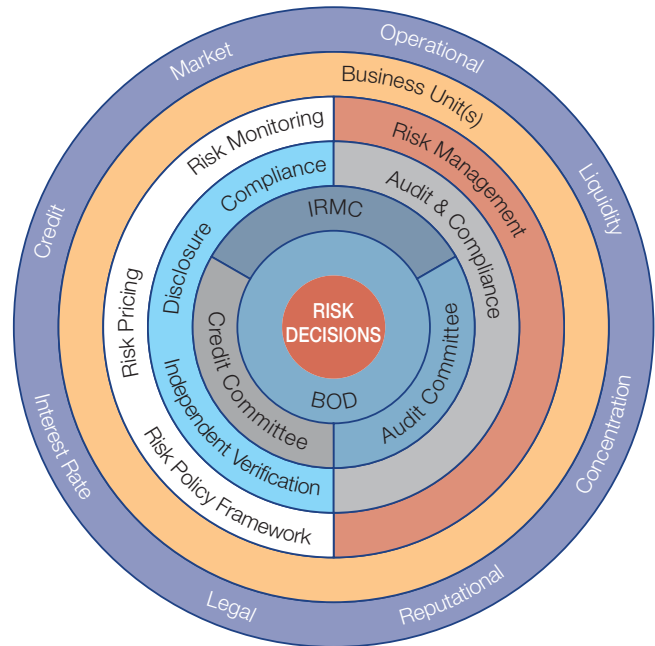
### Three lines of defence principle

The Bank follows both the industry and international best practices in its risk management function. As identified by the BASEL committee and practiced worldwide, the three lines of defence principle is in force within the Bank. The front line or the business line management act as the first line of defence and deals with the risk exposures at the very primitive level. The Bank makes sure that business line managers are empowered to deal with risk and to take the ownership of the risks borne. The IRMC directs the Risk Management Department (RMD) as an independent corporate risk management function to act as the second line of defence, and directed by The Board the Audit and Compliance functions with their independent review mechanisms act as the third line of defence in managing risks.

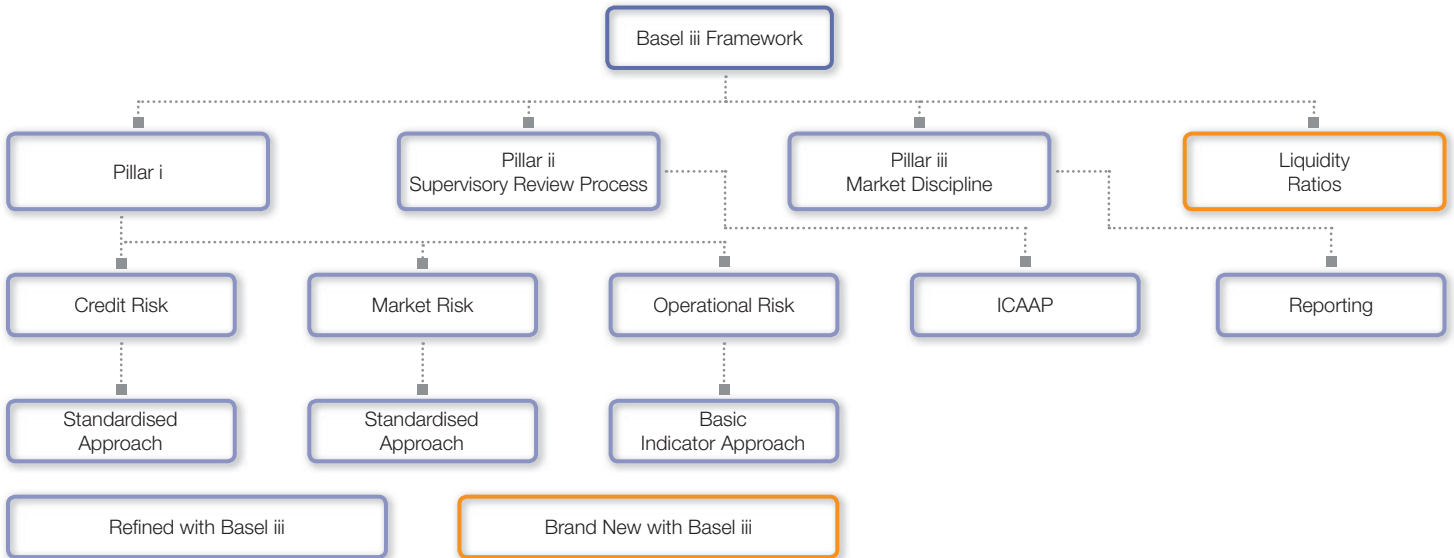
### Risk appetite and tolerance

Risk appetite is an expression of the amount of risk that the bank is prepared to accept in delivering its promises and meeting the responsibilities to the stakeholders at large. It is inevitable that the Bank will accept risks, hence risk taken within appetite may give rise to expected losses, but these as analysed and accepted will be sufficiently absorbed by the expected earnings.

The Bank strives to make the integrated risk management function as one of its most critical core competency. Bank relies upon the overall policy framework to ensure the maintenance of consistent high standards in its operations and to encourage the risk decision making process by raising the risk awareness that could hinder the risk and return relationship.



## Basel III framework and convergence



### Overview of framework:

#### Pillar I – The minimum capital requirements

Banks Capital will consist Tier 1 Capital (Common Equity and Additional) and Tier 2. The regulator has advised that, capital adequacy ratio (CAR) shall be maintained as a percentage of risk weighted assets (RWA) based on the following approaches.

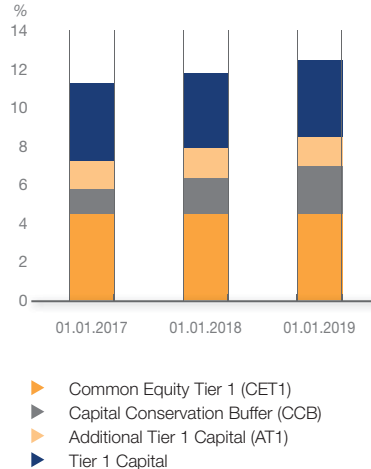
- i) The standardised approach for credit risk
- ii) The standardised measurement method for market risk
- iii) The basic indicator approach, the standardised approach or the alternative standardise approach for operational risk.

Moreover, capital buffers are to be implemented to meet the minimum Common equity Tier 1 Capital and total capital as a percentage of RWA. The buffers are Capital Conservation Buffers, Capital Surcharge for institutions with total assets equal to or greater than Rs. 500 Bn and Countercyclical Buffers will be implemented when excess aggregate credit growth is resulting in an unacceptable build up of systematic risk.

Under the new consultative paper issued by CBSL for implementation of Basel III minimum capital requirements, banks are to be fully complied by January 2019 and are to meet capital requirements as prescribed therein.

Union Bank is to maintain a Total Capital Ratio (including Capital Conversion Buffer) of 12.5% due to the Banks assets falling under Rs. 500 Bn and will be able to meet capital requirements to provide a smooth transition by 2019. Minimum capital adequacy ratios as a percentage of RWA is as follows:

Minimum capital adequacy ratios as a percentage of RWA



#### Pillar II – The supervisory review

It is a prerequisite that Banks conduct an assessment of its firm wide governance and risk management strategies to endure any unexpected losses not previewed under Pillar I.

The regulator will review and evaluate bank's Internal Capital Adequacy Assessment Process to ensure compliance with regulatory capital ratios.

The review should entail supervisory initiatives, risk concentrations, long term capital allocation strategy, stress testing and overall compliance with corporate governance.

## RISK MANAGEMENT

**Pillar III – Market discipline**

Pillar III prepares the Bank to promote the availability of material information and true and fair status of the Bank's affairs. The Bank's disclosures are mainly met through the press, annual reports and websites.

As directed by the regulator the Bank has fallen in line with the requirement of sharing the Liquidity Coverage Ratio (LCR) with the Central Bank of Sri Lanka (CBSL). The Bank has confidently met the set limits and is comfortable in embracing the phased developments of the future requirements of the Basel III requirements.

Overall, Union Bank is strong set to meet current and future capital requirements as steps have been taken for effective capital planning to mitigate material risk exposures. With growing loan book and unstable PESTLE factors, the bank has the ability to absorb shocks arising from financial and economic stresses with a robust risk management framework.

**Capital adequacy position**

As at 31 December	2017 (Rs. '000)	2016 (Rs. '000)
<b>1. Capital Adequacy Ratios</b>		
<b>1.1 Core Capital Ratio</b>		
Eligible Core Capital (Eligible Tier 1)	15,357,209	15,579,019
Total risk-weighted Amount	81,454,631	68,571,631
Core Capital (Tier 1) Ratio,%	18.85	22.72
<b>1.2 Total Capital Ratio</b>		
Capital Base	15,357,209	15,148,587
Total risk-weighted Amount	81,454,631	68,571,631
Total Capital Ratio,%	18.85	22.09
<b>2. Computation of Risk Weighted Assets - RWA</b>		
<b>Credit Risk</b>		
RWA of On balance sheet assets	60,525,515	52,251,660
RWA of Off balance sheet assets	3,851,499	4,345,721
Total RWA for Credit Risk	64,377,014	56,597,381
<b>Market Risk</b>		
Capital Charge for Interest Rate Risk	429,546	481,029
Capital Charge for Equity	956,717	269,402
Capital Charge for Foreign Exchange & Gold	8,545	18,990
Total Capital Charge for Market Risk	1,394,808	769,421
Total RWA for Market Risk	12,398,293	7,694,212
<b>Operational Risk</b>		
Gross Income		
Year 1	2,671,881	2,235,019
Year 2	3,721,406	2,763,094
Year 3	4,135,193	3,561,963
Average Gross Income	3,509,493	2,853,359
Total Capital Charge for Operational Risk (Average Gross Income x15%)	526,424	428,004
Total RWA for Operational Risk	4,679,324	4,280,038
<b>Total Risk Weighted Assets</b>	<b>81,454,631</b>	<b>68,571,631</b>



## RISK MANAGEMENT

### Credit risk management

Credit risk manages the potential losses arising due to borrower or counterparty's failing to meet their contractual obligatory terms. The objective is to maximise the banks risk-adjusted rate of return by operating within parameters.

The Bank strives to achieve / maintain a high level of quality of its loan portfolio by accommodating exposures within the Bank's risk appetite and improving / maintaining the non-performing loans % below the industry norm.

The Bank's Credit Policy (approved by the Board of Directors) provides the basic framework for lending while the Credit Manual and circular instructions give more details on how to perform functional responsibilities. The credit policy and the credit manual are reviewed regularly to ensure that the Bank is able to meet its business objectives against the Country's frequently changing financial landscape.

The Bank's credit proposal generation takes place at 3 locations namely Retail Assets Centre, SME Asset Centre, and Corporate Banking Division. The Bank took a policy decision to shift to 'centralised credit processing' as opposed to branch based credit processing and successfully set up the Retail and SME Asset Centre. Retail assets refer to housing loans, personal loans and vehicle loans which are commonly known as schematised consumer products.

The Bank uses a sophisticated loan originating system which generates credit proposal and rates the borrower against specified parameters, and is submitted for approval online. The ratings lie on a scale between AAA (lowest credit risk) and D (very high vulnerability to default).

The Bank's credit disbursements to the rating categories of BBB and above have significantly increased due to the improved credit selection in sanctioning. At the same time the portfolios below the rating of BB have reduced to lower levels when compared to the previous year. The alignment of Bank's credit policies, lending principles and risk appetite to the strategic objectives has driven the rating composition to the current improved mix.

### Managing counterparty 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. The 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 trading book, mainly consisting of government securities.

### Managing borrower risk

The Bank's Credit 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 policy and the Credit Manual, the Bank has a comprehensive credit approval process with delegated authority linked to the risk profile of the borrower.

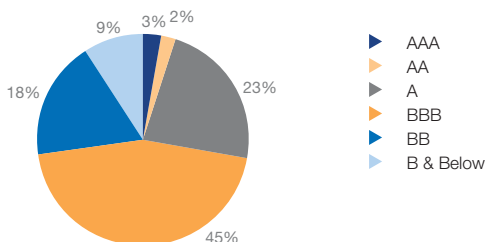
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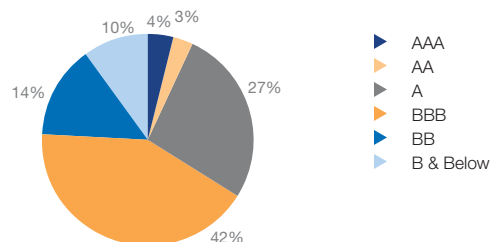
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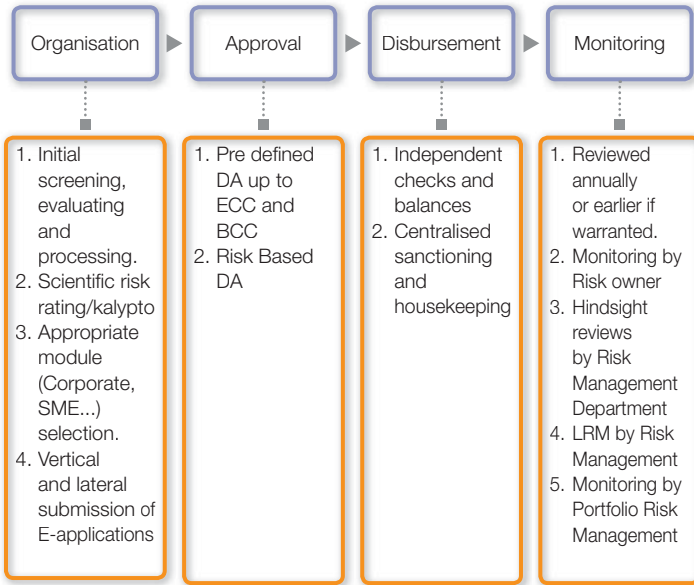
Corporate and SME rating - 2016



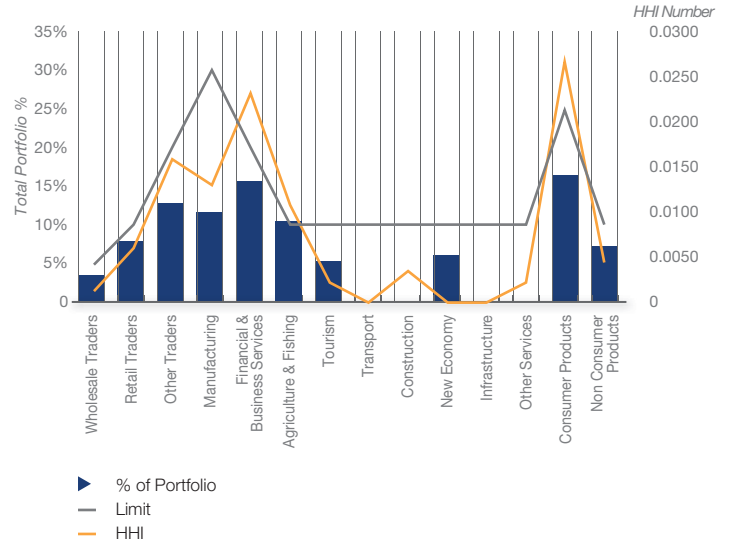
Corporate and SME rating - 2017



## RISK MANAGEMENT



Economic Sector Concentration as of Dec 2017



### Managing 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 Agriculture sector etc.

Bank mainly monitors credit concentration risk using economic sector groups and large names group. The economic sector concentration risk is monitored against Board approved limits as well as stress tests using the HHI (Herfindhal-Hirshman Index) method.

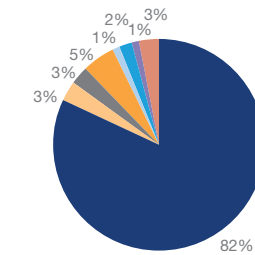
To manage the credit concentration of the book bank has devised the credit model to define various limits on the maximum exposure for different industry segments. Depending on the performance of the specific industries and micro economic conditions that affects the performance of such industries, interim limits too are put in to place.

Meeting the regulatory requirements assessment on top borrowers and adherence to the single and related party limits are closely monitored by the Bank.

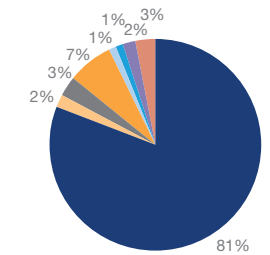
Effective discussions take place at various forums to mitigate risks of the credit portfolio. Apart from the economic sector and name concentration mentioned above, the Bank reviews Borrower rating distributions, Age analysis, Geographical distribution, country risk etc for portfolio level monitoring.

### Geographical distribution comparison for Dec'17 and Dec '16

Geographical distribution as at 31.12.2016



Geographical distribution as at 31.12.2017

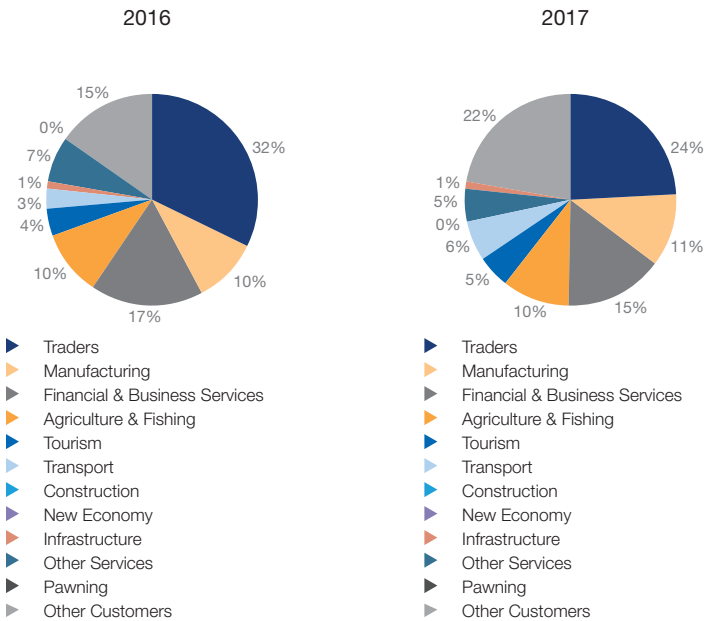


- ▶ Western
- ▶ Central
- ▶ North Western
- ▶ Southern
- ▶ Eastern
- ▶ Uva
- ▶ North Central
- ▶ Northern
- ▶ Sabaragamuwa

- ▶ Western
- ▶ Central
- ▶ North Western
- ▶ Southern
- ▶ Eastern
- ▶ Uva
- ▶ North Central
- ▶ Northern
- ▶ Sabaragamuwa

## RISK MANAGEMENT

### Sector wise comparison Dec' 2016 and Dec' 2017



In line with CBSL directions the bank has set up a separate unit for loan review within the Risk Management Department. The unit was formulated to continuously monitor the bank's lending portfolio by focusing the top exposures in each of the business unit/group bringing about qualitative improvements in credit administration.

The high valued loans will be reviewed periodically and more frequently when factors indicate a potential for deterioration in credit quality surfaces a minimum of 30%-40% of loan portfolio is reviewed each year to provide a reasonable assurance that all major credit risks post sanctions have been tracked.

The loans will be reviewed keeping in mind the approval processes, accuracy and timeliness of credit ratings, adherence to internal policies and procedures, applicable laws/regulations, compliance to loan covenants, post sanction follow ups and sufficiency of documentation.

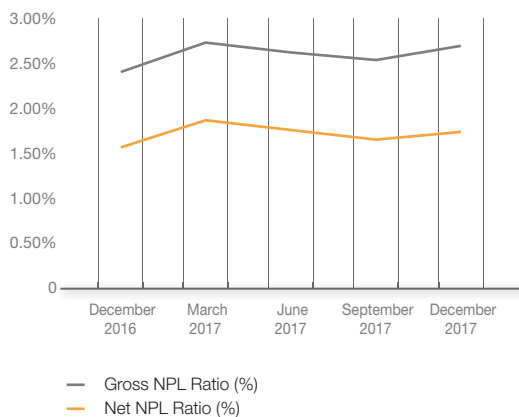
### Managing cross boarder exposures

Bank is also exposed to cross boarder risks, where in the instances that the Bank is unable to receive or recover the dues overseas. Convertibility, transferability, government specific rules and regulation affects the cross boarder exposure risk.

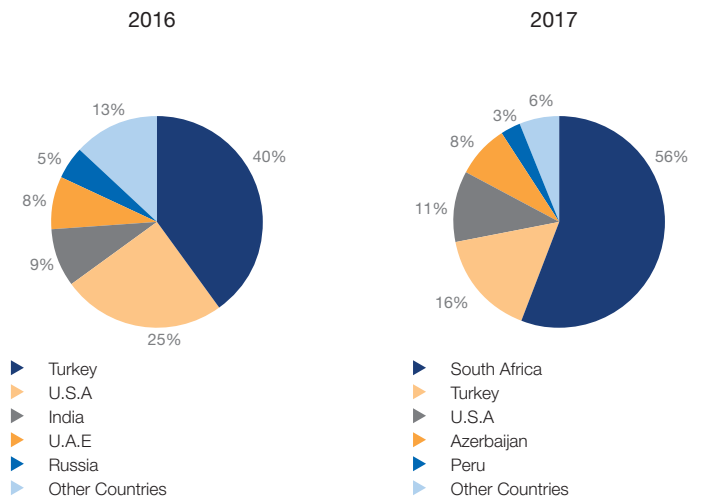
### Managing delinquent loans

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 becoming non-performing.

### NPL movement (Dec 2016 to Dec 2017)



### Country wise comparison Dec'16 and Dec'17

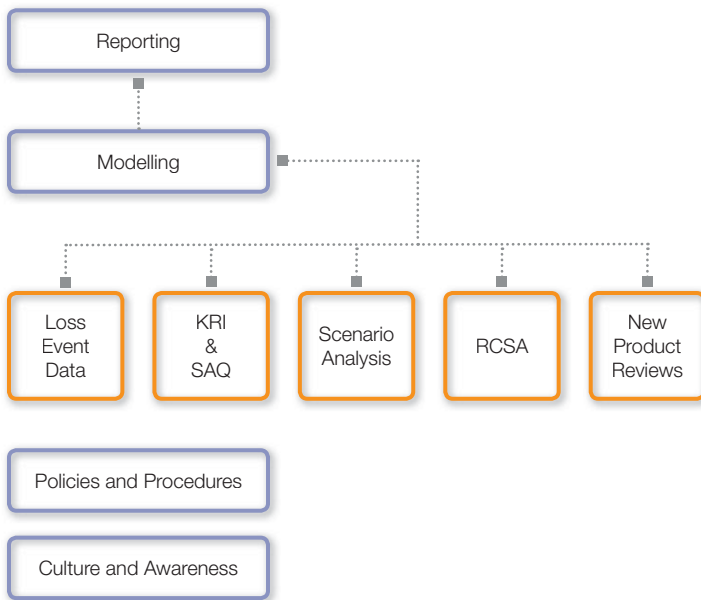


### Operational risk management

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 risks but excludes strategic and reputational risks. The Bank uses heat maps to assess the risks.

## RISK MANAGEMENT

## Operational risk management model



## Methods of operational risk management:

## a. Loss event data collection

Loss event data are historic and backward looking which provides valuable insights into current operational risk exposures. Data gathered are segregated into seven Basel risk types (excluding legal and compliance risk) for advanced capital computation in the future. All staff members are responsible to report risk/ loss events as soon as they perceive or materialise and are responsible to record such risk/ loss events immediately as either an actual loss, a potential loss or a near miss using one of industry's best web-based solution for operational risk management (ORM). Once an event is entered, it is reviewed independently, and submitted to Operational risk management department for causal and impact analysis. Moreover the event subsequently records cause, effect, recovery and provisioning before closure, if applicable. Action follow ups, reports from Audit department and any other branch/ department can be obtained using the Action Management module of ORM solution. There are various dashboards available in the ORM solution to provide snapshot of Operational Risk information at Branch, Management and Business Unit level and as a Bird-Eye view for the Bank which are useful in determining the trends and potential areas to avoid or mitigate by improving/ implementing control/s. Bank understands the importance of identifying major operational failures caused by human and system factors. The total losses reported for the year was at Rs. 11.02 Mn, which is 0.32% of the average gross income over a period at three years.

None of the losses were related to credit risk and the lower ratio retains the robust status of the risk management structure in place.

## b. Setting up of key risk indicators (KRI) and self-assessment questions (SAQs)

Detailed KRI and SAQ programs are scheduled monthly, quarterly and semi-annually to record the changing environment. Answers to KRIs will be number driven whilst for SAQs, will be a selection from a drop down list of answers. The information, so gathered is then analysed to see if there are any trends that poses/ would result in Operational Risk/ Loss to the Bank and accordingly action is taken to mitigate.

## c. Scenario analysis

Apart from KRIs and SAQs, a scenario analysis has to be completed on a monthly basis. In this, assignees are free to report any current & potential risks that 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 happen would be identified and analysed by the Operational Risk Management Department (ORMD).

## d. Risk &amp; 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 on a set frequency to assess the risk 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. The Bank has rolled out RCSA for service units.

There are three types of RCSAs: Questionnaire approach, Workshop approach and Hybrid (mix of above two) approach. The questionnaire based approach is used to assess risks under RCSAs.

## e. Ad-hoc incident reporting

Bank encourages staff to report any operational lapses or potential or actual frauds directly to designated senior management officials as described in the Bank's Whistleblower policy, if the staff member is fearful to route the concerns through the line management. Bank views this method as a useful method of communication to reduce potential losses to a greater extent and proved effective.

## f. New product, service or process launch

Prior to launching new products, services or processes, the owners must evaluate the risks as per new product policy. Then the detailed Product Programme Guide with a Risk Matrix listing such risk identified and mitigants shall be signed off by all key stakeholders.

## RISK MANAGEMENT

### g. Training and awareness creation

Internal training sessions are conducted to enhance/inculcate the need of risk reporting for new recruits and refresher training sessions too conducted for existing staff.

### h. Appointment of operational risk coordinators within the first line of defence

Operational Risk Coordinators (ORCs) are appointed bank-wide at Branches and all departments whom are the prime liaison with the Operational Risk Management Department (ORMD).

### Managing operational risk:

Bank has strived to manage the operational risk using the above tools to anticipated levels in addition to frequent process/ control reviews by the RMD, reviewing of Internal Audit reports and participation in IT system/ process requirement gathering by recommending effective controls to be in-built at the earliest stage of IT system/ process development life cycle. The sound operational risk management could be evident via the Actual loss data given above.

Bank as a risk transfer strategy, has signed up for insurance covering all major risk areas. Bank also follows the regulatory guidelines and industry best practices in it's outsourcing activities.

Risk management department periodically reviews these policies and makes sure the adequate risk controls are in places.

### Information security risk management

In the wake of increasing financial cyber-crimes, ORMD has introduced the Information Security Officer (ISO) function with industry expertise to independently further improve Information Security environment of the bank.

ISO is playing key role in guiding, monitoring the implementation of processes and procedures specified in the Information Security Policy (ISP) to align with the Baseline Security Standard and best practices, review and communicating Information Security plans and conduct investigations on security breaches.

### Business continuity management

ORMD has been assigned new responsibility for Business Continuity Management (BCM) function. A structured Business Continuity Plan (BCP) is in place to assure the immediate continuity of all essential operations in the event of a disaster, which is periodically reviewed and updated. Having a fully equipped Disaster Recovery Site along with an integrated IT recovery strategy, the Bank conducts drills to test the effectiveness of the BCP and to

ensure readiness at least once a year. Evacuation drills are carried out to test staff preparedness in case of an emergency. Further, training session are conducted for BCP Team and Evacuation Team annually.

### 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.

### Managing of market risk

Asset and Liability Management Committee (ALCO) of the Bank is mainly responsible for managing the Interest Rate Risk, Exchange Rate Risk, and Liquidity Risk & Equity Price Risk. Within the overall Risk Management Framework, both treasury front office and back office functions are monitored by Treasury Middle office (TMO). TMO operates as an independent to the business functions. Bank market risk management functions is governed by the Integrated risk management Policy, Market Risk management Policy, Asset Liability Risk Management Policy and various other risk tolerance limits set on the board.

TMO is primarily responsible for the setting up of suitable policy/ procedures for the treasury operations and Setting up & monitoring of various limits to monitor business operations. TMO also maintains its independent MIS reports and dashboard reports which are reported to Senior Management, ALCO, Integrated risk management committee and to the Board of Directors in support of the decision making process. TMO uses various tools in measuring Market Risk exposures such as Value at Risk (VaR) Duration, Modified Duration(MD),Mark to Market valuations (MTM) & Stress testing's .

### Managing foreign exchange risk

The foreign exchange (FX) risk arises due to mismatches in assets & liabilities in different currencies. The cost of aggregate exposure will fluctuate with the changes in the exchange rates. Foreign exchange risk is managed through approved limits by the Board of directors & in line with the CBSL requirements. Limits include Net Open Position, Trading Limits, and Dealer Limits, Counter party Limits & Gap Limits.

Bank has been prudent in managing the FX risk throughout. Bank has been able to manage its open positions (NOP) within the limit allowed by CBSL and the no major losses were incurred during the volatile period underwent by USD/LKR exchange rate in recent past.

## RISK MANAGEMENT

## Foreign exchange position as at 31.12.2017

	On balance Sheet	On balance Sheet	Off Balance sheet	Off Balance sheet	Net Position in	FX Rate	Net Position in
CURRENCY	+	-	+	-	Original currency		LCY
CAD		(5,094.68)			(5,094.68)	122.3378	(623,271.94)
CHF	350.00				350.00	157.1841	55,014.44
EUR		(1,519,080.62)	2,357,000.00	(833,000.00)	4,919.38	183.7226	903,801.28
GBP		(21,138.94)	80,000.00	(55,000.00)	3,861.06	206.9805	799,164.13
JPY	246,631.91		18,000,000.00	(18,000,000.00)	246,631.91	1.3628	336,109.97
USD		(497,722.55)	4,226,858.26	(4,220,306.62)	(490,100.91)	153.4667	(75,214,169.32)
AUD	1,568.54				1,568.54	119.8421	187,977.13
NZD		(1,071.11)			(1,071.11)	109.1455	(116,906.84)
SAR	101.00				101.00	40.9206	4,132.98
SGD	10,052.38				10,052.38	114.8702	1,154,718.90
AED	20,157.85				20,157.85	41.7829	842,253.43
CNY	1,453.02				1,453.02	23.5691	34,246.37

## Managing liquidity

Liquidity risk is mainly managed through Stock approach & Floor approaches under the supervision of ALCO. Under stock approach liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet where as under floor approach Banks should prepare a statement of Maturities of Assets and Liabilities placing all cash inflows and outflows in the time bands according to the residual time to maturity.

With regard to the stock approaches TMO Monitors a comprehensive list of ratios against their approved limits and any deviations, exceptions to the approved ratios will report to IRMC. In assessing the liquidity position of the Bank, Advances to deposit ratio, maturity profile of the assets and liabilities, liquidity Gap and Statutory liquid asset ratio are considered pivotal.

Also the Bank conducts regular stress tests & scenario analysis to measure impact on liquidity due to adverse movements in its cash flows. Bank has already devised the contingency Funding plan which makes sure the completeness of a comprehensive market risk management framework.

## RISK MANAGEMENT

## Maturities of Assets &amp; Liabilities (MAL)

Rs. ('000) only									
31 December 2017									
*Behavioral Pattern for OD & Deposits Liabilities									
Item	upto 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 3 years	3 to 5 years	over 5 years	Total
<i>Inflows</i>									
Cash on Hand	1,836,095	-	-	-	-	-	-	-	1,836,095
Notros	5,097	-	-	-	-	-	-	-	5,097
Deposits with CBSL	-	-	-	-	-	-	-	3,785,679	3,785,679
Investments	4,408,541	889,343	4,181,007	3,984,635	2,431,849	10,021,291	4,217,889	6,358,489	36,493,045
Bills of Exchange	69,205	543	-	-	-	-	-	-	69,748
Overdrafts	1,325,402	2,650,805	3,976,207	3,976,207	3,976,207	-	-	-	15,904,829
Loans & Advances	14,481,948	9,173,916	3,441,103	2,196,728	2,457,032	13,090,587	9,275,048	5,970,259	60,086,622
NPL	-	-	-	-	422,223	-	-	1,266,668	1,688,890
Other Assets	-	-	-	-	-	-	-	1,197,113	1,197,113
Fixed Assets	-	-	-	-	-	-	-	2,109,357	2,109,357
	22,126,289	12,714,607	11,598,318	10,157,570	9,287,312	23,111,878	13,492,937	20,687,565	123,176,475
Letters of Credit ---Sight	-	6,406	-	-	-	-	-	-	6,406
Letters of Credit ---Usance	-	-	3,904	-	-	-	-	-	3,904
Overdraft undrawn	1,549,147	1,484,599	1,484,599	1,484,599	1,484,599	2,711,007	2,711,007	2,541,738	15,451,296
Forex Spot Forward	153,545	78,175	-	-	-	-	-	-	231,720
Guarantees	80	7,108	7,523	7,935	4,826	5,669	398	-	33,539
	1,702,772	1,576,288	1,496,025	1,492,534	1,489,426	2,716,676	2,711,405	2,541,738	15,726,864
<b>Total (a)</b>	<b>23,829,061</b>	<b>14,290,895</b>	<b>13,094,343</b>	<b>11,650,104</b>	<b>10,776,737</b>	<b>25,828,554</b>	<b>16,204,342</b>	<b>23,229,303</b>	<b>138,903,338</b>
<i>Outflows</i>									
Demand deposits	250,053	250,053	200,042	150,032	150,032	1,872,309	-	-	2,872,521
Savings deposits	97,947	97,947	97,947	97,947	97,947	15,217,721	244,868	-	15,952,326
Time Deposits	5,310,498	7,451,390	5,056,201	2,630,921	1,805,311	23,189,065	1,919,928	-	47,363,314
Certificates of Deposits	311,650	184,367	632,050	288,544	13,729	1,301,924	-	-	2,732,264
Nostros	-	-	-	-	-	-	-	-	-
Borrowings	11,164,138	4,957,330	2,549,001	23,671	46,128	1,202,616	-	-	19,942,884
Other liabilities	2,096,817	-	-	-	-	-	-	-	2,096,817
Shareholders Funds	-	-	-	-	-	-	-	17,159,872	17,159,872
	19,231,104	12,941,087	8,535,242	3,191,116	2,113,147	42,783,634	2,164,796	17,159,872	108,119,998
Letters of Credit ---Sight	6,406	-	-	-	-	-	-	-	6,406
Letters of Credit ---Usance	3,904	-	-	-	-	-	-	-	3,904
Overdraft undrawn	4,512,157	6,938,864	1,914,823	1,042,725	1,042,725	-	-	-	15,451,296
Forex Spot Forward	442,825	78,075	-	-	-	-	-	-	520,900
Guarantees	3,878	6,038	6,141	9,309	3,488	4,291	394	-	33,539
	4,969,169	7,022,977	1,920,964	1,052,035	1,046,213	4,291	394	-	16,016,044
<b>Total (b)</b>	<b>24,200,273</b>	<b>19,964,065</b>	<b>10,456,206</b>	<b>4,243,150</b>	<b>3,159,361</b>	<b>42,787,925</b>	<b>2,165,190</b>	<b>17,159,872</b>	<b>124,136,042</b>
<b>Gap=(a)-(b)</b>	<b>(371,212)</b>	<b>(5,673,170)</b>	<b>2,638,137</b>	<b>7,406,954</b>	<b>7,617,376</b>	<b>(16,959,371)</b>	<b>14,039,152</b>	<b>23,229,303</b>	<b>14,767,297</b>
<b>Cumulative Gap</b>	<b>(371,212)</b>	<b>(6,044,382)</b>	<b>(3,406,244)</b>	<b>4,000,709</b>	<b>11,618,086</b>	<b>(5,341,286)</b>	<b>8,697,866</b>	<b>31,927,169</b>	<b>-</b>

## RISK MANAGEMENT

## Managing interest rate risk

IRR is the risk to the Bank's earnings and capital that arises out of meeting customers' demands for interest rate-related products with various re-pricing profiles and the bank's interest rate mismatch strategy. As interest rates and yield curves change over time, theoretically the Bank may be exposed to a loss in earnings and capital due to the re-pricing structure of all on- and off-balance sheet items. Movements in interest rates can affect the Bank's earnings by changing its net interest income (NII). Changes in interest rates also affect the economic value of the bank's assets, liabilities and off-balance sheet items. An effective risk management process that maintains interest rate risk within prudent levels is essential not only to safety and soundness but also to the Bank's profitability. Bank currently measure the interest rate risk from both Earnings perspective & Economic Value of Equity perspective

## Sensitivity of Assets &amp; Liabilities (SAL)

Rs. ('000) only										
31 December 2017										
Item	Non	upto	1 to 3	3 to 6	6 to 9	9 to 12	1 to 3	3 to 5	over	Total
	Sensitive	1 month	months	months	months	months	years	years	5 years	
<i>Inflows</i>										
Cash on Hand	1,836,095	-	-	-	-	-	-	-	-	1,836,095
Notros	5,097	-	-	-	-	-	-	-	-	5,097
Deposits with CBSL	3,785,679	-	-	-	-	-	-	-	-	3,785,679
Investments	1,172,797	1,372,196	3,566,791	3,801,656	3,351,561	2,245,564	7,777,581	3,008,363	4,721,346	31,017,856
Bills of Exchange	-	69,170	526	-	-	-	-	-	-	69,696
Overdrafts	-	11,167,579	-	-	-	-	-	-	-	11,167,579
Loans & Advances	-	23,233,380	9,991,784	1,780,291	1,143,609	1,081,262	5,921,715	3,278,933	1,561,069	47,992,043
NPL	(114,825)	-	-	-	-	-	-	-	-	-114,825
Other Assets	865,597	-	-	-	-	-	-	-	-	865,597
Fixed Assets	2,115,173	-	-	-	-	-	-	-	-	2,115,173
<b>Total (a)</b>	<b>9,665,613</b>	<b>35,842,326</b>	<b>13,559,102</b>	<b>5,581,948</b>	<b>4,495,169</b>	<b>3,326,826</b>	<b>13,699,295</b>	<b>6,287,296</b>	<b>6,282,415</b>	<b>98,739,989</b>
<i>Outflows</i>										
Demand deposits	2,872,521	-	-	-	-	-	-	-	-	2,872,521
Savings deposits	-	11,505,277	-	-	-	-	-	-	-	11,505,277
Time Deposits	-	9,691,038	13,543,897	8,850,734	4,551,753	3,131,385	916,618	2,090,004	-	42,775,428
Certificates of Deposits	-	557,760	323,561	1,067,681	484,599	23,086	-	-	-	2,456,687
Borrowings	-	11,109,975	4,788,008	2,399,137	23,671	45,547	1,202,616	-	-	19,568,953
Other liabilities	1,065,296	-	-	-	-	-	-	-	-	1,065,296
Shareholders Funds	16,360,470	-	-	-	-	-	-	-	-	16,360,470
<b>Total (b)</b>	<b>20,298,287</b>	<b>32,864,050</b>	<b>18,655,467</b>	<b>12,317,552</b>	<b>5,060,023</b>	<b>3,200,018</b>	<b>2,119,233</b>	<b>2,090,004</b>	<b>-</b>	<b>96,604,632</b>
<b>Gap=(a)-(b)</b>	<b>(10,632,674)</b>	<b>2,978,276</b>	<b>(5,096,365)</b>	<b>(6,735,604)</b>	<b>(564,853)</b>	<b>126,808</b>	<b>11,580,062</b>	<b>4,197,292</b>	<b>6,282,415</b>	<b>2,135,357</b>

## Legal risk

As per the definition of Basel the legal risk is covered under operational risk management. Legal risk is connected with the people, processes, systems and also the outside events affecting the normal cause of business.

In managing Banks' legal risk, factors such as regulatory guidelines which may lead to subsequent penalties and fines in non-compliance are taken in to consideration. Banking relationships maintained with other entities, individuals both domestic and foreign are also giving rise to legal risk. This is mainly due to the non-fulfilment of required precise contractual documentation and adherence to the same. Bank takes adequate measures, process enhancements to ensure the compliance of such legal requirement under its overall risk governance structure.

## Strategic risk

Strategic Risk refers to the strategic decisions / plans / objectives which may go wrong due to actions or inactions by the parties to strategic decision making process, adversely affecting the shareholder wealth of the Bank e.g. incorrect decisions, inadequate information for decision making, delayed remedial actions etc.



## RISK MANAGEMENT



Drivers of strategic risk



Drivers of Reputation risk

### Compliance risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed corporate governance practices, internal policies and procedures, or ethical standards.

Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested. This risk exposes the institution to fines, penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminish reputation, limited business opportunities, reduced expansion potential, and an inability to enforce contracts. Bank has identified this risk as a material risk and various internal controls, policies, procedures are in place to manage risk.

### Reputation risk

Reputation Risk refers to the potential adverse effects, which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, subsidiary/ associate company's actions, customer dissatisfaction and complaints, negative/adverse publicity etc. The Bank remains committed to continuously strive to maintain and improve its reputation in all the businesses it operates.

### Stress testing

Bank uses various techniques (quantitative and/or qualitative) to gauge the vulnerability to exceptional but plausible risk events. Stress Testing is a risk management technique used to evaluate the potential effects of a specific event and/or movement in a set of financial variables on the Bank's financial condition.

Stress testing is an important part of risk management function in the Bank and is considered as an integral part of ICAAP under Pillar II.

The Bank has a robust Stress Testing Policy which describes the procedure for identifying principal risk factors, frequency, methodology for constructing stress tests, procedure for setting risk tolerance limits. The findings are communicated effectively to the management group in support of the decision making and capital planning process.

**“THE BANK RECOGNISES THAT THE APPLICATION OF SOUND GOVERNANCE PRACTICES IS PIVOTAL TO SUSTAIN ITS SUCCESS AND PRESERVE STAKEHOLDER VALUE”**

**CHAIRMAN’S STATEMENT**

Dear Stakeholders,

The Board of Directors of Union Bank of Colombo PLC is resolute in its commitment to upholding the highest standards of Corporate Governance. We believe that such standards underpin the achievement of the Bank’s vision and strategy.


The sound governance structure of the Bank guided by internal policies, external laws, rules, regulations and international best practices has enabled the Bank to generate sustainable growth whilst creating an ethical foundation at the Bank that promotes the principles of responsibility, accountability, fairness and transparency. Our governance structures and processes are reviewed regularly so as to be current with the developments in the regulatory and governance framework.

The primary responsibility of exercising oversight of governance across the organisation and for providing ethical and effective leadership rests with the Board. The Bank’s governance structure enables the Board to fulfil its role of providing oversight and strategic counsel whilst ensuring conformance with regulatory requirements and risk tolerance.

The governance structure also provides the parameters for delegating the Board’s authority. Accordingly, in the discharge of its stewardship and fiduciary duties in an effective and timely manner, the Board has delegated certain of its functions to the Board committees based on clearly documented and defined terms of reference.

In line with its approach to governance, the Bank will never compromise on conformance and will conduct its business in a manner that enables it to remain focused on the evolving business needs and requirements of its collective stakeholders.

Concluding, as its Chairman, I confirm that the Bank has been compliant with Direction No. 11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka under the Banking Act No.30 of 1988 (as amended) in the manner discussed in this Report. The observations in the ‘Factual Findings Report’ of the External Auditors in respect of compliance with the said Direction reveal that it is in line with this Report, and to the best of my knowledge there are no material violations of the said Direction.



**Atul Malik**  
*Chairman*  
Union Bank of Colombo PLC

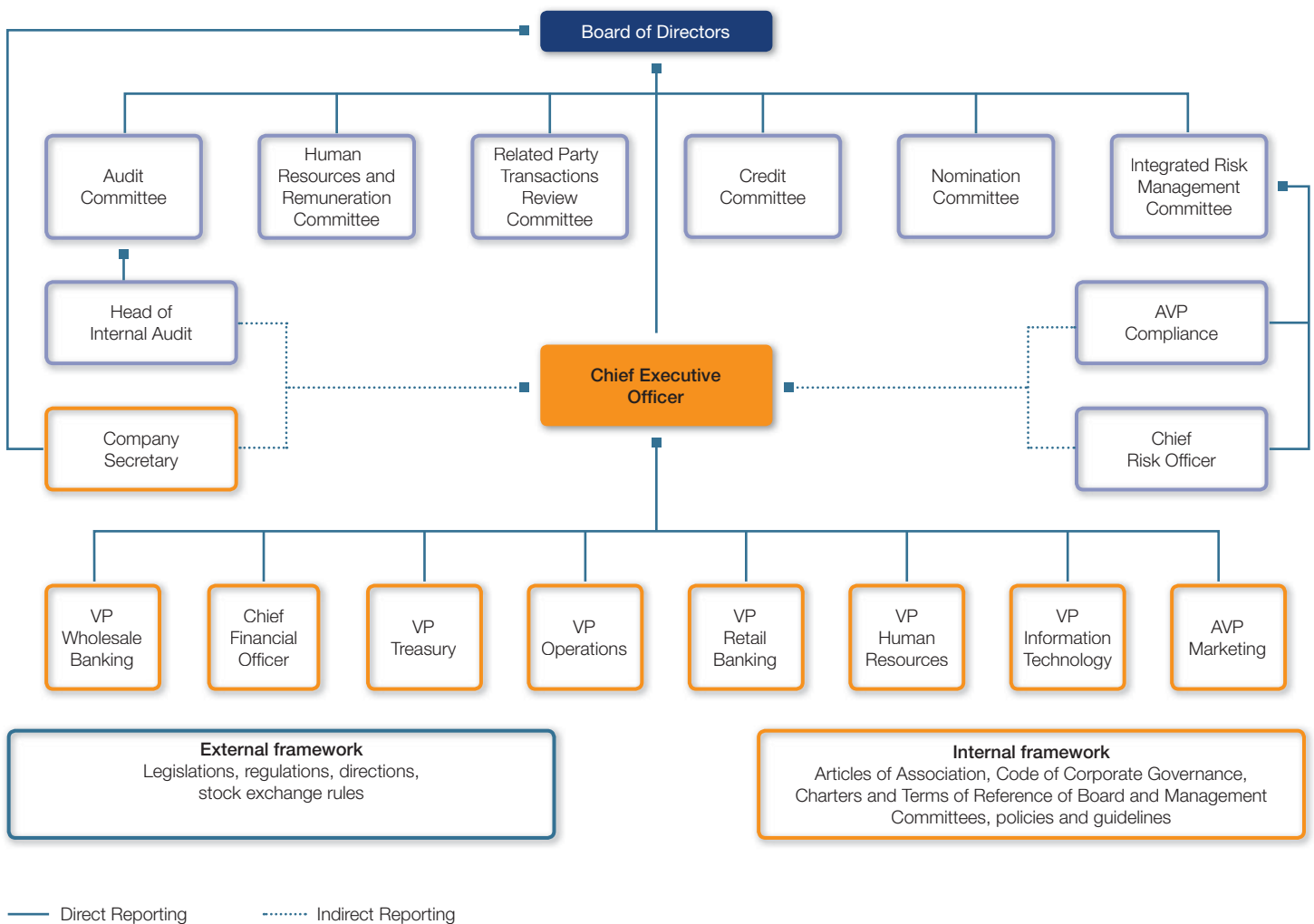
27th February 2018

## 1. Governance structure (GRI 102-18)

The internal governance structure of the Bank clearly demonstrates the distinction of the functions between the Board and the Management, thus allowing for effective and efficient decision making with clear accountabilities. This structure guides the Board in the formulation and implementation of Bank's strategies to create enduring value to the benefit of all its stakeholders.

The Bank's governance structures and processes are regularly reviewed by the Board and its committees to ensure that they support ethical leadership, the inculcation of a values-driven ethical culture and sustainable value creation. Where appropriate, governance structures and processes are adapted to emerging best practices being followed worldwide.

### The governance structure of the Bank



## 2. Board of Directors

### 2.1 Role of the board

The Boards' role and function is comprehensively set out in the Bank's Code of Corporate Governance ("the Governance Code") which is regularly reviewed to ensure compliance with the provisions of the applicable laws and regulations and relevance to the evolving business needs.

Accordingly, the Board seeks to exercise leadership, integrity and decision-making in pursuit of the strategic goals and objectives of the Bank to achieve long term sustainability and growth. All Board members meaningfully contribute to the affairs of the Bank including that relating to the development and monitoring of the Bank's strategy, providing leadership to the Management, engagement with the stakeholders and being available for matters that arise on an ad hoc basis.

The well-developed governance structure of the Bank provides for delegation of the Board's authorities and functions whilst retaining effective control over the affairs of the Bank. The Governance Code sets out the practices and processes the Board has adopted to discharge its responsibilities and provides for clear division of responsibilities at Board level to ensure that no one director has unfettered powers in decision making.

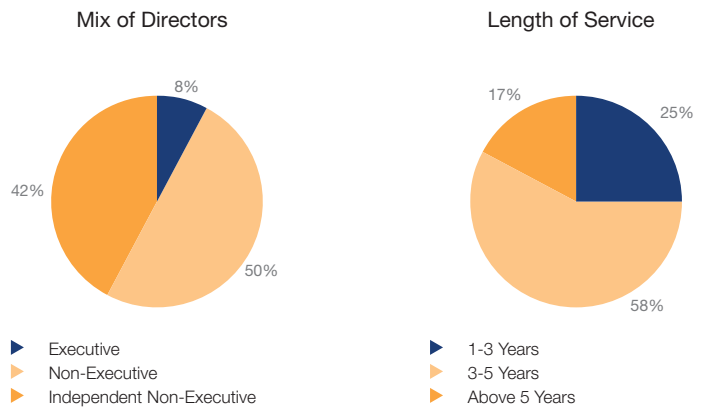


### 2.2 Board composition

The Board is comprised of individuals of a high calibre and with diverse backgrounds and experience. Their mix of skills, knowledge and expertise bring a balanced mix of attributes to the Board, including the following, and facilitates broad deliberations and independent judgment in the decision-making process,

- ▷ knowledge and understanding of both macroeconomic and microeconomic factors affecting the Bank;
- ▷ domestic and international experience;
- ▷ operational experience; and
- ▷ financial, legal, entrepreneurial and banking skills

The profiles of the Board of Directors including their experience and expertise are set out on pages 158 to 161 of this Report.



### 2.3 Role of the chairman

The roles of the Chairman and Chief Executive are distinct and well-defined in the Governance Code and the Board approved Terms of Reference. The Chairman of the Board, Atul Malik, is a Non-Executive Non-Independent Director.

The Chairman provides leadership to the Board and facilitates the effective discharge of the duties of the Board by ensuring that the Board receives accurate, timely and clear information. He is responsible for setting the agenda, style and the tone of the Board deliberations and ensures that opinions of all Directors are appropriately considered in decision making. He is also responsible for ensuring effective and appropriate communications with shareholders.

#### 2.4 Senior Director

In compliance with the requirements of Direction No. 11 of 2007 on Corporate Governance issued under the Banking Act No.30 of 1988, the Board of Directors of the Bank has designated Priyantha Fernando as the Senior Director with Board approved Terms of Reference. The role of the Senior Director is to act as an intermediary between the Chairman and other directors when required, and to be a point of contact for shareholders.

#### 2.5 Meetings

The Board meets every month to discuss key areas of operations, including strategy and governance. Before each Board meeting, an information pack, which provides comprehensive information on the performance of the Bank for the year-to-date and any other matters for discussion at the meeting, is distributed to each Board member.

Board meetings are held in an atmosphere of robust, direct, and constructive debate among the Board members and the Board considers both financial and non-financial, or qualitative information that might have an impact on the Bank's stakeholders.

The table on page 109 of this Report provides the details of attendance of the Board and Board Committee members in respect of the Board and Board Committee meetings held during the year 2017.

#### 2.6 Succession planning

Appointments to the Board are made through a formal process and the Nomination Committee assists the Board in identifying and reviewing suitable candidates to fill vacancies on the Board and to reappoint Directors upon expiration of their term of office. In addition to the experience, availability and likely fit of the candidate, the Nomination Committee also considers their integrity, as well as other directorships and commitments to ensure that they will have sufficient time to discharge their role effectively.

In terms of its Articles of Association, one-third of the Bank's Non-Executive Directors are required to retire by rotation at each annual general meeting, and the retiring Directors may offer themselves for reappointment by the shareholders. In addition, Directors who join the Board during the course of a year are required to have their appointments confirmed by the shareholders at the next following annual general meeting.

Accordingly, the suitability of the directors eligible to be re-elected at the next Annual General Meeting was assessed by the Nomination Committee, and the Board resolved to submit these re-elections for shareholders' approval based on the recommendation of the Committee.

As part of the Board's responsibility to ensure that effective management is in place for the continued growth and ongoing sustainability of the Bank, the Board also regularly monitors whether there is appropriate succession planning at the management level.

#### 2.7 On-going education and access to information and advice

Ongoing education remains a focal point for the Board and accordingly, the Directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments which could potentially impact the Bank and its operations.

The Management regularly updates the Board on the performance and prospects of the Bank by providing detailed reports at Board meetings. In addition, the Directors have direct access to the Management to obtain any additional information they require to make informed and timely decisions.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that the Board procedures are complied with. The Governance Code has established a procedure enabling the Directors to obtain independent and professional advice at the Bank's expense, where they judge this to be necessary to discharge their responsibilities as Directors.

#### 2.8 Avoidance of conflicts of interest

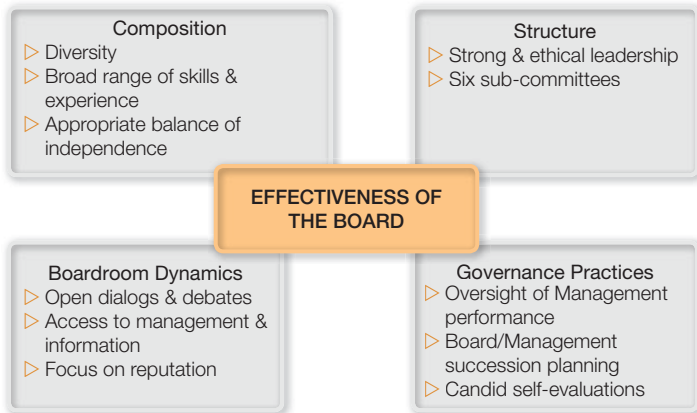
The Bank has implemented necessary processes and procedures requiring the Directors to identify and declare any actual or potential conflict of interest with the Bank. Notifications of such interests are required to be made by the Directors soon as he/she becomes aware of it.

Directors who have an interest in a matter under discussion at meetings of the Board or any of its committees refrain from engaging themselves in the discussions on that matter and abstain from voting thereon. Such abstentions are duly recorded in the minutes of the relevant meeting.

#### 2.9 Annual evaluations

The Governance Code makes provision for the evaluation of the performance and effectiveness of the Board and its committees. These evaluations are undertaken annually through a series of standardised questionnaires that are structured according to the Governance Code and applicable rules and regulations.

The outcomes of the evaluation undertaken in the year 2017 have found the Board and its committees to be resilient and effective in addressing all the key strategic deliverables of the Bank.

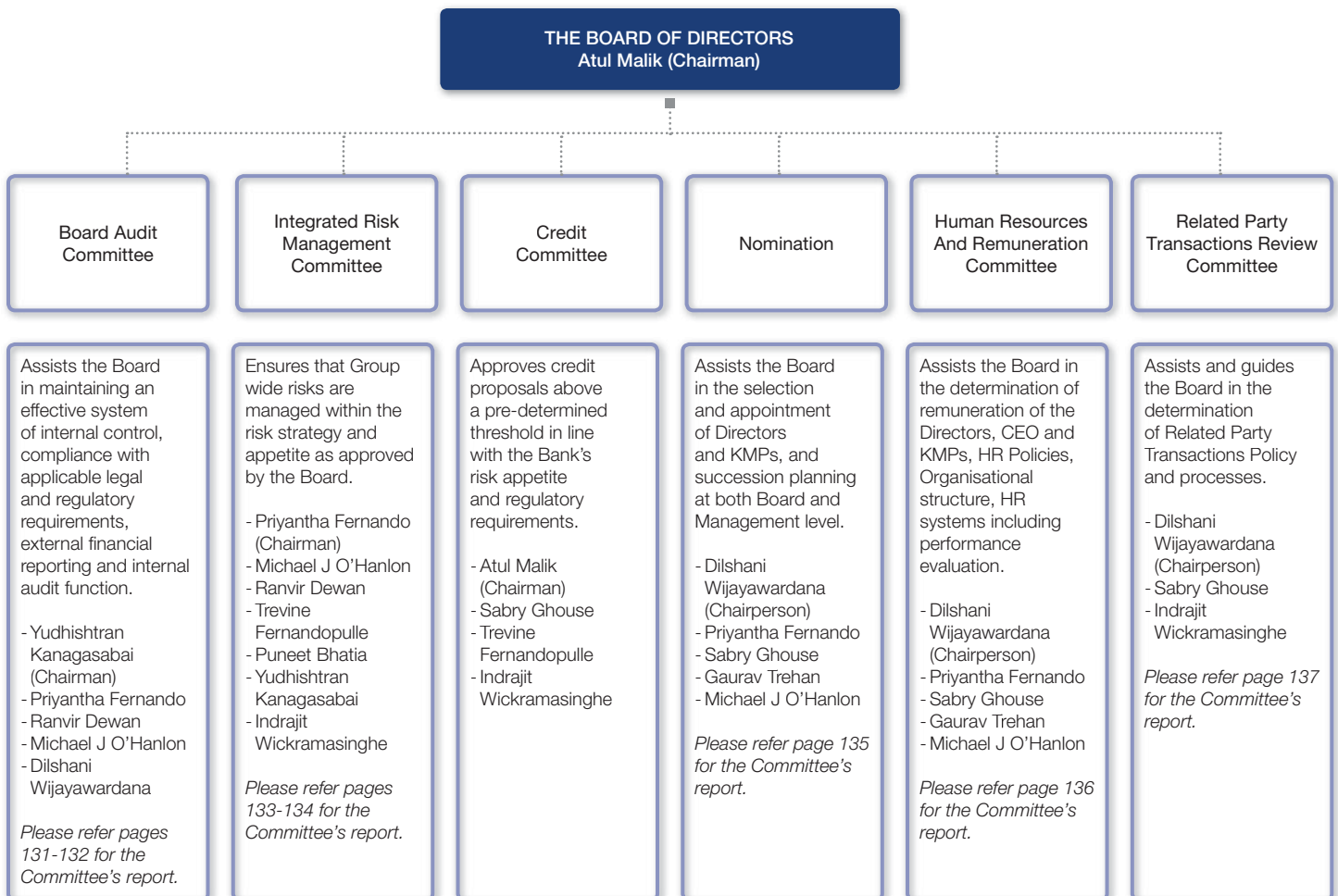


### 3. Board Sub-committees

The Board has delegated certain of its functions to a number of Board Committees who operate in terms of Board-approved charters. These charters, which define the objectives, authority, composition and responsibilities of each committee are reviewed annually by the Board.

### Board committees

The Board has established six sub-committees to assist it in carrying out its duties and responsibilities. The Committees, their respective scopes and members are as follows:





## 4. Management

### 4.1 Chief Executive Officer

The role of the Chief Executive Officer is comprehensively set out in the Governance Code of the Bank. Accordingly, the responsibility for the day to day management of the Bank's operations and the implementation of the strategy and policies agreed by the Board lies with the Chief Executive Officer. The Chief Executive Officer also plays a key role in instilling the Bank's culture and standards, including appropriate Corporate Governance across the organisation.

The responsibilities entrusted to the Chief Executive Officer by the Board cascades down to the Senior Management and then, the heads of the respective business units, and ultimately to individual employees with well-defined job descriptions, authority levels and responsibilities.

### 4.2 Management committees

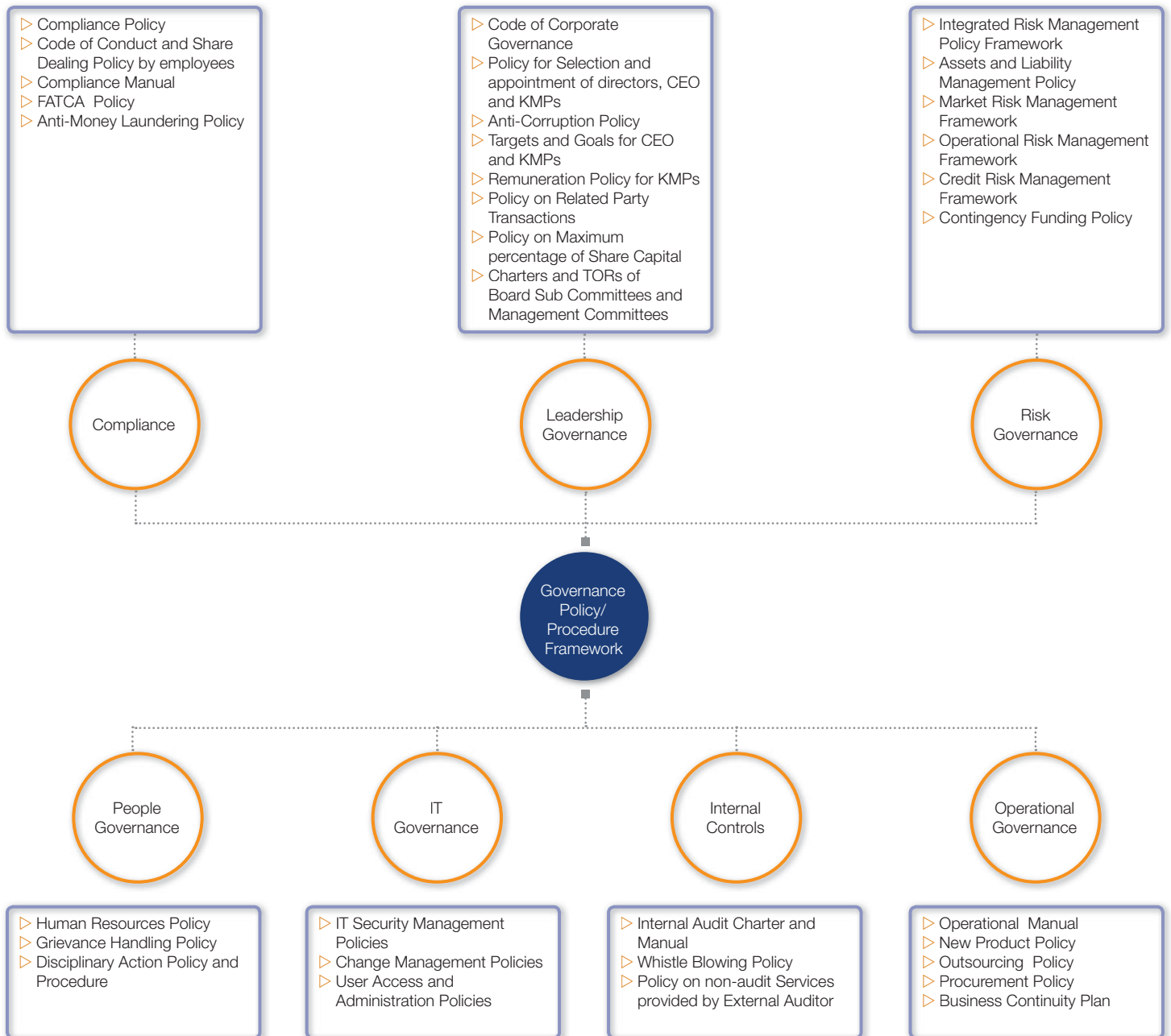
A number of Management Committees have been established to assist the Chief Executive Officer in the day-to-day management of affairs of the Bank, subject to statutory parameters and matters reserved for the Board which are documented in the Bank's Governance Code. Based on the governance requirements and the nature of operations of the Bank, six (06) such committees are in place. The composition and key tasks of these committees are outlined in written terms of reference which are reviewed periodically to ensure that levels of delegation and authority remain appropriate and consistent with the Bank's strategy.

Management committees	
Committee	Scope
Asset and Liability Management Committee	Optimising the financial resources and managing the connected risks in the areas of Market and Liquidity.
Executive Risk Management Committee	Reviewing, monitoring and evaluating the policies and procedures in the areas of credit risk, operational risk, and market risk in accordance with the guidelines of the Integrated Risk Management Committee.
Information Technology Steering Committee	Monitoring and reviewing the IT infrastructure to support the optimisation of overall business strategy and mitigating technological risks.
Procurement Committee	Reviewing, monitoring and evaluating procurement of goods and services by the Bank in line with the Board approved policies and procedures.
Outsourcing Management Committee	Reviewing, monitoring and evaluating outsourced functions of the Bank.
Executive Credit Committee	Reviewing and approving credit proposals within the delegated authority levels of the Committee as directed by Board Credit Committee.

## 5. Governance policies applicable across the organisation

Over the years the Bank has adopted a number of policies to evaluate the methods and procedures for risk management, implementation of the Bank's corporate governance framework and compliance with applicable laws and regulations. The framework provided by these policies aims to support a higher growth, institutionalisation of best processes for governance, effective management of risks, controls and compliances across the organisation.





### Corporate Governance

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

Annual Corporate Governance Report of Union Bank of Colombo PLC for the year ended 31st December 2017 is given below:-

Section	Rule	Level of Compliance
3 (1)	<i>The Responsibilities of the Board</i>	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	Complied The Bank has set its strategic objectives and goals through the Board approved strategic plan and through the annual budgets. Strategies and Corporate values have been communicated to all business units and other staff through regular management meetings.
	(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.	Complied The Bank's overall three year strategic plan for 2018 – 2020 was approved by the Board subsequent to detailed deliberations by the Board and the Corporate Management. Strategic plan includes measurable goals for the period of 2018-2020. Board has also discussed the risks arising out of new strategies and the ways and means to mitigate them.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied Overall risk framework of the Bank is Board's responsibility. Further identifying principal risks and implementation of appropriate risk management techniques are performed via Board appointed IRMC. Risk Management Department has sent in policies and procedures on Integrated Risk Management Framework and have enforced mechanisms in order to assist the IRMC to identify principal risks prudently. Risk Reports in Pages 91-103 provide detailed insight of the Bank's Integrated Risk Management Framework.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders and borrowers.	Complied 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.	Complied Adequacy and the integrity of the Bank's internal control systems and management information systems are reviewed by the BAC on a regular basis and annually by the Board of Directors.
	(f) Board has identified and designated key management personnel, as Officers Performing Executive Functions of LCBs as defined in Banking Act Determination No. 3 of 2010 as per Bank Supervision Dept. Guideline ref. 02/17/550/0002/003 on 02 December 2015.	Complied The Board of Directors have identified and designated the CEO, VPs, Chief Risk Officer, Chief Financial Officer, Chief Internal Auditor, Compliance Officer, Head of Treasury, Head of Information Technology, Board Secretary, Officers serving as consultants / advisor to the Board or Bank, as KMPs of the Bank.

## CORPORATE GOVERNANCE

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.	Complied Segregation of duties and authority between the Board of Directors and Key Management Personnel (KMP) is in place. Articles of the Bank stipulate the authority of Directors and matters specifically reserved for the Directors. Bank's Internal Code of Corporate Governance, also sets areas of responsibility of the Directors. Further responsibilities and authority are delegated to the Directors and KMPs via Board approved policies, Terms of References, and operational delegation arrangements. Key responsibilities of the KMPs are included in their respective job descriptions.
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Complied Board of Directors has oversight on KMPs primarily at Board meetings and Board sub committee meetings. KMPs make regular presentations to the Board on matters under their purview and are also called 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:	Complied Directors' assessments are conducted annually and complied for 2017.
	(i) the selection, nomination and election of directors and Key Management Personnel;	Board has a procedure for selection and appointment of Director, CEO and KMPs, which is delegated to Nominations Committee.
	(ii) the management of conflicts of interests; and	
	(iii) the determination of weaknesses and implementation of changes where necessary;	Code of Corporate Governance approved by the Board has a provision (Section 8) in this regard.  Bank has a self -evaluation process in place for the Board of Directors which include the evaluation of Board Directors' own governance practices.  Summary of self-evaluations obtained have been submitted to the Board for their review and action if deemed necessary.
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Complied The HRRC and the Board have approved a succession plan for KMPs, which has been reviewed for 2017.
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied KMPs 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.

Section	Rule	Level of Compliance
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied Compliance officer submits monthly reports to the Board that assists the Board to identify the regulatory environment. Board ensures that an effective relationship with the regulators are maintained by way of active participation at meetings with the regulators by the CEO.
	(m) Exercise due diligence in the hiring and oversight of external auditors.	Complied Terms of Reference of the BAC includes provisions to recommend appointment of External Auditors; Recommended the re-appointment of Messrs Ernst & Young, Chartered Accountants as the Bank's External Auditors for audit services for year 2017. Pursuant to recommendations, Messrs Ernst & Young was re-appointed as the Auditors for the financial year 2017 by the shareholders at the Annual General Meeting held on 31 March 2017.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied Positions of the Chairman and the Director/Chief Executive Officer (CEO) are separated. Dr. P J Nayak, retired as the Chairman of the Bank w.e.f 30th June 2017. From 1st July 2017 to 25th October 2017 Priyantha Fernando performed as the acting Chairman of the Bank. Atul Malik has been appointed as the Chairman of the Bank w.e.f 25th October 2017. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with the Direction 3(5) of these Direction through the Board approved Terms of Reference- Functions and Responsibilities of Chairman, CEO and Senior Director.
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.	Complied Board ensures that it meets regularly and involves active participation by the Directors. Board has met twelve times during the year at monthly intervals and as and when it was required. There were two (2) circular resolutions passed during the year.
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.	Complied Code of Corporate Governance sets a procedure to include such matters and proposals. Meetings are notified in advance allowing Directors to raise matters concerning promotion of business and management of risks.
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.	Complied Regular monthly meetings are informed to the Directors prior to seven days giving them the opportunity to attend. Formal notices, agenda and Board Papers are circulated to directors seven days in advance through the Board Paper Management system.

Section	Rule	Level of Compliance
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.	Complied Directors attendance register is maintained by the Company Secretary to ensure compliance with the direction. As per Board Attendance schedule all Directors have attended the required number of meetings for 2017.
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.	Complied The Board has appointed a Company Secretary whose primary responsibilities are handling secretariat services to the Board and Shareholder meeting and to carry out the other functions specified in the statutes and other regulations and is also stipulated in the Code of Corporate Governance of the Bank. Company Secretary Nirosha Kannangara resigned from the position of Company Secretary w.e.f 4th June 2017 and Shyamila Samarasinghe performed as acting Company Secretary w.e.f 5th June 2017 to 3rd September 2017. Inoka Jayawardana has been appointed as the new Board Secretary w.e.f 4th September 2017.
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.	Complied All the Directors have equal opportunity to access the Company Secretary. Board approved procedure is in place to enable all Directors to have access to advice and services of the Company Secretary.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied Minutes of Board meetings are maintained by the Company Secretary and there is a Board approved procedure under Corporate Governance Code in place to enable all Directors to have access to such minutes. Any Director can inspect the minutes of Board meeting with reasonable notice that is being maintained by the Company Secretary.

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>Complied</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>Complied</p> <p>Code of Corporate Governance includes provisions for Board of Directors to seek professional advice required to assist them on discharging their duties effectively.</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 considered 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>Complied</p> <p>The Board approved procedure is in place to avoid conflicts of interests or the appearance of conflicts of interest is included in the Corporate Governance Code and is implemented.</p> <p>This procedure further evidence that the Director is to 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 and he/she has not been counted in the quorum.</p> <p>During the year Board of Directors has complied to the procedure.</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>Complied</p> <p>Article 98 of the Bank's Articles of Association defines the areas of authority and responsibilities for the Board and notes the matters that cannot be delegated and that are reserved exclusively to the Board. Various polices, Terms of References, and operational delegation arrangements sets authority and responsibilities of Directors.</p>

## CORPORATE GOVERNANCE

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.	Complied 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 2017.
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.	Complied The Bank has set Internal Capital Adequacy Arrangements with the approval of the Board and the Central Bank of Sri Lanka (CBSL). These are being implemented to ensure the Bank is capitalised at all times adequately. Reports of such are submitted to the IRMC 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.	Complied The Bank has published the corporate governance report in Annual Report 2017.
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.	Complied The Bank has a scheme of self-evaluation of Directors in place and Company Secretary has obtained self assessment of Directors for the year 2017.
<b>3 (2)</b>	<b><i>Board's Composition</i></b>	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied The Board comprises of 12 Directors.
3 (2) (ii)	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.	Complied Service period has not exceeded nine years for any of the Directors.
3 (2) (iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-third of the number of directors of the Board. In such an event, one of the executive directors shall be the Chief Executive Officer of the Bank.	Complied There is only one Executive Director on the Board; the number does not exceed the 1/3 of the Board.

Section	Rule	Level of Compliance
3 (2) (iv)	<p>The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 1,2010 onwards.</p> <p>A Non Executive Director shall not be considered independent if he/she has</p> <p>(a) direct and indirect shareholdings of more than 1% of the Bank</p> <p>(b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank;</p> <p>(c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director</p> <p>(d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependent child;</p> <p>(e) represents a specific stakeholder of the Bank;</p> <p>(f) If an employee or a Director or a material shareholder in a company organisation:</p> <p>(i) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions , exceeding 10% of the regulatory capital of the Bank, or</p> <p>(ii) In which any of other Director of the Bank are employed or are material shareholders; or</p> <p>(iii) In which any of other Directors of the Bank has a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the Bank</p>	<p>Complied</p> <p>The Board comprises of 05 Independent Non Executive Directors, which is more than one third of the total number of Directors.</p> <p>Please refer pages 86, 141 &amp; 142.</p>
3 (2) (v)	<p>In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.</p>	<p>Complied</p> <p>Independent Directors had not appointed alternates during the year 2017.</p>
3 (2) (vi)	<p>Non-executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.</p>	<p>Complied</p> <p>Nominations committee has a procedure in place to appoint Non-Executive Directors, who possess skills and experience and new appointments during 2017 done in accordance with the Policy.</p>
3 (2) (vii)	<p>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.</p>	<p>Complied</p> <p>During 2017 all the quorum of meetings had been in line with the Direction.</p>



## CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
3 (2) (viii)	The Independent Non-executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non – Executive Directors, and Independent Non Executive Directors in the Annual Corporate Governance Report.	Complied Please refer pages 156 -161.
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.	Complied Nominations committee has a procedure in place to appoint Directors and all new appointments have been done in accordance with the procedure.
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.	Complied All Directors appointed to fill casual vacancies during the year 2017 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.	Complied Directors' resignation and the reason for such resignation are duly informed to Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE). All resignations during the year are disclosed in the Annual Report. Please refer pages 141 and 142.
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.	Complied The Bank has a process to identify whether a Director of a bank is appointed, elected or nominated as a Director of another bank based on the affidavit obtained and submitted to CBSL annually. Letter of Appointment of selected employees include a clause with regard to this restriction. None of the present Directors or an employee acts as a Director of any banks. Nominations Committee shall ascertain at the time of selection of Directors for such appointment of their fit and propriety in accordance with the Banking Act and other regulations by the CBSL.
<b>3 (3)</b>	<b><i>Criteria to assess the fitness and propriety of Directors</i></b>	
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	Complied None of the directors exceeds 70 years.
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.	Complied None of the Directors holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.
<b>3 (4)</b>	<b><i>Management functions delegated by the Board</i></b>	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied The Board is empowered by the Articles 98 of the Bank's Articles of Association to delegate its powers to CEO upon such terms and conditions and with such restrictions as the Board may think fit and in terms of the Articles. Directors are aware of such delegation arrangements.

Section	Rule	Level of Compliance
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.	Complied The Board has delegated powers to the sub committees, CEO and the KMPs 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.	Complied Section 98 of the Bank's Articles of Association defines the delegation process and review of such delegated powers on a periodic basis.  Such 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 References.
<b>3 (5)</b>	<b><i>The Chairman and Chief Executive Officer</i></b>	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied 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.	Complied An Independent Non-executive Director has been appointed as Senior Director of the Bank. Designation of the Senior Director disclosed in pages 141, 142, 156 and 158.
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.	Complied Identity of the Chairman and the CEO are disclosed in the Annual Report. Refer Pages 156 and 158. Directors' interests in Contracts with the Bank have been separately disclosed in the Annual report of 2017. Please refer page 145. The Bank has a process in this regard. Company Secretary obtains an annual declaration from all members of the Board to this effect. Accordingly, 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.	Complied Functions and 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.
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.	Complied Chairman has delegated drawing of the agenda to the Company Secretary and is drawn in consultation with the Chairman.

## CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
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.	Complied 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.	Complied Code of Corporate Governance sets Directors responsibilities and principles in respect of leading and acting in the best interest of the Bank.
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.	Complied Code of Corporate Governance sets Directors responsibilities and principles in respect of leading and acting in the best interest of the Bank, to ensure 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.	Complied Chairman is a Non-executive Director. The Chairman does not directly get involved in the supervision of KMPs 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.	Complied 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.	Complied 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><i>Board appointed committees</i></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.	Complied The following mandatory Board sub-committees have been appointed by the Board requiring each such committee to report to the Board: 1. Human Resources and Remuneration Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee  All committees have a secretary appointed. Report of each Board Committee is presented in the Annual Report. Refer Pages 131-137.
<b>3 (6) (ii)</b>	<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. Yudhishtan Kanagasabai is an Independent, Non-executive, Director who possesses required 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.

Section	Rule	Level of Compliance
	<p>(c) The committee shall make recommendations on matters in connection with:</p> <p>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(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.</p>	<p>Complied</p> <p>In line with its Terms of Reference, the BAC has reviewed and/or made relevant recommendations including the following:</p> <p>(i) The re-appointment of Messrs Ernst &amp; Young, Chartered Accountants as the Bank's External Auditors for audit services in compliance with the relevant regulations and guidelines.</p> <p>(ii) The implementation of guidelines applicable to the External Auditors issued from time to time by the Central Bank of Sri Lanka.</p> <p>(iii) The application of relevant accounting standards, including the requirements of the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) complying with the IAS and the IFRS complying to it in all material respects.</p> <p>(iv) Reviewed and recommended the service period and audit fee.</p>
	<p>(d) Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes.</p>	<p>Complied</p> <p>The BAC discussed with the External Auditors, the nature and the scope of audit and the effectiveness of the audit processes in respect of the financial year, 2017 at a meeting held with the Auditors in the last quarter of 2017. Representation submitted by the External Auditors stating their independence and the objectivity and effectiveness of the audit processes in accordance with Sri Lanka Auditing Standards, and best practices.</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> <p>(i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services</p> <p>(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</p> <p>(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</p>	<p>Complied</p> <p>The committee has implemented a process on the engagement of an External Auditor to provide non audit services after considering 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>

Section	Rule	Level of Compliance
	(f) The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit , including (i) an assessment of the Bank's compliance with the relevant Direction in relation to Corporate Governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	Complied The Auditors make a presentation at the BAC meeting with details of the proposed Audit Plan and the Scope. The committee discussed and agreed on the nature and the scope of the audit to be performed in accordance with Sri Lanka Auditing Standards. The letters of engagement of the External Auditors in respect of the audits of the year 2017 were reviewed and recommended by the BAC prior to approval of the Board.
	(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.	Complied 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 BAC have obtained required clarifications 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.	Complied The BAC met with the External Auditors during the year which included three meetings without the presence of the management and ensured that there was no limitation of scope or incidents that could have negatively impacted on the effectiveness of the external audit.
	(i) The committee shall review the External Auditor's management letter and the management's response thereto.	Complied BAC reviewed management letter with the management's responses thereto. A separate BAC meeting was held with the External Auditors and relevant Heads of Departments to discuss significant findings and remedial action to be taken in respect of such findings.

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>Complied</p> <p>(i) The Annual Audit Plan prepared by the Internal Audit Department is submitted to the BAC for approval. The plan covers the scope and resources requirement relating to the Audit Plan.</p> <p>(ii) The Head of Audit updates the BAC on Status of the Audit Plan and the actions taken by the management on internal audit recommendations.</p> <p>(iii) The appraisal of the Head of Audit is undertaken by the Chairman Audit Committee and performance appraisal of the Senior Staff are carried out by the Head of Audit and reviewed by the BAC.</p> <p>(iv) The BAC has accepted the resignation of the Head of Audit and recommended the appointment of acting Head of Audit. BAC has also recommended resignations and appointments of other senior staff of the Internal Audit.</p> <p>(v) The BAC Terms of Reference covers the stipulated requirement. Resignation of the previous Head of Audit was appraised by Committee.</p> <p>(vi) The BAC reviewed the adequacy of the internal audit function and ensured that it conforms to the principles of the Internal Audit Charter. The BAC reviewed and recommended revisions to the Internal Audit Charter during the year. The Internal Audit Charter defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its functions Independently. Also the BAC has ensured that the internal audit function was independent of the activities it audits and that it performs impartiality and with required proficiency and exercises due professional care in performing the audit function.</p>
	<p>(k) The committee shall consider the major findings of internal investigations and management's responses thereto;</p>	<p>Complied</p> <p>The committee reviewed Investigation Reports issued and has considered the major findings of internal investigations. The BAC reviewed the management responses and made appropriate recommendations, where necessary.</p>
	<p>(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>	<p>Complied</p> <p>The Chief Internal Auditor who is secretary to the Audit Committee attends meetings regularly and the Chief Financial Officer, Director/CEO and other Corporate Heads have attended meetings by invitation as appropriate. Committee has met the External Auditors three times without the Executive Directors being present.</p>

Section	Rule	Level of Compliance
	<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>	<p>Complied</p> <p>The BAC's Terms of Reference provides it authority to investigate into any matter within its Terms of Reference; obtain the resources which it needs to carry out the investigation; full access to information and authority to obtain external professional advice and to invite outsiders with relevant experience to be involved, if necessary.</p>
	<p>(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.</p>	<p>Complied</p> <p>The BAC met 09 times during the year with due notice. The agenda and the papers for discussions and consideration/ approval were circulated prior to the meeting. The minutes of the meetings were recorded by the Head of Internal Audit who functioned as the Secretary to the Committee. The minutes were approved by the BAC at the next regular meeting.</p>
	<p>(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.</p>	<p>Complied</p> <p>Please refer the BAC Report on pages 131 and 132 which covers the details of number of meetings held and the attendance of the Audit Committee Members.</p>
	<p>(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.</p>	<p>Complied</p> <p>The Head of Audit, who is the Secretary of the Committee, records and maintains all minutes of the meetings.</p>
	<p>(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.</p>	<p>Complied</p> <p>The Bank has in place a Whistle-Blower Policy which was reviewed/revised during the year. The BAC has ensured that all employees are duly informed and duly advised of the effective use of the Whistle-Blower process. Independent investigations were carried out by the Internal Audit Department on Whistle-Blower complaints and were reported to the BAC.</p>
<b>3 (6) (iii)</b>	<b>The following rules shall apply in relation to the Human Resources and Remuneration Committee:</b>	
	<p>(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.</p>	<p>Complied</p> <p>A Board approved Remuneration Policy is in place to determine remuneration in relation to Directors, Chief Executive Officer (CEO) and KMPs of the Bank.</p>

Section	Rule	Level of Compliance
	(b) The committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied Goals and targets for Directors are in place approved by the committee. Goals and Targets for KMPs had been set for the year 2017.
	(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.	Complied A balanced score card was used to set the targets for the KMPs in 2017. Their performance will be assessed in January 2017 against the set targets. Revision of remuneration in 2017 will be linked to the 2017 performance of the respective KMP.
	(d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied 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.	Complied Board approved policy is in place to select /appoint new Directors, CEO and KMPs.
	(b) The committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied Board approved policy and process in place. The Committee has considered and recommended the appointment of current Directors.
	(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.	Complied Policy is in place for 'Selection Criteria for Directors, CEO and KMPs' which includes the required criteria for appointments and promotions. All KMPs have been appointed with the approval of the committee.
	(d) The committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied Policy is in place for 'Selection Criteria for Directors, CEO and KMPs' which includes the required criteria for appointments and promotions. All KMPs have been appointed with the approval of the committee. A fit and proper certificate from Central Bank has been obtained for all appointments of KMPs.
	(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.	Complied The committee has considered the requirements for succession arrangements for new Directors and KMPs during the year 2017.
	(f) The committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Complied Chairman of NC is an Independent Director. CEO has attended NC meetings by invitation.



## CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	
	(a) The committee shall consist of at least three Non-executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	<p>Complied</p> <p>A Board approved Terms of Reference for the Integrated Risk Management Committee (IRMC) is in place.</p> <p>Committee consists of five Non-executive Directors, CEO and Chief Risk Officer. Other KMPs supervising broad risk categories i. e. Chief Financial Officer, VP – Wholesale Banking, VP – Retail, VP –IT, VP – Operations, AVP – Audit and Compliance Officer are called by invitation to discuss respective risk areas.</p>
	(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.	<p>Complied</p> <p>On a monthly basis, IRMC has implemented a procedure to assess the risks such as credit, market, and operational risks of the Bank through relevant risk indicators and management information and such risks are reported to IRMC through Quarterly Risk Report and Risk Matrix table. The Bank has also formed a Group Risk Governance structure covering its connected entities.</p>
	(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.	<p>Complied</p> <p>The committee reviews the adequacy and effectiveness of all management level committees.</p>
	(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.	<p>Complied</p> <p>Committee identifies specific risks through periodical reports submitted to them and gives advice on a need basis to mitigate such risks.</p>
	(e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	<p>Complied</p> <p>Committee meets at least quarterly and at regular frequencies if need arises.</p>
	(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.	<p>Complied</p> <p>The Board approved Disciplinary Policy includes provisions and criteria for such situations.</p>
	(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.	<p>Complied</p> <p>Risk assessment reports are circulated to Board members within one week from the date of IRMC.</p>
	(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.	<p>Complied</p> <p>A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by the Compliance Officer who reports directly to the Board Risk Management Committee.</p> <p>Compliance function assesses the Bank's internal controls and approved policies on all areas of business operations.</p>

Section	Rule	Level of Compliance
3 (7)	<i>Related Party Transactions</i>	
3 (7) (i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purpose of this direction</p> <p>(a) Any of the Bank’s subsidiary companies;</p> <p>(b) Any of the Bank’s associate companies;</p> <p>(c) Any of the Directors of the Bank;</p> <p>(d) Any of the Bank’s Key Management Personnel;</p> <p>(e) A close relation of any of the Bank’s Directors or Key Management Personnel;</p> <p>(f) A shareholder owning a material interest in the Bank;</p> <p>(g) A concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders has a substantial interest.</p>	<p>Complied</p> <p>The Board takes necessary steps in line with the Banking Act, this direction and as stipulated in the Bank’s Internal Code of Corporate and Related Party Transactions Policy to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties.</p> <p>Related Party Transaction Policy of the Bank has been reviewed by the Board in 2017 and is implemented.</p>
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board’s Directions on maximum amount of accommodation,</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</p> <p>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	Complied
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p>	<p>Complied</p> <p>The staff concerns are informed through operational circulars to refrain from granting accommodations with more favourable treatment as defined in the Banking Act Direction no.11 of 2007. Monitoring process has been strengthened by the implementation of on line preventive monitoring system to ensure that there is no favourable treatment offered as mentioned in point number 3 (7) (iii).</p>
3 (7) (iv)	<p>A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>Complied</p> <p>Please refer 3.7 (i) All such accommodation has to be approved at the Board level meetings with not less than 2/3 of the number of Directors other than the Director concerned, voting for such accommodations granted.</p>

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>	<p>Complied</p> <p>The Bank did not encounter such situation during the year.</p>
3 (7) (vi)	<p>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>	<p>Complied</p> <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)	<p>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.</p>	<p>Complied</p> <p>The Bank didn't encounter such situation during the year.</p>
<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>	<p>(a) Complied.</p> <p>(b) Complied.</p>

Section	Rule	Level of Compliance
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Please refer pages 139 -140.
	(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 refer pages 149 -150.
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism reported by the Board of Directors	Please refer page 151.
	(d) Details of Directors,	Please refer pages 156 -161 and 146.
	(i) including names, fitness and propriety,	
	(ii) transactions with the Bank and	
	(iii) the total of fees/remuneration paid by the Bank.	
	(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Please refer pages 145 and 146.
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration	Please refer page 145.
	(g) The External Auditor's certification of the compliance with these Directions in the annual corporate governance directions in the annual Corporate Governance reports published in the annual report.	The Bank has obtained External Auditor's factual finding reports on this Corporate Governance Report.
	(h) A report setting out details of the compliance with	Please refer pages 146 and 147.
	(i) prudential requirements, regulations, laws and	
	(ii) internal controls and	
	(iii) Measures taken to rectify any material non-compliance.	
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There is no such non compliance issues pointed out by the Director of Bank Supervision to be disclosed to the public.

## BOARD AUDIT COMMITTEE REPORT

## Members of the Board Audit Committee

Name	Eligibility	Attendance	Excused
Yudhishtran Kanagasabai – <i>Chairman</i>	9/9	9	-
Priyantha Fernando	7/9	7	2
Asoka De Silva	4/4	4	-
Ranvir Dewan	8/9	8	1
Michael O’Hanlon	8/9	8	1
Dilshani Wijayawardana	4/4	4	-

The other attendees of the Audit Committee meeting included:  
D/CEO, CFO, VP-OPS, VP-HR

The BAC is chaired by Yudhishtran Kanagasabai, a Fellow of the Institute of Chartered Accountants of Sri Lanka, who was the former Territory Senior Partner of PricewaterhouseCoopers, Sri Lanka. The BAC comprises of three Independent Non-Executive Directors and two Non-Executive Directors. The Board Audit Committee (BAC), as a whole, have the required detailed and relevant experience. The Board is satisfied that the BAC have the requisite experience in the fields of Accounting, Auditing and Banking. Brief profiles of the Committee members are given in pages 156 to 161.

Most of the Committee members serve on other committees including the Integrated Risk Management Committee. This interweaving linkage between the BAC and other Committees within the Bank has been a key driver in ensuring that gaps and unnecessary duplications, if any, are avoided whilst ensuring that key issues having an impact on Financial Reporting are escalated to the BAC.

The Committee’s role is to review on behalf of the Board, the Group’s internal financial controls. It is also responsible for oversight and advice to the Board on financial reporting related matters and internal controls over financial reporting and has exercised oversight of the work undertaken by the Group Internal Audit and Group’s External Auditors.

During the year, Mr. Asoka De Silva retired and Ms. Dilshani Wijayawardana joined as a member of the Audit Committee.

The Head of Internal Audit continues to function as the Secretary to the Committee. The Board Audit Committee met 9 times during the period under review.

## 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 Audit Committee meets regularly with the bank’s senior financial and internal audit

management and the external auditor to consider, inter alia, the bank’s financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting. It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit.

## Key responsibilities of the BAC

## Financial reporting:

The primary role of the committee in relation to financial reporting is to monitor the integrity of the Group Financial statement and formal announcements if any, relating to Group financial performance.

The Committee reviewed and discussed with the management, the internal auditors and the external auditors on 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 Group’s financial reporting process for preparing the consolidated Annual Report and Accounts 2017 is controlled using documented accounting policies. The changes to the Accounting Policies are approved at the Audit Committee. The Committee has discussed Impairment classification of financial instrument with the management and the External Audit and found to be appropriate.

The Committee reviews the financial statements prior to submission to the Board to ensure that reliable and a true and fair view of the state of affairs of the Bank, and the Group, are presented.

## Internal Control:

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. On regular basis, the Internal Audit reports provides the committee with Internal Auditors view on the system of Internal controls across all risk types. The BAC reviews the effectiveness of the Bank’s internal controls through review and follow-up of the Bank’s internal audit reports. The Committee discussed the control environment issues, root causes, management responses and remediation activities.

BAC review the adequacy and effectiveness of internal controls, such as financial, operational, compliance and information technology controls, as well as accounting policies and systems. The committee has discussed control environment issues, their root

## BOARD AUDIT COMMITTEE REPORT

causes and management responses and remediation activities. 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.

**Internal Audit:**

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Group Internal Audit function provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes across the Group, focusing on the areas of greatest risk to Union Bank using a risk-based approach. Executive management is responsible for ensuring that recommendations made by the Group Internal Audit function are implemented within an appropriate and agreed timetable.

During the year, the Group Audit Committee reviewed the adequacy and effectiveness of the Group's internal audit function (Group Audit) and processes, as well as to ensure that Group Audit is adequately resourced and set up to carry out its functions, including approving its budget. The BAC had necessary interactions with the Head of Internal Auditor throughout the year. The Committee also monitored and assessed the role and effectiveness of the Group Internal Audit function and is responsible for the hiring, removal, resignation, evaluation and compensation of Head of Group Audit.

**External Audit:**

The Committee has exercised oversight of the work undertaken by the Group Auditor – Ernst and Young during the year. The Committee has also reviewed the scope of, and the results of, the external audits and the independence and objectivity of the external auditor. The Group Auditors were also provided with the opportunities of meeting the BAC independently, to discuss and express their opinions on any matter and for the Committee to have the assurance that the Management has fully-provided all information and explanations requested by the Auditors. A BAC approved policy is in place on Non Audit Services provided by the External Auditors.

The Committee has discussed the business and financial risks with the Group Auditor Ernst and Young and has sought and received assurance that these risks have been properly addressed in their audit strategy. The Committee has enquired from the Group External Auditor that no undue pressure has been brought to bear and the level of the audit fees that there is no risk to audit work being conducted.

The Audit Committee makes recommendations to the Board for the appointment, re-appointment and dismissal of the external auditor including the remuneration and terms of engagement. 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 2018 subject to the approval of shareholders at the next Annual General Meeting.

**Changing regulatory landscape:**

Given the changing legal and regulatory landscape, the Group Audit Committee continued to receive detailed presentations and updates from management on the Group's readiness to implement IFRS 9 disclosure requirements.

**Whistle Blowing Policy:**

The Committee has spent time discussing enhancement of Group 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 Committee continuously emphasised on sustaining ethical values of the staff members. In this regard, a Code of Ethics and Whistle Blowing policy was put into place and followed for educating and encouraging all members of staff to resort to whistle - blowing if they suspect any wrong doings. Highest standards of Corporate Governance and adherence to the Bank's code of ethics are ensured. All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other channels. The whistle-blower policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers. The policy is subject to annual review in order to further improve the effectiveness.

**Evaluation of the Committee:**

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



**Yudhishtan Kanagasabai**

*Chairman*

*Board Audit Committee*

26th February 2018

## INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Integrated Risk Management Committee, the apex body which formulates the risk appetite of the bank under the guidance of the Board of directors, comprised of seven members in the year 2017. Six of the members are Non – Executive Directors as listed.

- ▷ P D J Fernando – Chairman/IRMC (*Independent Non-Executive Director*)
- ▷ Indrajit Wickramasinghe (*CEO/Executive Director*)
- ▷ Trevine Fernandopulle (*Independent Non Executive Director*)
- ▷ Yudhishtan Kanagasabai (*Independent Non Executive Director*)
- ▷ Ranvir Dewan (*Non Independent Non-Executive Director*)
- ▷ Puneet Bhatia (*Non Independent Non-Executive Director*)
- ▷ Michael J O'Hanlon (*Non Independent Non-Executive Director*)
- ▷ Suhen Vanigasooriya (*Chief Risk Officer*)

#### Charter of the Committee

The IRMC was established as a Committee of the Board, in compliance with Section 3 (6) of the Banking Act Direction No. 11 of 2007, on “Corporate Governance for Licensed Commercial Banks in Sri Lanka”. The composition and the scope of work of the Committee are in conformity with the provisions of the aforementioned Direction. The Bank has adopted an Integrated Risk Management (IRM) framework in line with the Central Bank of Sri Lanka Banking Act Direction No. 7 of 2011.

The charter of the Integrated Risk Management Committee was approved by the board outlining the responsibilities. The charter details the composition, duties, responsibilities and authority. The detailed functionalities, supportive structures and framework are discussed in detail under “Risk Management at Union Bank” from pages 91 to 92 of this annual report.

#### Meetings of the Committee

The committee held four meetings on a quarterly basis in the year 2017.

The IRMC is responsible for the implementation of the risk strategy of the Bank as laid down by the Board of Directors. The Committee is vested with the responsibilities of approving frameworks for efficient functioning of the business units and monitoring of risks. Committee is in charge of reviewing the risk profile of the Bank within the context determined by the Board. The Committee is also responsible for the assessment of all risks relating to Credit, Operational, Market, and Liquidity risks.

Using appropriate risk indicators and management information, necessary recommendations will be made to the Board. Among other responsibilities pertaining to risk management, the Committee has an oversight over the implementation and risk management in relation to credit, operations and legal/compliance and takes prompt corrective actions to alleviate the risk effects.

In compliance with the section no.3(6)(v)(g) of Corporate Governance Direction No.11 of 2007 issued by the Central Bank of Sri Lanka, the Committee submitted a quarterly Risk Assessment report within a week of each meeting to the Board seeking Board's views, concurrence and / or specific directions.

#### Undertakings of the Committee

In fulfilling the duties and responsibilities, the committee engaged in following activities during the year.

- ▷ The Committee took note of the Banking Act Direction No. 1 of 2016, on “Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks in Sri Lanka”. The Bank has met regulatory deadlines made during the year 2017 and has the ability to reach the required capital base over the next three years. The committee was satisfied that Bank has trained staff to monitor and ensure smooth reporting mechanisms.
- ▷ The committee observed that in Implementing IFRS/SLFRS new guidelines on financial instruments classification a more forward looking steps were taken by the Bank. The Bank understands the financial/ operational implications and processes and controls have been placed to drive an effective implementation.
- ▷ The Bank is continuing to improve customer convenience by strengthening the branch network and launching Internet and Mobile Banking services. Both services were focused on providing a user friendly interface, while creating a life style appeal. Moreover, over the course of the year Retail and Corporate clients were provided with new services which has improved loyalty and which meets the competitive market. Taking the operational risks stemming from these improvements, the committee closely monitored the changes in the controlling environment.
- ▷ Review of key risk indicators are continuously performed to strengthen the review process and develop ‘Early Warning’ signals. Risk mitigating techniques and establishing of new portfolio/individual limits are placed to support the continuous growth of the Bank portfolio.

## INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- ▷ Internal Capital adequacy assessment process (ICAAP) was continuously upgraded with reviews on subsidiary companies, to assess the capital adequacy at group level. Moreover, ICAAP includes weightages to the Strategy, Reputation and Compliance risks. The committee provided its guidance in adopting Basel III guidelines.
- ▷ Bank's risk infrastructure was reviewed by the committee by reviewing the adequacy and performance of the closely related management committees such as Asset and Liability Committee (ALCO), Executive Risk Management Committee (ERMC) and Operational Risk Management Committee (ORMC). Effectiveness of the compliance function too was reviewed ensuring the status of compliance with the regulations, guidelines, laws and internal controls.

Year 2017 has been very challenging with many uncertainties in macro environment. The committee is contended that the Bank has improved its risk controls and introduced policies, procedures and tools to better manage the risks. Committee expects to further strengthen its coverage over the group risk function and update the risk appetite of the Bank in line with changes in macroeconomy through an effective framework while supporting the strategic growth focus of the Bank.



Mr. P D J Fernando

*Chairman*

Board Integrated Risk Management Committee

15th January 2018



## NOMINATION COMMITTEE REPORT

**Composition of the Committee**

The Nomination Committee ("the Committee") comprises five Non-Executive Directors appointed by the Board of the Bank. The following Directors whose profiles are given on pages 158 to 161 of this Annual Report, served on the Committee as at 31st December 2017,

- ▷ Dilshani Wijayawardana, Chairperson (Independent Non-Executive Director)
- ▷ Priyantha Fernando (Independent Non-Executive Director)
- ▷ Sabry Ghouse (Independent Non-Executive Director)
- ▷ Michael O'Hanlon (Non Independent Non-Executive Director)
- ▷ Gaurav Trehan (Non Independent Non-Executive Director)

The Committee reports directly to the Board of Directors and the Company Secretary functions as the secretary to the Committee.

**Responsibilities of the Committee**

The Charter of the Committee adopted on the 10th of July 2010 and periodically reviewed by the Board, provides for the responsibilities and functions of the Committee, which include:

- ▷ implementing a procedure to select/appoint new directors, CEO and Key Management Personnel according to the applicable regulations and directions.
- ▷ considering and recommending or not recommending 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.
- ▷ setting 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 Key Management positions.
- ▷ ensuring that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the applicable rules and regulations.
- ▷ considering and recommending, from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

**Meetings and key activities in 2017**

The Committee met eight times during the year 2017. Attendance of the members at each of these meetings is given in the table on page 109 of this Annual Report. Where necessary, the Chief Executive Officer and the Vice President, Human Resources attended the meetings of the Committee by invitation.

The key activities undertaken by the Committee during the year 2017 included the following.

**Board composition**

- ▷ Made recommendations for the appointment of three new candidates considering their skills and diverse experience to fill casual vacancies on the Board.
- ▷ Assessed the fitness and propriety of the Directors holding office in terms of the provisions of the Banking Act and the directions on Corporate Governance issued thereunder.
- ▷ Recommended the re-election/re-appointment of Directors at the Annual General Meeting, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.

**Appointment of Key Management Personnel**

- ▷ Considered and evaluated individuals to fill Key Management positions from time to time.
- ▷ Reviewed the Procedure for the Selection and Appointment of Directors, CEO and the Key Management Personnel to determine the adequacy of the provisions thereof.

**Succession planning**

- ▷ Reviewed the succession plan to assess the adequacy of the expertise available at senior management level.

**Committee effectiveness**

As part of the annual self-assessment of the Directors, the performance and effectiveness of the Committee was also assessed by the Board as a whole.



**Dilshani Wijayawardana**  
Chairperson  
Nomination Committee

27th February 2018

## HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

**Composition of the Committee**

The Human Resources and Remuneration Committee (“the Committee”) is comprised of five Directors appointed by the Board of Directors of the Bank out of whom three are Independent Non-Executive Directors.

For the period 1st January 2017 to 31st March 2017, the Committee comprised of Ms. Ayomi Aluwihare (Chairperson), Dr. P. Jayendra Nayak, Mr. Priyantha Fernando, Mr. Gaurav Trehan and Mr. Sabry Ghose.

The Committee was reconstituted in April 2017, with the reappointment of Directors where Ms. Dilshani Wijayawardana joined the Board and took over duties as Chairperson of the Committee. Mr. Sabry Ghose, Mr. Priyantha Fernando and Mr. Gaurav Trehan continued being members of the Committee. Dr. P. Jayendra Nayak continued on the Committee till his retirement on 30th June 2017. Mr. Micheal O’Hanlon was appointed to the committee in October 2017.

Mr. Indrajit Wickramasinghe, Director/Chief Executive Officer (D/CEO) who is responsible for the overall management of the Bank, was present at all meetings by invitation. Given the significance of the Committee towards the strategic objective of investing and developing employees, the Chairman of the Board, Mr. Atul Malik attended Committee meetings as required by invitation.

The Committee reported directly to the Board of Directors of the Bank.

The Company Secretary of the Bank functioned as the Secretary to the Committee.

**The Committee Charter**

The Committee which is governed by the Human Resources and Remuneration Committee Charter amended and approved by the Board of Directors in November 2015, has set the following as its objectives:

- ▷ To establish and maintain performance and market oriented remuneration policies in relation to Directors, Chief Executive Officer, Key Management Personnel and Staff.
- ▷ To determine goals and targets for the Directors, Chief Executive Officer and Key Management Personnel of the Bank, and evaluate performance against those.
- ▷ To provide assistance to the Board on Corporate Governance matters in relation to the Committee
- ▷ To prepare a sustainable succession plan for all Key Management Positions.
- ▷ In achieving the above objectives in the year under review, the Committee strived to strengthen and develop the human resource pool of the Bank with appropriate professional, managerial and operational expertise necessary to achieve the overall objectives of the Bank.

**Key Focus Areas in 2017**

As the Bank’s business evolved and people practices were further strengthened, Key HR policies were updated to reflect the current operating environment and aligned to market best practices. The committee reviewed and approved these revised policies.

The Committee reviewed and approved the performance evaluations of Assistant Vice Presidents, Vice Presidents and the CEO for 2016, in order to ensure performance evaluations for all KMP’s are stringently reviewed.

In order to ensure market oriented and performance based remuneration structures are in place, the Committee reviewed and approved the salary revisions of both KMP and Non-KMP staff during 2017.

Higher emphasis was given on the performance management process of the Bank where the committee reviewed and approved the individual Annual Performance objectives of Assistant Vice Presidents, Vice Presidents and the CEO for 2017.

In order to leverage technology for HR practices and streamline the performance management process, the Committee supported the investment made on IBM SAP SuccessFactors as the Bank’s Performance Management System provider.

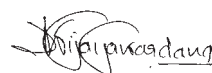
The committee also approved the promotions of 57 staff members who were identified as having potential to take higher responsibilities.

In addition, the Committee as per its mandate, approved compensation proposals for newly recruited Key Management Personnel and any changes to compensation of Key Management Personnel as required.

**Meetings**

The Committee held Ten (10) meetings during the year 2017.

The minutes of these meetings reflecting the decisions of the Committee including recommendations were presented at subsequent monthly meetings of the Board of Directors for discussion, approval and ratification or to otherwise be acted upon by the Board.



**Dilshani Wijayawardana**

*Chairperson*

*Human Resources and Remuneration Committee*

27th February 2018

## RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

**Composition of the committee**

The Related Party Transactions Review Committee (“the Committee”) comprises two Non-Executive Directors and one Executive Director appointed by the Board of the Bank. The following Directors whose profiles are given on pages 158 to 161 of this Annual Report, served on the Committee as at 31st December 2017,

- ▷ Dilshani Wijayawardana, Chairperson (Independent Non-Executive Director)
- ▷ Sabry Ghouse (Independent Non-Executive Director)
- ▷ Indrajit Wickramasinghe (Executive Director)

The Committee reports directly to the Board of Directors and the Company Secretary functions as the secretary to the Committee.

**Scope of the committee**

The Charter of the Committee adopted on the 20th of January 2016 and periodically reviewed by the Board, provides for the responsibilities and functions of the Committee, which include:

- ▷ reviewing all related party transactions of the Bank as per the Listing Rules issued by the Colombo Stock Exchange prior to the transaction being entered into, and/or if the transaction is expressed to be conditional on such review prior to completion of the transaction.
- ▷ advising the Board to convene a shareholders’ meeting and to obtain shareholder approval as and when mandatorily required, for related party transactions.
- ▷ in the absence of a Related Party Transactions Review Committee of a subsidiary, which is a listed entity, functioning as the Related Party Transactions Review Committee of such subsidiary company on the instructions and advice of the Board of the Bank.
- ▷ reviewing and making recommendations for changes to the Related Party Transactions policy of the Bank from time to time, as and when deemed fit.
- ▷ considering any other matters relating to a related party transaction, as the Management, the Committee or the Board of the Bank may think relevant taking into account the interests of the shareholders as a whole when entering into a related party transaction and to prevent a related party taking advantage of his or her or its position.
- ▷ referring related party transactions for approval of the Board.

**Meetings**

The Committee met four times during the year under review. Attendance of the members at each of these meetings is given in the table on page 109 of this Annual Report.

**Key focus areas in 2017**

Details of all transactions with the related parties during the year 2017 were reviewed by the Committee. There were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds specified in the Listing Rules of the Colombo Stock Exchange. Details of related party transactions are disclosed under Note 45 on pages 237 to 238 of the Financial Statements.

**Committee effectiveness**

As part of the annual self-assessment of the Directors, the performance and effectiveness of the Committee was also assessed by the Board as a whole.

**Declaration**

The declaration by the Board of Directors that no related party transaction falling within the ambit of the Listing Rules was entered into by the Company during 2017 is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 146 of this Report.



**Dilshani Wijayawardana**  
Chairperson  
Nomination Committee

27th February 2018

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

**General**

The Board of Directors of Union Bank of Colombo PLC is pleased to present the Annual Report on the Affairs of the Bank for the year ended 31st December 2017 together with the Audited Financial Statements of the Bank, the Audited Consolidated Financial Statements of the Group for that year and the Auditor's Report on these Financial Statements conforming to all statutory requirements. The financial statements and this Report was reviewed and approved by the Board of Directors on 27th February 2018.

This Report includes the information as required by the Companies Act No. 07 of 2007, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance.

**1. Legal Status**

Union Bank of Colombo PLC ("the Bank") is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 ("Banking Act") and was incorporated as a public limited liability company in Sri Lanka on 2nd February 1995. The Bank was re-registered as required under the provisions of the Companies Act No.7 of 2007 on 23rd September 2008 under the Registration No. PB 676 PQ. The Registered Office as well as the Head Office of the Bank is situated at No.64, Galle Road, Colombo 3.

**3.2 Subsidiaries**

The Bank had two Subsidiaries as at 31st December 2017. The details of these subsidiaries, including their principal business activities and directorate are tabulated below:

Name of the subsidiary	National Asset Management Limited (NAMAL)	UB Finance Company Limited (UBF)
Principal business activities	NAMAL is the pioneer Unit Trust management company in Sri Lanka established in 1991. With 26 years of experience and a successful track record of investing in equity and fixed income markets, NAMAL launched the first Unit Trust to be licensed in Sri Lanka (National Equity Fund) and the first listed Unit Trust (NAMAL Acuity Value Fund). NAMAL Operates eight Unit Trusts and offer private portfolio management services as well.	The principal activity of UBF is carrying on finance business including, providing financial services namely accepting deposits, maintaining savings accounts, lease financing, hire purchase, vehicle loans, mortgage loans, pawning, factoring, working capital financing and real estate.
Legal status and Registered office	A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007.  Registered office and principal place of business at No. 07, Glen Aber Place, Colombo 03, Sri Lanka.	A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007.  Registered office and principal place of business at No. 10, Daisy Villa Avenue, Colombo 04, Sri Lanka.

The Ordinary Shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since 29th March 2011.

**2. Vision, Mission and Values**

The Bank's Vision, Mission and Values are given on page 4 of this Annual Report. The business activities of the Bank are conducted in keeping with the highest level of ethical standards and integrity in achieving its vision and mission.

**3. Principal Business Activities**

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review. The said principal business activities of the Bank and its subsidiaries during the year are set out below.

**3.1 The Bank**

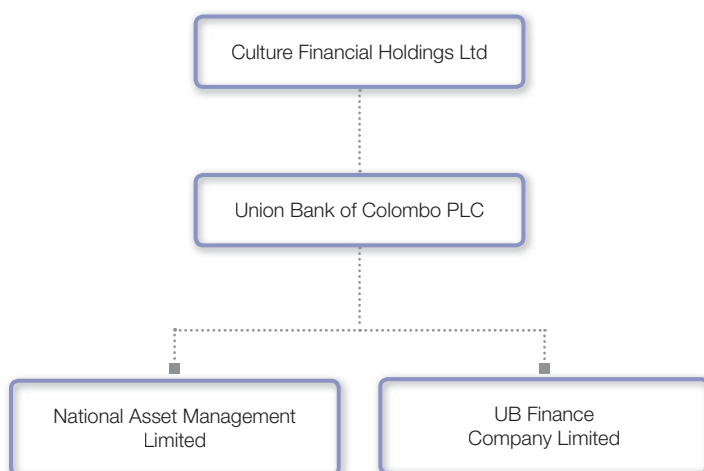
The principal activities of the Bank are commercial banking and provision of related financial services including, accepting deposits, personal banking, retail banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, corporate and retail credit, pawning, project financing, lease financing, rural credit, internet banking, money remittance facilities, dealing in Government Securities and treasury related products and margin trading etc.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

Name of the subsidiary	National Asset Management Limited (NAMAL)	UB Finance Company Limited (UBF)
Bank's Shareholding in the Subsidiary	The Bank holds 51% of the issued capital of NAMAL.	The Bank holds 81% of the total voting shares of UBF.
Board of Directors	Alexis Indrajit Lovell - Chairman Suren Madanayake Indrajit Wickramasinghe Malinda Samaratunga Wijenanda Punchi Banda Dambawinne Harold Avancka Herat – Chief Executive Officer Siew Bee Khoo Indigahawela Janaka Palitha Gamage Tyrone Wilfred de Silva	Alexis Indrajit Lovell - Chairman Ananda Atukorala - Deputy Chairman Lisa Gayle Thomas Indrajit Wickramasinghe Malinda Samaratunga Chandrakumar Ramachandra Ranvir Dewan Ransith Karunaratne - Chief Executive Officer

#### 4. Changes to the group structure

During the year, there were no changes to the Group structure which is exhibited below.



#### 5. Review of operations

A review of the financial and operational performance of the Bank during the financial year 2017 are contained in the Chairman's Message on pages 24 to 25, the Chief Executive Officer's Message on pages 26 to 28 and the Management Discussion and Analysis on pages 32 to 53. These reports form an integral part of the Annual Report of the Board of Directors.

#### 6. Future developments

An overview of the future developments of the Bank is given in the Chairman's Message on pages 24 to 25, the Chief Executive Officer's Message on pages 26 to 28 and the Management Discussion and Analysis on pages 32 to 53.

#### 7. Financial Statements

The financial statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988. These financial statements of the Bank and the Group for the year ended 31st December 2017 duly signed by the Chief Financial Officer, two Directors of the Bank and the Company Secretary are given on pages 172 to 269 and form an integral part of the Annual Report of the Board of Directors.

#### 8. Directors' responsibility for financial reporting

The Directors are responsible for the preparation of the financial statements of the Bank to present a true and fair view of its state of affairs. The Directors are of the view that these financial statements appearing on pages 172 to 269 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 (as amended), Banking Act Direction No. 11 of 2007 (Corporate Governance for Commercial Banks in Sri Lanka as amended) and the Listing Rules of the Colombo Stock Exchange. The Directors' Statement on Internal Control over Financial Reporting appearing on pages 149 to 150 forms an integral part of the Annual Report of the Board of Directors.

#### 9. Auditor's Report

The Auditors of the Bank Messrs Ernst & Young carried out the audit on the Financial Statements of the Group and the Bank for the year ended 31st December 2017 and their report thereon is given on page 171 of this Annual Report.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

**10. Accounting policies**

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 179 to 188.

**11. Financial results and appropriations****11.1 Income**

The gross income of the Group for 2017 was Rs. 13,899 Mn (Rs. 10,144 Mn in 2016) while the Bank's gross income was Rs. 11,938 Mn (Rs. 8,546 Mn in 2016). An analysis of the income is given in Note 4 to the financial statements on page 189.

**11.2 Profit and appropriations**

The Bank has recorded a growth in profit before tax of 22.5% and a growth in profit after tax of 2.1% in 2017. The Group's profit before tax recorded a growth of 15.5% in 2017.

Total Comprehensive Income (net of tax) for the year is Rs. 960 Mn (Rs. 294 Mn in 2016) while the Bank has recorded a total comprehensive income (net of tax) of Rs. 869 Mn (Rs. 197 Mn in 2016). Details of the Bank's performance and appropriation of profit are tabulated as follows,

	2017 Rs 000	2016 Rs 000
Profit before income tax	534,118	435,936
Less: Income tax expense	73,500	(15,244)
Profit for the year	460,618	451,180
Profit brought forward from previous year	821,568	449,463
<b>Profit available for appropriation</b>	<b>1,282,186</b>	<b>900,643</b>
<b>Less: Appropriations</b>		
Transfer to the reserves	(20,817)	(22,559)
Dividend paid for previous/current year	(109,141)	(43,656)
Other comprehensive income	5,622	(12,858)
Change in control	(3,093)	-
<b>Total appropriation</b>	<b>(127,429)</b>	<b>(79,073)</b>
<b>Unappropriated profit carried forward</b>	<b>1,154,757</b>	<b>821,568</b>

**12. Taxation**

Income tax rate applicable on the Bank's operations is 28% (2016: 28%). The Bank is also liable for Financial Services VAT at 15% and NBT on Financial Services at 2% (2016: 2%).

The Group has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

**13. Dividend**

On 27th February 2018, the Board of Directors decided to declare a final dividend of Rs. 0.10 per share to the ordinary shareholders of the Bank for the financial year ended 31st December 2017. The Board of Directors was satisfied that the Bank would meet the solvency test immediately after the said final dividend was paid in terms of the provisions of the Companies Act No. 7 of 2007 and Listing Rules of the Colombo Stock Exchange. The Board provided the Statements of Solvency to the auditors and obtained the Certificates of Solvency from the auditors in respect of the said dividend payment conforming to the statutory provisions.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

**14. Property, plant and equipment and intangible assets**

Information on Property, Plant & Equipment and Intangible Assets of the Group and the Bank are given in Notes 31 and 30 to the Financial Statements on pages 218 to 223.

The details of capital expenditure approved and contracted for are given in Note 43.2 to the Financial Statements on page 234.

**15. Net book value of freehold properties**

The net book values of freehold properties owned by the Group as at 31st December 2017 are included in the accounts at Rs. 45 Mn (2016: Rs. 49 Mn).

**16. Stated Capital**

The stated capital of the Bank as at 31st December 2017 was Rs. 16,334,781,723 consisting of 1,091,406,249 ordinary shares (2016: Rs. 16,334,781,723 consisting of 1,091,406,249 ordinary shares).

**17. Share information**

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 3.

Information on the trading of the shares is given in the Section on 'Investor Relations' on pages 84 and 88.

**18. Shareholdings**

As at 31st December 2017, there were 31,716 registered ordinary shareholders (2016: 32,640). Names of the twenty largest shareholders, percentages of their respective holdings and percentage holding of the public, etc. are given in the Section on 'Investor Relations' on pages 86 and 87.

**19. Equitable treatment to shareholders**

The Bank has at all times ensured that all shareholders are treated equitably.

**20. The Board of Directors****20.1 Profiles of the Board of Directors**

The Board of Directors of the Bank comprises 12 (2016:12) Directors with wide financial and commercial knowledge and experience as detailed in their profiles given on pages 158 to 161.

**20.2 Classification of Directors and appointments retirements and cessations during 2017**

Names of the Directors of the Bank during the year 2017 including the new appointments, retirements and cessations are given in the table below:

Name	Status	Length of service	Name of Alternate Director
Priyantha Damian Joseph Fernando (Deputy Chairman/Senior Director)	Independent Non-Executive Director	Director since 02.11.2011	None
Indrajit Asela Wickramasinghe (Director/CEO)	Non-Independent Executive Director	Director since 19.11.2014	None
Mohamed Hisham Sabry Ghouse	Independent Non-Executive Director	Director since 30.08.2012	None
Ranvir Dewan	Non-Independent Non-Executive Director	Director since 29.09.2014	None
Gaurav Trehan	Non-Independent Non-Executive Director	Director since 29.09.2014	None
Puneet Bhatia	Non Independent Non-Executive Director	Director since 27.10.2014	None
Michael J O' Hanlon	Non-Independent Non-Executive Director	Director since 27.10.2014	Sumedh Jog (appointed on 13.03.2015)
Sow Lin Chiew	Non-Independent Non-Executive Director	20.01.2015	Yoke Sun Woon (appointed on 20.01.2015)
Yudhishtan Kanagasabai	Independent Non-Executive Director	27.07.2016	None

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

Name	Status	Length of service	Name of Alternate Director
<i>Appointments made during the year 2017</i>			
Atul Malik (Chairman)	Non-Independent Non-Executive Director	Director from 02.10.2017 Chairman from 25.10.2017	None
Dilshani Gayathri Wijayawardana	Independent Non-Executive Director	Director from 01.04.2017	None
Trevine Sylvester Anthony Fernandopulle	Independent Non-Executive Director	Director from 01.04.2017	None
<i>Retirements/cessations during the year 2017</i>			
Pangal Jayendra Nayak (former Chairman)	Non-Independent Non-Executive Director	Retired with effect from 30.06.2017 upon reaching the age of 70 years.	None
Bodahandi Asoka Keerthi de Silva	Independent Non-Executive Director	Retired with effect from 29.05.2017 upon completion of nine years of service.	None
Ayomi Aluwihare-Gunawardene	Independent Non-Executive Director	Did not stand for re-election at the last Annual General Meeting and thus ceased with effect from 31.03.2017.	None

**20.3 Retirement by rotation/reappointment of Directors**

Mohamed Hisham Sabry Ghouse, Priyantha Damian Joseph Fernando, Ranvir Dewan and Gaurav Trehan who are subject to retirement by rotation in terms of Article 88 read together with Article 89 of the Articles of Association of the Bank, will offer themselves for re-election in terms of Article 89.

Atul Malik, Dilshani Gayathri Wijayawardana and Trevine Sylvester Anthony Fernandopulle, who were appointed during the year 2017 to fill in casual vacancies on the Board/as an addition to the Board, will offer themselves for re-election in terms of Article 95 of the Articles of Association of the Bank.

Having considered the contents of the Affidavits and Declarations submitted by each of the above Directors and all other related issues, and based on the endorsement of the Nomination Committee, the Board recommended the re-election of the said Directors at the forthcoming Annual General Meeting.



## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

## 20.4 Other directorships of Directors

Information on other directorships of the present Directors of the Bank are tabulated below.

Name of Director	Name of Entity	Position
Atul Malik	Bobcards Limited, India	Director
Priyantha Fernando	Commercial Leasing & Finance PLC	Director
	Taprobane Holdings Ltd	Director
	Golden Key Credit Card Company Limited	Director
	Imperial Institute of Higher Education	Director
	Ceylon Leather Products PLC	Director
	Thomas Cook Travels - Sri Lanka (Pvt) Ltd	Director
	Ceylon Leather Company Ltd	Director
	Golden Key Hospitals Limited	Chairman
Indrajit Wickramasinghe	National Asset Management Ltd	Non Executive Director
	UB Finance Company Ltd	Non Executive Director
Sabry Ghouse	Shah Associates Pvt Ltd.	Director
Ranvir Dewan	Shriram City Union Finance Limited	Director
	UB Finance Co. Ltd	Director
Gaurav Trehan	Shriram Properties Pvt. Ltd.	Director
	Shriram Automall India Ltd	Director
	Shriram General Insurance Co. Ltd.	Director
	Shriram Life Insurance Co. Ltd.	Director
	Manipal Health Enterprises Pvt. Ltd.	Nominee Director
	Jana Capital Limited	Nominee Director
Puneet Bhatia	Shriram Capital Limited	Alternate Director
	TPG Capital India Private Limited	Director
	Janalakshmi Financial Services Limited	Director
	Havells India Limited	Director
	Shriram Transport Finance Company Limited	Director
	Shriram City Union Finance Limited	Director
	Mylan Laboratories Limited	Director
	Vishal E-Commerce Private Limited	Director
	Vishal Mega Mart Private Limited	Director
	Shriram Properties Private Limited	Director
	Flare Estate Private Limited	Additional Director
	AGS Transact Technologies Limited	Additional Director
	India Transact Services Limited	Additional Director
	Securevalue India Limited	Additional Director
	Manipal Health Enterprises Private Limited	Nominee Director
	Shriram Capital Limited	Nominee Director
Jana Capital Limited	Nominee Director	
Campus Activewear Private Limited	Nominee Director	
Shriram Holdings Madras Private Limited	Nominee Director	

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

Name of Director	Name of Entity	Position
Michael J O'Hanlon	Roosevelt Management Company LLC	Director & Chairman
	Rushmore Loan Management Services LLC	Director & Chairman
Sow Lin Chiew	Capax Trading SdnBerhad	Director
	Genting Management and Consultancy Services Sdn Bhd	Director
	Sri Highlands Express Sdn Bhd	Director
	Genting Risk Solutions Sdn Bhd	Director
	Genting CDX Singapore Pte Ltd formerly known as Genting International Industries (Singapore) Pte Ltd	Director
	Genting Bhd (Hongkong) Limited	Director
	Resorts World Limited	Director
	Resorts World Bhd (Hong Kong) Limited	Director
	Genting Power Holdings Limited	Director
	Genting Global Pte Ltd - formerly known as Genting (Singapore) Pte Ltd	Director
	Oxalis Limited	Director
	Web Energy Ltd	Director
	Genting Power International Limited	Director
	Awana Hotels & Resorts Management Sdn Bhd	Director
	Vista Knowledge Pte Ltd	Director
	CIMB (Private) Limited	Alternate Director
	Yudhishtan Kanagasabai	Cargills Food Co. Ltd
Hunters PLC		Director
Lanka Canneries Ltd		Director
Trevine Fernandopulle	National Insurance Trust Fund	Director
	Dutch Lanka Trailer Manufacturers Ltd	Director
	AMW Capital Leasing and Finance PLC	Chairman
	Trustees of Joseph Frazer Memorial Hospital	Chairman
Dilshani Wijawardana	-	-
Yoke Sun Woon (Alternate Director to Sow Lin Chiew)	Lacustrine Limited	Director
	Genting Group Sdn Bhd	Director
	Genting Gaming Solutions Pte Ltd	Director
	Genting Innovation Pte Ltd	Director
	Resorts World (Singapore) Pte Ltd	Director
	Genting Management (Singapore) Pte Ltd	Director
	Genting Laboratory Service Sdn Bhd	Director
	Applied Proteomics, Inc	Director
	Taurx Pharmaceuticals Ltd	Alternate Director
	Genting Taurx Diagnostic Centre Sdn Bhd	Alternate Director
	Genting Multimodal Imaging Pte Ltd	Alternate Director
DNAE Group Holdings Limited (formerly known as DNA Electronics Limited)	Alternate Director	
Sumedh Jog (Alternate Director to Michael J O' Hanlon)	-	-

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

**20.5 Board Sub-Committees**

In compliance with the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange, the Board formed five mandatory Board Sub-committees namely, Nomination Committee, Human Resources and Remuneration Committee, Integrated Risk Management Committee, Audit Committee and Related Party Transactions Review Committee.

The Board of Directors also has voluntarily formed a Credit Committee at the Board level to assist the Board in the appraisal and approval of credit proposals above a pre-determined threshold in line with the Bank's risk appetite.

The scope and composition of all of the above committees are given on page 108 while the reports of these committees are found on pages 131 to 137.

**20.6 Meetings**

The details of Board meetings and Board subcommittee meetings are presented in the 'Corporate Governance Report' on page 109 of this Annual Report.

**20.7 Directors' remuneration**

Details of Directors' remuneration and other benefits paid in respect of the Bank during the financial year ended 31st December 2017 are given in Note 13 to the Financial Statements on page 194.

**20.8 Interests Register/Directors' interest in transactions**

In compliance with the Companies Act No. 07 of 2007, the Bank

maintains an interest register and the general declarations made by the Directors as per Section 192 (1) and (2) of the Companies Act No. 07 of 2007 of their interests in contracts or proposed contracts have been duly recorded in the Interests Register. Details of the transactions disclosed therein are given in this Report as well as on pages 237 to 238 under related party transactions.

Furthermore, the Chairman, the Board of Directors and the Chief Executive Officer of the Bank have made general declarations that there is no financial, business, family or other material/relevant relationship(s) between themselves as required to be disclosed by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka.

**20.9 Directors' interest in shares**

The Directors have disclosed to the Board their interests in the shares of the Bank and any acquisitions or disposals thereof in compliance with Section 200 of the Companies Act No. 07 of 2007. The details of Directors' individual shareholdings in the Bank are given in the Section on 'Investor Relations' on page 88.

**21. Related Party Transactions**

The details of the related party transactions are set out in Note 45 to the Financial Statements on pages 237 to 238. The aggregate value of remuneration/fees paid by the Bank to its Key Management Personnel (KMPs), including Directors and the aggregate values of the transactions of the Bank with KMPs and their close family members and subsidiaries as at 31st December 2017, are as follows:

Key Management Personnel*	2017 Rs. 000	As a % Bank's Regulatory Capital
Remuneration and other employment benefits	263,123	
<b>Loans</b>	117,581	0.72
KMPs	117,581	0.72
Close Family Members	-	0.00
<b>Deposits</b>	19,686	
KMPs	11,700	
Close Family Members	7,987	

\*Figures include the Executive Director's remuneration, other employment benefits, loans and deposits.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

Directors	2017 Rs.000	As a % Bank's Regulatory Capital
Director Fees	7,381	
<b>Loans</b>	-	
Directors	-	
Close Family Members	-	
<b>Deposits</b>	7,688	
Directors	3,824	
Close Family Members	3,864	
<b>Transactions with subsidiaries</b>		
*Loans	933,815	6.01
Repurchased agreements	163,138	1.00
Deposits	538,608	

\*This includes Rs. 312,253,068 investment in subordinated debenture of UB Finance Company Limited.

During the year ended 31st December 2017, there were no related party transactions, which exceeded 10% of the equity, or 5% of the total assets whichever is lower and the Bank has complied with the requirements of the Listing Rules issued by the Colombo Stock Exchange on Related Party Transactions.

## 22. Human Resources

Human Resource Practices and Policies of the Bank are aligned to ensure efficiency, effectiveness and productivity of the work force and these policies are reviewed periodically.

As at 31st December 2017, 1,269 persons were in employment of the Bank (2016: 1,194).

## 23. Insurance and indemnity

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability, which extends to the Bank's subsidiaries as well.

## 24. Employee Share Option Plan

In the year 2015, with the approval of the shareholders, the Bank formulated an Employee Share Option Plan (ESOP) for key employees and directors of the Bank and its subsidiaries based on the Bank achieving certain pre-determined performance criteria.

During the year 2017, no options were offered to the employees under the ESOP and no options previously offered were vested.

The Board of Directors confirms that the Bank or any of its subsidiaries have not, directly or indirectly provided funds for the ESOP.

## 25. Environmental protection

The Directors confirm that to the best of their knowledge the Bank has not engaged in any activity, which causes detriment to the environment. Specific measures taken to protect the environment are given on pages 64 to 77 of this Annual Report.

## 26. Statutory payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government, other regulatory bodies and related to the employees have been paid on a timely basis or where relevant provided for.

## 27. Compliance with laws and regulations

To the best knowledge and belief of the Directors, the Group and the Bank have not engaged in any activity contravening any laws and regulations.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

**28. Donations**

During the year, the Bank made donations amounting to Rs. 18,600 (2016: Rs. 16,900) in terms of the resolution passed at the last Annual General Meeting.

**29. Events after the reporting period**

The Board of Directors resolved at the Board meeting held on 27th February 2018 to pay a final dividend on 1,091,406,249 shares of the Bank amounting to Rs. 109,140,625 for the year ended 31st December 2017.

The Board of Directors has satisfied itself that the Bank will meet the requirement of the Solvency Test in terms of Section 56(3) of the Companies Act No. 7 of 2007, immediately after the payment of the said dividend.

**30. Going concern**

After making necessary inquiries and reviews, the Board of Directors has a reasonable expectation that the Bank possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

**31. Auditors**

Messrs Ernst & Young, Chartered Accountants served as the Bank's Auditors during the year under review. Based on the declaration made by Messrs Ernst & Young and as far as the Directors are aware, the Auditors do not have any relationship or interest in the Bank or its subsidiaries.

**31.1 Auditors' Remuneration**

Audit fees and reimbursement of expenses paid to Messrs. Ernst & Young during the year under review by the Bank and the Group amounted to Rs. 6,464,491 (2016: Rs. 6,686,684) and Rs. 9,466,449 (2016 : Rs. 8,744,022) respectively. Further, Rs. 11,421,300 (2016: Rs. 7,847,753) and Rs. 14,423,258 (2016: Rs. 9,904,591) were paid by the Bank and the Group respectively for audit related and non-audit services including reimbursement of expenses.

**31.2 Reappointment of Auditors**

The retiring Auditor, Messrs Ernst & Young have expressed their willingness to continue in office and a resolution to reappoint them as the Bank's Auditor for the ensuing financial year, and authorising the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

**32. Risk management and system of internal controls**

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. This process detailed in the Section on 'Risk Management' on pages 91 to 103 is continuously reviewed by the Board through the Integrated Risk Management Committee.

The Board of Directors is satisfied with the effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and Financial Statements. The Directors' Statement on Internal Control and the Auditors' Report thereon are given on pages 149 to 151.

**33. Corporate Governance**

The Board of Directors operates on the firm belief that sound governance practices are fundamental to earn stakeholder trust which is critical to sustaining performance and enhancing shareholder value. Thus, in the management of the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures, and introduced/improved appropriate systems and structures to enhance risk management measures and to improve accountability and transparency. A detailed report on Corporate Governance is given on pages 104 to 111.

As required by Section 3(8) (ii) (g) of Direction No 11 of 2007 of the Banking Act on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, the Board of Directors confirms that all the findings of the "Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4400" have been incorporated in the Annual Corporate Governance Report on pages 112 to 130.

The Directors declare that,

- (i) the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm level of compliance in each quarter to the Board;
- (ii) the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;
- (iii) all endeavours have been made to ensure equitable treatment of shareholders;
- (iv) the business is a going concern; and
- (v) they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

#### **34. Stakeholder management and communication**

The Bank believes that building and maintaining good stakeholder relationships help it to manage and respond to expectations, minimise reputational risk and form strong partnerships, all of which support commercial sustainability. The measures initiated by the Bank to manage its valued stakeholders is given in the Section on 'Stakeholder Engagement' on pages 14 to 16.

#### **35. Annual General Meeting**

The 23rd Annual General Meeting will be held at the "Auditorium" of Sri Lanka Foundation at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 on 28th March 2018 at 2.00 p.m. Notice of the meeting relating to the 23rd Annual General Meeting is enclosed at the end of the Annual Report.

#### **36. Acknowledgement of the contents of the Report**

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors,



Atul Malik  
*Chairman*



Indrajit Wickramasinghe  
*Director/Chief Executive Officer*



Inoka Jayawardhana  
*Company Secretary*

27th February 2018

## DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Union Bank of Colombo PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting deviations, if any from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls could only provide reasonable, but not absolute assurance, against material misstatement on financial reporting and records, and against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Bank and mitigates such risks by enhancing the system of internal control over financial reporting as and when there are changes to the operations and business environment including compliance with regulatory guidelines. This ongoing 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 appropriate internal controls to mitigate 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 assessing the adequacy and effectiveness of the system of internal controls with respect to financial reporting include the following:

▷ Committees have been established to assist the Board to ensure the corporate objectives, strategies, annual budget as well as the policies and business directions that have been

approved by the Board are implemented effectively and are reflected in the Bank's operations;

- ▷ The Internal Audit Division of the Bank checks for compliance with policies and procedures and assesses the effectiveness of the internal control systems on an ongoing basis and highlight significant findings in respect of instances of non - compliance. Audits are carried out to ensure coverage on all departments and branches in accordance with the annual audit plan approved by the Board Audit Committee (BAC). The frequency of audits and coverage is determined by the level of risk assessed. The annual audit plan is reviewed periodically by the BAC and the plan aligned to suit the changes in the risk profile of the Bank. Findings from the Internal Audit are submitted to the BAC for review at their periodic meetings;
- ▷ The BAC of the Bank reviews gaps in internal controls identified by Internal Audit, External Auditors, Regulatory Authorities and the Management: and provides advice and direction on remediation and follows up on corrective action taken. The BAC also reviews the Internal Audit function with particular emphasis on the scope and quality of audits. The minutes of the BAC meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the BAC of the Bank are set out in the Audit Committee Report on pages 131-132;
- ▷ The Integrated Risk Management Committee (IRMC) is established to assist and support the Board in assuring that the Risk Management framework is adequate and robust to perform the oversight function in relation to the risk categories of credit, market, liquidity and operations risks. All information pertaining to the statutory, regulatory and fiduciary developments and requirements, are shared by the committees with Key Management;
- ▷ Operational committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations.
- ▷ In assessing the internal control system over financial reporting, the Bank continues to review and update all procedures and controls that are connected with significant accounts and disclosures in the financial statements. The Bank has processes and procedures to adopt new and revised Sri Lanka accounting standards. The Bank will continue to improve procedure manuals for incorporating changes to, and adopting new Sri Lanka Accounting standards as appropriate. The Bank has also recognized the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently. The Bank continues to strengthen the processes around impairment of Loans and Advances, identification of related parties and financial statement disclosures.

## DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- ▷ Further to the adoption of new Sri Lanka Accounting Standards comprising SLFRS and LKAS, the Bank further strengthened the processes and procedures initially applied to adopt the aforementioned accounting standards during the years based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Bank will continue to further strengthen the processes such as impairment of Loans & Advances and Financial Statement Disclosures related to risk management based on the feedback received from Internal and External Auditors and as per best practices. The Bank has also recognized the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently. The Management is currently reviewing options available to automate the financial reporting process.
- ▷ The Board also has taken into consideration the requirements of the Sri Lanka Accounting Standard – SLFRS 9 on ‘Financial Instruments’ that has been issued with effective date being January 01, 2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an ‘expected credit loss model’ compared to the ‘incurred credit loss model’ currently being applied under the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’. The Bank is currently working with external experts and based on the feedback received from Internal and External Auditors, the Board will continue to implement and strengthen the processes required to comply with SLFRS 9.
- ▷ 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 2017 in connection with the internal control system over financial reporting will be dealt with in the next financial year.

**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 2017 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 151 of this Annual Report.

By order of the Board,



**Yudhishtan Kanagasabai**  
Chairman  
Board Audit Committee

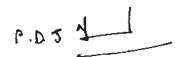


**Atul Malik**  
Chairman



**Indrajit Wickramasinghe**  
Chief Executive Officer

Colombo, Sri Lanka  
27th February 2018



**Priyantha Fernando**  
Deputy Chairman



**Inoka Jayawardhana**  
Company Secretary





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

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

We were engaged by the Board of Directors of Union Bank of Colombo PLC (the "Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 December 2017.

### 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.

27 February 2018  
Colombo

## GRI CONTENT INDEX

<b>GENERAL DISCLOSURES</b>			
<b>GRI Disclosure</b>	<b>Description</b>	<b>Page Number</b>	<b>External Assurance</b>
<b>Organizational Profile</b>			
GRI 102-1	Name of the organisation	Inner Back Cover	Yes
GRI 102-2	Activities, Brands, Products and services	32	Yes
GRI 102-3	Location of organisation's head quarters	Inner Back Cover	Yes
GRI 102-4	Location of operations	8	Yes
GRI 102-5	Ownership and Legal form	Inner Back Cover	Yes
GRI 102-6	Markets served	32, 48-49	Yes
GRI 102-7	Scale of the organisation	66, 87, 172	Yes
GRI 102-8	Information on employees and other workers	66-67	Yes
GRI 102-9	Supply chain	75-76	Yes
GRI 102-10	Significant changes to the organisation and its supply chain	8	Yes
GRI 102-11	Precautionary principle or approach	12	Yes
GRI 102-12	External initiatives	8	Yes
GRI 102-13	Membership of associations	77	Yes
<b>Strategy</b>			
GRI 102-14	Statement from senior decision-maker	24-25	Yes
GRI 102-15	Key impacts, risks, and opportunities	20-21	Yes
<b>Ethics and Integrity</b>			
GRI 102-16	Values, principles, standards, and norms of behaviour	4*	Yes
<b>Governance</b>			
GRI 102-18	Governance structure	12, 105	Yes
<b>Stakeholder Engagement</b>			
GRI 102-40	List of stakeholder groups	14	Yes
GRI 102-41	Collective bargaining agreements	71	Yes
GRI 102-42	Identifying and selecting stakeholders	16	Yes
GRI 102-43	Approach to stakeholder engagement	15	Yes
GRI 102-44	Key topics and concerns raised	15	Yes
<b>Reporting Practice</b>			
GRI 102-45	Entities included in the consolidated Financial Statements	40	Yes
GRI 102-46	Defining report content and topic boundaries	8	Yes
GRI 102-47	List of material topics	9-12	Yes
GRI 102-48	Restatements of information	8	Yes
GRI 102-49	Changes in reporting	9	Yes
GRI 102-50	Reporting period	8	Yes
GRI 102-51	Date of most recent report	8	Yes
GRI 102-52	Reporting cycle	8	Yes
GRI 102-53	Contact point for questions regarding the report	13	Yes
GRI 102-54	Claims of reporting in accordance with the GRI Standards	8	Yes
GRI 102-55	GRI content index	152-153	Yes
GRI 102-56	External assurance	8, 154-155	Yes
<b>Management Approach</b>			
GRI 103-1	Explanation of the material topic and its boundary	9-13	Yes
GRI 103-2	The management approach and its components	9-13	Yes
GRI 103-3	Evaluation of the management approach	9-13	Yes

\*Partially Disclosed

## GRI CONTENT INDEX

TOPIC SPECIFIC DISCLOSURES			
GRI Disclosure	Disclosure Item	Page Number	External Assurance
<i>Category : Economic</i>			
<b>GRI 201 - Economic Performance</b>			
GRI 201-1	Direct economic value generated and distributed	286	Yes
GRI 201-2	Financial implications and other risks and opportunities due to climate change	20-21	Yes
GRI 201-3	Defined benefit plan obligations and other retirement plans	228	Yes
GRI 204-1	Proportion of spending on local suppliers	75-76	Yes
<b>GRI 205 - Anti Corruption</b>			
GRI 205-2	Communication and training about anti-corruption policies and procedures	72-73	Yes
<b>GRI 206 - Anti Competitive Behaviour</b>			
GRI 206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	76	Yes
<i>Category : Environmental</i>			
<b>GRI 302- Energy</b>			
GRI 302-1	Energy consumption within the organisation	9	Yes
<i>Category : Social</i>			
<b>GRI 401 - Employment</b>			
GRI 401-1	New employee hires and employee turnover	68	Yes
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	69	Yes
<b>GRI 402 - Labor/Management Relations</b>			
GRI 402-1	Minimum notice periods regarding operational changes	12	Yes
<b>GRI 403 - Occupational Health and Safety</b>			
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	71-72	Yes
<b>GRI 404 - Training and Education</b>			
GRI 404-1	Average hours of training per year per employee	73-74	Yes
GRI 404-2	Programs for upgrading employee skills and transition assistance programmes	74	Yes
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	68-69	Yes
<b>GRI 405 - Diversity and Equal Opportunity</b>			
GRI 405-1	Diversity of governance bodies and employees	67	Yes
GRI 405-2	Ratio of basic salary and remuneration of women to men	70	Yes
<b>GRI 406 - Non Discrimination</b>			
GRI 406-1	Incidents of discrimination and corrective actions taken	70	Yes
<b>GRI 408 - Child Labor</b>			
GRI 408-1	Operations and suppliers at significant risk for incidents of child labour	70	Yes
<b>GRI 409 - Forced or Compulsory Labour</b>			
GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	70	Yes
<b>GRI 410 - Security Practices</b>			
GRI 410-1	Security personnel trained in human rights policies or procedures	72	Yes
<b>GRI 417 - Marketing and Labeling</b>			
GRI 417-1	Requirements for product and service information and labelling	64	Yes
GRI 417-2	Incidents of non-compliance concerning product and service information and labelling	76	Yes
GRI 417-3	Incidents of non-compliance concerning marketing communications	76	Yes
<b>GRI 418 - Customer Privacy</b>			
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	76	Yes
<b>GRI 419 - Socio Economic Compliance</b>			
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	76	Yes

\*Partially Disclosed



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## Independent Assurance Report to Union Bank of Colombo PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report-2017

### Introduction and scope of the engagement

The management of Union Bank of Colombo PLC (“the Bank”) engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2017 (“the Report”).

- ▷ Reasonable assurance on the information on financial performance as specified on page 286 of the Report.
- ▷ Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ - Core guidelines.

### Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“CASL”).

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI Standards ‘In accordance’ - Core guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable

to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

### Management of the Bank’s responsibility for the Report

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

### Ernst & Young’s responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: ‘In accordance’ - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 08 December 2017. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

### Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- ▷ Interviewing relevant the Bank’s personnel to understand the process for collection, analysis, aggregation and presentation of data.
- ▷ Reviewing and validation of the information contained in the Report.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA 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 FCA Ms. P V K N Sajewanani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

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- ▷ Checking the calculations performed by the Bank on a sample basis through recalculation.
- ▷ Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2017.
- ▷ Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

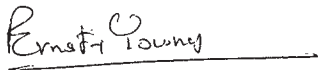
#### Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

#### Conclusion

Based on the procedures performed, as described above, we conclude that;

- ▷ The information on financial performance as specified on page 286 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2017.
- ▷ Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.



**Ernst & Young**

*Chartered Accountants*

27 February 2018

Colombo



**From Left to Right**

01. **Yudhishtiran Kanagasabai** (Independent Non Executive Director), 02. **Gaurav Trehan** (Non Independent Non Executive Director),  
03. **Sabry Ghouse** (Independent Non Executive Director), 04. **Atul Malik** (Chairman/ Non Independent Non Executive Director),  
05. **Priyantha Fernando** (Deputy Chairman/ Senior Director/ Independent Non Executive Director),  
06. **Indrajit Wickramasinghe** (Executive Director/ Chief Executive Officer)



**From Left to Right**

07. **Trevine Fernandopulle** (*Independent Non Executive Director*),  
08. **Michael J O’hanlon** (*Non Independent Non Executive Director*), 09. **Yoke Sun Woon** (*Alternate Director To Sow Lin Chiew*),  
10. **Puneet Bhatia** (*Non Independent Non Executive Director*), 11. **Dilshani Wijayawardana** (*Independent Non Executive Director*),  
12. **Ranvir Dewan** (*Non Independent Non Executive Director*)

## PROFILES OF THE BOARD OF DIRECTORS

**ATUL MALIK****Chairman/Non Independent Non Executive Director**

Atul Malik, who currently functions as a Senior Advisor to TPG for their financial services portfolio, is a senior financial services executive with extensive experience and a successful track record in establishing, expanding and managing scale businesses across Asian developed and emerging markets.

Prior to joining TPG in October 2017, he was an advisor to General Atlantic from 2015 to 2017, the CEO of Maritime Bank, one of the largest private banks in Vietnam, from 2012 to 2015 and a Senior Advisor to Asia Capital & Advisors, a boutique private equity firm, from 2011 to 2012.

Between 2007 and 2011, he was the Managing Director/Regional Head Asia-Private & Business Clients of Deutsche Bank with operations covering India, China and Vietnam. During this period he was also a member of the DB Asia Pacific Executive Committee and the Global Private and Business Clients (PBC) Executive Committee, and was nominated as the Non-Executive Director of DB China Limited.

During his 20 years long career at Citibank that commenced in 1988 with Citibank India, Mr. Malik has held a variety of senior roles, the last of which was as the Chief Executive Officer of Citibank Hong Kong (2004 to 2007), which is the Bank's largest retail and business banking operations in Asia. He was also a member of Citibank's Global Consumer Group Management Committee and the Asia Pacific Executive Committee.

Mr. Malik holds a Master's Degree in Business Administration from the Rice University, USA (1987) and B Tech Degree from IIT Bombay (1985).

**PRIYANTHA FERNANDO****Deputy Chairman/Senior Director/ Independent Non Executive Director**

Priyantha Fernando has more than 36 years of experience in the banking and finance sectors. 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 from 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 organisations namely, the Securities and Exchange Commission, the Insurance Board of Sri Lanka, the Chairman of the Credit Information Bureau, Institute of Bankers - Sri Lanka and Board Member at Employees' 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 holds directorships in Commercial Leasing and Finance PLC, Taprobane Holdings PLC, Ceylon Leather Company Ltd, Thomas Cook Travels Sri Lanka (Pvt) Ltd and Imperial Institute of Higher Education.

**INDRAJIT WICKRAMASINGHE****Executive Director/Chief Executive Officer**

Indrajit Wickramasinghe was appointed as Director/Chief Executive Officer on the 15th of November 2014. He counts for over 28 years of Management experience having worked in both the financial and consumer sectors in both local and multinational companies. He holds an MBA from the University of Sri Jayewardenepura, a Fellow of the Chartered Institute of Marketing UK, a Member of the Association of the Professional Bankers and a member of the Oxford Business Alumni, University of Oxford.

Prior to his appointment as Director/CEO of Union Bank he served as the Chief Operating Officer of NDB Bank where he was responsible for all business areas including Retail Banking, Corporate Banking, SME Banking and Project Finance. Prior to that he held positions as a Vice President looking after functions such as HR, Marketing and seven years as Vice President heading Retail Banking. Mr. Wickramasinghe was also a Non-Executive Director of Eagle Insurance/Aviva NDB Insurance, NDB Capital Holdings PLC, NDB Securities (Pvt) Ltd, Development Holdings (Pvt) Ltd and the Credit Information Bureau of Sri Lanka.

He currently serves as a Non-Executive Director of the National Asset Management Ltd and UB Finance Company Ltd.



## PROFILES OF THE BOARD OF DIRECTORS

**SABRY GHOUSE****Independent Non Executive Director**

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 the setting up of Retail Banking, allied operations and crafting of Strategy at all of these banks to emerge a leader in their chosen market.

He 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 and 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 recognised by Standard Chartered Bank for his contribution to society and sustainable business and for his work with the mentally challenged Children in Jordan. He was selected for executive leadership programs conducted by the London Business School, UK and Templeton, Oxford UK.

In 2006 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.

**RANVIR DEWAN****Non Independent Non Executive Director**

Ranvir Dewan joined TPG Capital in July 2006 and is based in Singapore. He is currently a Senior Advisor and was formerly the Head of Financial Institutions Group Operations. From April 2000 to July 2006 he was Executive Vice President and Chief Financial Officer of Standard Chartered First Bank (formerly Korea First Bank) in Seoul, Korea.

Prior to that Mr. Dewan spent 13 years with Citibank Global Consumer Bank and held various senior positions in its international businesses. In his previous assignment, he was Regional Financial Controller of Citibank's Global Consumer Bank with responsibilities covering 11 countries in the Asia Pacific region. Mr. Dewan has also held senior positions with KPMG in Canada and England where he specialised in the audits of financial institutions.

Mr. Dewan is a Fellow of the Institute of Chartered Accountants in England & Wales (FCA) and a member of the Canadian Institute of Chartered Accountants (CPA, CA). He holds a Bachelor of Commerce (Honours) degree from the Shriram College of Commerce, Delhi University, India. He also serves on the Board of Shriram City Union Finance Limited, India and is a member of the Executive, Audit and Risk Committees. Mr. Dewan is also a Director of UB Finance Company Limited.

**GAURAV TREHAN****Non Independent Non Executive Director**

Gaurav Trehan is a Partner of TPG based in Mumbai. Since joining TPG in 2004, Mr. Trehan has spent time in TPG's Hong Kong and Mumbai offices and has evaluated and executed private equity transactions in India and Southeast Asia. Prior to joining TPG, Mr. Trehan worked in the Mergers, Acquisitions and Restructurings Department of Morgan Stanley in Menlo Park with a focus on the Technology Sector. Mr. Trehan received a BS in Mathematics & Applied Science and Economics from UCLA. He serves on the Boards of Manipal Health Enterprises Private Ltd, Shriram Properties Private Ltd, Jana Capital Ltd, Shriram General Insurance Co. Ltd, Shriram Life Insurance Co. Ltd, and Union Bank of Colombo PLC.

## PROFILES OF THE BOARD OF DIRECTORS

**PUNEET BHATIA****Non Independent Non Executive Director**

Puneet Bhatia is Managing Director and Country Head for TPG Capital India. He has created nine transactions in India with TPG with Matrix Laboratories, Vishal Retail, invested over \$500m in the Shriram Group in four of the group companies and recently in Manipal Hospitals, Union Bank of Colombo PLC and Janalakshmi Financial Services and currently serves on the Board of Directors of these companies.

Prior to joining TPG in April 2002, Mr. Bhatia was Chief Executive, Private Equity Group for GE Capital India ("GE Capital"), where he was responsible for conceptualising and creating its direct and strategic private equity investment group. As Chief Executive, he created and handled a portfolio of almost a dozen companies such as TCS, Patni Computers, BirlaSoft, Sierra Atlantic, iGate, Indus Software and Rediff. He was also responsible for consummating some of GE Capital's joint ventures in India. Before this, Mr. Bhatia was with ICICI Ltd from 1990 to 1995 in the Project and Corporate Finance group and worked as Senior Analyst with Crosby Securities from 1995 to 1996.

Mr. Bhatia was born, grew up in and is based in India. He has a B.Com Honors degree from the Sriram College of Commerce, Delhi and an MBA from the Indian Institute of Management, Calcutta.

**MICHAEL J O'HANLON****Non Independent Non Executive Director**

Michael J O'Hanlon is a Senior Advisor to TPG focusing on its financial institution investments. He currently is Chairman of the Board of Roosevelt Management Company, LLC, an asset manager, and Chairman of the Board of Rushmore Loan Management Services, LLC, a residential mortgage loan originator and servicer. He has served on the boards of other TPG portfolio companies including Shenzhen Development Bank, Korea First Bank and Bank Thai. Until December 2005, Mr. O'Hanlon was a Managing Director at Lehman Brothers where he worked for over 25 years. Mr. O'Hanlon led the firm's commercial and residential mortgage finance efforts during the late 1980s through 1995. In 1996, he became the head of the Financial Institutions Group and in mid 1999, he moved to Japan to head Japanese Investment Banking and the Asian Financial Institutions Groups, among other roles. Some key projects in Asia included leading the teams for TPG's investment in Korea First Bank and Lehman Brother's investment in Aozora Bank.

**SOW LIN CHIEW****Non Independent Non Executive Director**

Sow Lin Chiew 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.

**YUDHISHTRAN KANAGASABAI****Independent Non Executive Director**

Yudhishttran Kanagasabai is an independent non-executive director appointed to the Board of the Bank with effect from 27th July 2016.

Mr. Kanagasabai, is a renowned accountant and a fellow member of the Institute of Chartered Accountants of Sri Lanka and possesses over 35 years of experience in accounting, audit and consulting. He counseled across several industries with a focus on financial services and telecommunications. He has been employed at PricewaterhouseCoopers throughout his career, and has completed his term as a Territory Senior Partner on 30th June 2016.

**TREVINE FERNANDOPULLE****Independent Non Executive Director**

Trevine Fernandopulle is a veteran Banker with over 38 years of experience in the financial services sector. Prior to being appointed as a director of Union Bank, he served as the Group Chief Risk Officer/Executive Vice President - Risk of the DFCC Group from 2012 to 2016. During 2009 to 2012, he served as the Chief Risk Officer at Bank of Ceylon, having initiated the setting up of its Risk Management functions as an Independent Risk Specialist.

Mr. Fernandopulle commenced his banking career in 1978 with HSBC -Sri Lanka, where he served for 30 years until his retirement in 2008. During his tenure at HSBC, he had amassed widespread knowledge and exposure to international banking and risk management specialisms both in Sri Lanka and overseas having provided leadership to numerous functions including Risk Management, Foreign Exchange and Treasury, International Trade, Corporate Banking and Retail Operations of the Bank and rising to the position of Deputy Chief Executive Officer (DCEO) of HSBC Sri Lanka.

## PROFILES OF THE BOARD OF DIRECTORS

Mr. Fernandopulle, is a Board member of the National Insurance Trust Fund and also serves on their Audit, Investment and Remuneration committees. He serves as the Chairman of the Board of AMW Capital Leasing and Finance PLC (an AI Futtam Group Dubai owned company) and its Audit, Risk and Remuneration Committees. He is the Chairman of the Board of Trustees of Joseph Frazer Memorial Hospital, a Past President of Chartered Institute of Bankers (Sri Lanka Branch) and, a Founder Member/past Vice President of the Association of Banking Risk Professionals of Sri Lanka. Mr. Fernandopulle holds a BSc. (Mathematics) from Imperial College, University of London (UOL), an MSc (Statistics) from the London School of Economics, UOL and is also an Associate/ Fellow of the Chartered Institute of Bankers, London.

**DILSHANI WIJAYAWARDANA****Independent Non Executive Director**

Dilshani Wijayawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka, and currently serves as a Commissioner at the Securities and Exchange Commission of Sri Lanka. She has obtained her Masters in Law Degree from the University of Cambridge and has been in active commercial law practice since 1996. As of date she also appears in primary and appellate court litigation with President's Counsel K.Kanag-Isvaran.

Ms. Wijayawardana began her legal career in the year 1996 as a Research Assistant to Hon. Justice Mark Fernando and then went on to work as a Legal Executive at Shook Lin & Bok- Advocates and Solicitors, Singapore in the year 1999. She has published many articles on commercial law and is also the co-author of the book 'Company Law' published in the year 2014. She has also served in the Committee appointed for the revision of the Code of Intellectual Property in Sri Lanka and the Advisory Committee appointed for the drafting of the new Securities and Exchange Act.

**YOKE SUN WOON****Alternate Director To Sow Lin Chiew**

Yoke Sun Woon was appointed to the Board as an Alternate Director to Ms. Sow Lin Chiew in January 2015. She is the Senior Vice President – Strategic Investment of Genting Berhad, the holding company of Vista Knowledge Pte Ltd. She has been in the investment banking business for nearly 20 years where she specialises in equity research and investment. She holds a Masters in Economics from University of Malaya in Malaysia.

**SUMEDH JOG****Alternate Director To Michael J O'Hanlon**

Sumedh Jog is a Vice-President at TPG Capital India and is based in Mumbai. Prior to joining TPG in 2008 he worked in the investment banking department of DSP Merrill Lynch in Mumbai. He is a Chartered Accountant and holds an MBA from the Indian Institute of Management, Ahmedabad.

## LEADERSHIP TEAM

**From Left to Right**

Indrajit Wickramasinghe (*Director/Chief Executive Officer*), Wije Dambawinne (*Vice President/Head of Treasury*), Hiranthi De Silva (*Vice President - Wholesale Banking*), Sri Ganendran (*Vice President - Operations*), Ravi Jayasekera (*Vice President - Human Resources*)

**From Left to Right**

Chaya Jayawardane (*Vice President - Retail Banking*), Rajeev Munasinghe (*Vice President - Information Technology*), Malinda Samaratinga (*Chief Financial Officer*), Suhen Vanigasooriya (*Chief Risk Officer*)

## ASSISTANT VICE PRESIDENTS



▶ From Left to Right

Rushira De Silva (*Assistant Vice President/Corporate Banking Team Head*), Thishani Dissanayake (*Assistant Vice President - Marketing*), Manisha Fernando (*Assistant Vice President - Head of Retail Liability Products & Alternate Channels*), Chaya Gunarathne (*Assistant Vice President/Compliance Officer*), Mahendra Illangasinghe (*Assistant Vice President/Head of Branch Network & Distribution*)



▶ From Left to Right

Inoka Jayawardhana (*Assistant Vice President/Company Secretary*), Lasantha Mathupala (*Assistant Vice President - Information Technology*), Indika Mendis (*Assistant Vice President - Treasury*), Malinda Perera (*Assistant Vice President/Head of Retail Liability Sales & Contact Centre*), Asanga Tennakoon (*Assistant Vice President /Corporate Banking - Team Head*)

## CHIEF MANAGERS



▶ **Nalin Ahangama**  
Chief Manager - Trade Finance Operations

▶ **Naveendran Anthonypillai**  
Chief Manager/Head of SME

▶ **Mahendra Dahanayake**  
Chief Manager - Corporate Banking

▶ **Pasindu Dharmasiri**  
Chief Manager/Head of Cash Management & Transaction Banking

▶ **Inoka Dias**  
Chief Manager - Human Resources



▶ **Chamara Gomis**  
Chief Manager/Head of Cards

▶ **Darsha Hendaheva**  
Chief Manager Treasury & Bank Notes Operation

▶ **Jayanath Kariyakarawana**  
Chief Manager - Credit Operations

▶ **Saman Kottawatta**  
Chief Manager/Zonal Head, Zone III

▶ **Ayesha Naotunna**  
Chief Manager - Finance



▶ **Kathirgamathamby Nishaaharan**  
Chief Manager/Zonal Head, Zone IV

▶ **Ruchira Perera**  
Chief Manager - Senior Relationship Manager

▶ **Nirosha Perera**  
Chief Manager - Internal Audit

▶ **Jeewantha Perera**  
Chief Manager - Branch Operations/Head of Leasing

▶ **Shiran Punchihewa**  
Chief Manager - Business Information Technology



▶ **Anuruddha Ranasinghe**  
Chief Manager/Zonal Head, Zone II

▶ **Damith Sumathirathne**  
Chief Manager - Retail Asset Sales

▶ **Sameera Wijegunawardena**  
Chief Manager/Head of SME - Credit

▶ **Dinuke Wijesinghe**  
Chief Manager - Risk

## SENIOR MANAGERS



▶ **Ranjan Asirivatham**  
Senior Manager -  
Pawning

▶ **Myuravathani  
Balamurali**  
Senior Manager -  
Treasury Operations

▶ **Rajiv David**  
Senior Manager  
Marketing

▶ **Kasun De Silva**  
Senior Manager/Zonal  
Head, Zone I-A

▶ **Kanchana De Silva**  
Senior Manager -  
Exports & Imports



▶ **Kolitha De Silva**  
Senior Manager -  
Old Moor Street Branch

▶ **Deepal Edirisinghe**  
Senior Manager -  
Administration &  
Premises

▶ **Minoli Fernando**  
Senior Manager -  
Finance

▶ **Roshan Fernando**  
Senior Manager -  
Internal Audit

▶ **Rukmal Fernando**  
Senior Manager -  
Credit Risk



▶ **Chaminda Fernando**  
Senior Manager/  
Zonal Head, Zone I-B

▶ **Nipuna Ganegoda**  
Senior Manager/Head of  
Elite Banking

▶ **Thangavelu Gobinath**  
Senior Manager -  
Institutional CASA

▶ **Osadhi Gunasekara**  
Senior Manager -  
Internal Audit

▶ **Janaka Iroshan**  
Senior Manager -  
Electronic Banking

## SENIOR MANAGERS



▶ **Shamila Jayamaha**  
Senior Manager -  
Corporate Banking

▶ **Minessh Jayasekera**  
Senior Manager -  
NRSL Products

▶ **Shanmugeswaran  
Jesdharajan**  
Senior Manager -  
Wellawatte Branch

▶ **Sameera Kakulandara**  
Senior Manager -  
Nugegoda Branch

▶ **Nirosha Kapurubandara**  
Senior Manager -  
Product Development



▶ **Irani Karunanayake**  
Senior Manager - Legal

▶ **Deepal Liyanage**  
Senior Manager - SME

▶ **Sandamali Munasinghe**  
Senior Manager/Senior  
Legal Officer

▶ **Sailajah Nadarajah**  
Senior Manager -  
Treasury

▶ **Surani Ondatjie**  
Senior Manager -  
Consumer Risk



▶ **Rohan Peiris**  
Senior Manager -  
Branch Operations

▶ **Mangala Perera**  
Senior Manager -  
IT Core Banking

▶ **Chandani Perera**  
Senior Manager -  
Process Control

▶ **Dinuk Perera**  
Senior Manager - SME

▶ **Nadeera Perera**  
Senior Manager -  
Retail Recoveries



## SENIOR MANAGERS



**Janithi Perera**

Senior Manager -  
Transaction Processing  
Operations

**Dulin Rajapakse**

Senior Manager -  
IT Projects

**Asanka Ranasinghe**

Senior Manager -  
Credit Referrals

**Achala Ratnayake**

Senior Manager -  
Finance

**Dilan Rodrigo**

Senior Manager -  
Transaction Banking Sales



**Gihan Samarasinghe**

Senior Manager -  
Bancassurance

**Nadika Senaratne**

Senior Manager -  
IT Operations

**Dhanushka Sethuhewa**

Senior Manager -  
Market Risk

**Mohamed Shazly  
Hasseen**

Senior Manager -  
Head Office Branch

**Christella  
Sivapragasam**

Senior Relationship Manager  
- Elite Circle



**Nilmini Weerasekera**

Senior Relationship  
Manager -  
Corporate Banking

**Dhananjeyan Wijendra**

Senior Manager -  
Retail Asset Centre

**Ramani Wijeratne**

Senior Manager -  
Wattala Branch



# FINANCIAL REPORTS

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## FINANCIAL CALENDAR 2017

2016 Annual Report and Audited Financial Statements was signed on	23 February 2017
22 <sup>nd</sup> Annual General Meeting held on	31 March 2017
Rs. 0.10 per share Cash Dividend for 2016 paid on	16 March 2017

Submission of the Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka.

	2017			
	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
Q1 ended 31 March*	26 Apr 2017	30 May 2017	30 May 2017	30 May 2017
Q2 ended 30 June*	26 Jul 2017	28 Aug 2017	28 Aug 2017	28 Aug 2017
Q3 ended 30 September*	25 Oct 2017	29 Nov 2017	29 Nov 2017	29 Nov 2017
Q4 ended 31 December	27 Feb 2018	30 Mar 2018	30 Mar 2018	30 Mar 2018

## PROPOSED FINANCIAL CALENDAR 2018

2017 Annual Report and Audited Financial Statements to be signed on	27 February 2018
23 <sup>rd</sup> Annual General Meeting to be held on	28 March 2018
Dividend for 2017 to be payable on	20 March 2018

Submission of the Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka:

	2018 to be submitted on or before			
	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
Q1 ended 31 March*	15 May 2018	30 May 2018	30 May 2018	30 May 2018
Q2 ended 30 June*	15 Aug 2018	30 Aug 2018	30 Aug 2018	30 Aug 2018
Q3 ended 30 September*	15 Nov 2018	30 Nov 2018	30 Nov 2018	30 Nov 2018
Q4 ended 31 December	28 Feb 2019	29 Mar 2019	29 Mar 2019	29 Mar 2019

\* Based on unaudited information

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Union Bank of Colombo PLC, (the "Bank"), and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion :
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
  - the financial statements of the Bank give a true and fair view of the financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
  - the financial statements of the Bank and the Group, comply with the requirements of Sections 151 and 153 of the Companies Act No. 07 of 2007.

27 February 2018  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA 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 FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

## STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	BANK		GROUP	
		2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Gross income	4	11,937,763	8,545,874	13,899,368	10,143,971
Interest income		10,498,284	7,223,211	12,194,010	8,465,885
Less: Interest expenses		7,452,377	4,716,433	8,492,442	5,445,433
<b>Net interest income</b>	5	<b>3,045,907</b>	<b>2,506,778</b>	<b>3,701,568</b>	<b>3,020,452</b>
Fee and commission income		783,217	667,110	972,671	861,915
Less: Fee and commission expenses		109,748	92,062	145,646	120,078
<b>Net fee and commission income</b>	6	<b>673,469</b>	<b>575,048</b>	<b>827,025</b>	<b>741,837</b>
Net gains from trading	7	428,848	409,085	428,690	409,085
Net gains from financial investments	8	141,531	139,095	143,515	159,528
Other operating income	9	85,883	107,373	160,482	247,558
<b>Total operating income</b>		<b>4,375,638</b>	<b>3,737,379</b>	<b>5,261,280</b>	<b>4,578,460</b>
Less: Impairment for loans and other losses	10	248,929	152,314	377,508	252,273
<b>Net operating income</b>		<b>4,126,709</b>	<b>3,585,065</b>	<b>4,883,772</b>	<b>4,326,187</b>
<b>Less:</b>					
Personnel expenses	11	1,598,410	1,360,652	1,816,442	1,566,637
Depreciation and amortisation	12	399,545	396,604	428,810	427,915
Other expenses	13	1,346,917	1,251,268	1,612,984	1,492,822
<b>Total operating expenses</b>		<b>3,344,872</b>	<b>3,008,524</b>	<b>3,858,236</b>	<b>3,487,374</b>
<b>Results from operating activities</b>		<b>781,837</b>	<b>576,541</b>	<b>1,025,536</b>	<b>838,813</b>
Share of profit of equity accounted investees, net of tax	29.1	55,801	76,696	-	-
Profit before value added tax (VAT) and nation building tax (NBT) on financial services		837,638	653,237	1,025,536	838,813
Less: VAT and NBT on financial services	14	303,520	217,301	348,202	252,170
<b>Profit before tax</b>		<b>534,118</b>	<b>435,936</b>	<b>677,334</b>	<b>586,643</b>
Less: Tax expense	15	73,500	(15,244)	126,205	33,424
<b>Profit for the year</b>		<b>460,618</b>	<b>451,180</b>	<b>551,129</b>	<b>553,219</b>
<b>Attributable to:</b>					
Equity holders of the parent		460,618	451,180	514,776	504,126
Non controlling interest		-	-	36,353	49,093
<b>Profit for the year</b>		<b>460,618</b>	<b>451,180</b>	<b>551,129</b>	<b>553,219</b>
<b>Earnings per share</b>					
Earnings per share - Basic	16.1	0.42	0.41	0.47	0.46
Earnings per share - Diluted	16.2	0.42	0.41	0.47	0.46

The Notes to the Financial Statements from pages 178 to 269 form an integral part of these Financial Statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	BANK		GROUP	
		2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Profit for the year		460,618	451,180	551,129	553,219
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Gains/ (losses) on re-measuring available for sale financial assets		781,723	(336,912)	795,511	(344,698)
Net amount transferred to profit or loss (available for sale financial assets)		(223,491)	1,571	(236,152)	(942)
Less: Income tax effect on gains/ (losses) on re-measuring available for sale financial assets		(156,305)	93,895	(156,305)	93,895
Share of other comprehensive income of equity accounted investees, net of tax	29.1	538	-	-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		402,465	(241,446)	403,054	(251,745)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial gains/ (losses) on defined benefit plans	38.1.3	7,214	(12,360)	8,184	(10,503)
Less: Income tax effect on actuarial gains/(losses) on defined benefit plans		(2,019)	3,461	(2,291)	3,354
Share of other comprehensive income of equity accounted investees, net of tax	29.1	427	(3,959)	-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		5,622	(12,858)	5,893	(7,149)
Other comprehensive income/(loss) for the year, net of taxes		408,087	(254,304)	408,947	(258,894)
<b>Total comprehensive income for the year, net of tax</b>		<b>868,705</b>	<b>196,876</b>	<b>960,076</b>	<b>294,325</b>
Attributable to:					
Equity holders of the parent		868,705	196,876	922,863	249,821
Non-controlling interest		-	-	37,213	44,504
<b>Total comprehensive income for the year, net of tax</b>		<b>868,705</b>	<b>196,876</b>	<b>960,076</b>	<b>294,325</b>

The Notes to the Financial Statements from pages 178 to 269 form an integral part of these Financial Statements.

## STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	BANK		GROUP	
		2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Assets</b>					
Cash and cash equivalents	19	4,697,738	2,506,685	5,057,422	2,717,650
Balances with Central Bank of Sri Lanka	20	3,785,679	2,487,805	3,785,679	2,487,805
Placements with banks		716,147	2,819,628	866,690	2,826,710
Reverse repurchased agreements	21	1,795	2,137	301,297	275,498
Derivative financial instruments	22	2,760	15,412	2,760	15,412
Financial investments - held for trading	23	5,949,023	1,346,932	5,949,023	1,346,932
Loans and receivables to other customers	24	70,577,923	55,438,415	79,220,956	62,931,936
Other loans and receivables	25	9,609,639	7,747,231	8,674,102	6,739,578
Financial investments - available for sale	26	16,453,207	16,520,365	16,604,761	16,694,470
Financial investments - held to maturity	27	2,546,553	140,231	2,546,553	140,231
Current tax assets		436,279	268,456	436,284	268,454
Investments in real estate	28	-	-	152,914	189,449
Investments in subsidiaries	29	1,262,612	940,027	-	-
Goodwill and intangible assets	30	1,220,999	1,151,033	1,568,398	1,501,682
Property, plant and equipment	31	888,359	897,371	1,058,067	1,073,818
Deferred tax assets	32	-	82,534	433,728	541,807
Other assets	33	858,695	644,247	942,198	781,229
<b>Total assets</b>		<b>119,007,408</b>	<b>93,008,509</b>	<b>127,600,832</b>	<b>100,532,661</b>
<b>Liabilities</b>					
Due to banks	34	17,208,641	12,160,244	17,298,727	12,770,197
Derivative financial instruments	22	4,867	3,976	4,867	3,976
Repurchased agreements	35	10,381,193	10,256,670	10,218,055	10,113,570
Due to other customers	36	70,325,594	51,841,372	76,747,977	57,525,156
Other borrowed funds	37	1,224,812	-	2,968,233	833,095
Current tax liabilities		-	-	173,207	162,396
Deferred tax liabilities	32	144,922	-	145,278	289
Other liabilities	38	1,859,682	1,663,033	2,202,772	2,158,590
<b>Total liabilities</b>		<b>101,149,711</b>	<b>75,925,295</b>	<b>109,759,116</b>	<b>83,567,269</b>
<b>Equity</b>					
Stated capital	39	16,334,782	16,334,782	16,334,782	16,334,782
Share warrants	39.1	65,484	65,484	65,484	65,484
Statutory reserve fund	40	116,256	95,439	131,519	107,602
ESOP reserve	41.3	35,848	17,836	35,848	17,836
Available for sale reserve		150,570	(251,895)	155,377	(247,088)
Retained earnings		1,154,757	821,568	714,444	330,197
<b>Total equity attributable to equity holders of the bank</b>		<b>17,857,697</b>	<b>17,083,214</b>	<b>17,437,454</b>	<b>16,608,813</b>
Non-controlling interests	42	-	-	404,262	356,579
<b>Total equity</b>		<b>17,857,697</b>	<b>17,083,214</b>	<b>17,841,716</b>	<b>16,965,392</b>
<b>Total equity and liabilities</b>		<b>119,007,408</b>	<b>93,008,509</b>	<b>127,600,832</b>	<b>100,532,661</b>
Commitments and contingencies	43	39,286,551	44,404,415	39,286,551	44,404,415
Net asset value per share (Rs.)		16.36	15.65	15.98	15.22

The Notes to the Financial Statements from pages 178 to 269 form an integral part of these Financial Statements.

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Malinda Samaratunga  
Chief Financial Officer

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



Atul Malik  
Chairman



Indrajit Wickramasinghe  
Director/Chief Executive Officer



Inoka Jayawardene  
Company Secretary



## STATEMENT OF CHANGES IN EQUITY

BANK		Stated Capital	Share Warrants	Statutory Reserve Fund	ESOP Reserve	Available for Sale Reserve	Retained Earnings	Total Equity		
For the year ended	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1 January 2016		16,334,782	65,484	72,880	1,030	(10,449)	449,461	16,913,188		
Total comprehensive income for the year										
Net profit for the year		-	-	-	-	-	451,180	451,180		
Other comprehensive income		-	-	-	-	(241,446)	(12,858)	(254,304)		
Total Comprehensive Income		-	-	-	-	(241,446)	438,322	196,876		
Transactions with equity holders, recognised directly in equity										
Fair value of ESOP	41.3	-	-	-	16,806	-	-	16,806		
Dividends to equity holders		-	-	-	-	-	(43,656)	(43,656)		
Transfers during the year	40	-	-	22,559	-	-	(22,559)	-		
Balance as at 31 December 2016		16,334,782	65,484	95,439	17,836	(251,895)	821,568	17,083,214		
Total comprehensive income for the year										
Net profit for the year		-	-	-	-	-	460,618	460,618		
Other comprehensive income		-	-	-	-	402,465	5,622	408,087		
Total Comprehensive Income		-	-	-	-	402,465	466,240	868,705		
Transactions with equity holders, recognised directly in equity										
Change in control	42	-	-	-	-	-	(3,093)	(3,093)		
Fair value of ESOP	41.3	-	-	-	18,012	-	-	18,012		
Dividends to equity holders		-	-	-	-	-	(109,141)	(109,141)		
Transfers during the year	40	-	-	20,817	-	-	(20,817)	-		
Balance as at 31 December 2017		16,334,782	65,484	116,256	35,848	150,570	1,154,757	17,857,697		

GROUP		Stated Capital	Share Warrants	Statutory Reserve Fund	ESOP Reserve	Available for Sale Reserve	Retained Earnings	Total Equity	Non Controlling Interest	Total
For the year ended	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1 January 2016		16,334,782	65,484	80,624	1,030	(4,576)	(91,504)	16,385,840	329,227	16,715,067
Total comprehensive income for the year										
Net profit for the year		-	-	-	-	-	504,126	504,126	49,093	553,219
Other comprehensive income		-	-	-	-	(242,512)	(11,791)	(254,303)	(4,591)	(258,894)
Total Comprehensive Income		-	-	-	-	(242,512)	492,335	249,823	44,502	294,325
Transactions with equity holders, recognised directly in equity										
Fair value of ESOP	41.3	-	-	-	16,806	-	-	16,806	-	16,806
Transfers during the year	40	-	-	26,978	-	-	(26,978)	-	-	-
Dividends to equity holders		-	-	-	-	-	(43,656)	(43,656)	(17,150)	(60,806)
Balance as at 31 December 2016		16,334,782	65,484	107,602	17,836	(247,088)	330,197	16,608,813	356,579	16,965,392
Total comprehensive income for the year										
Net profit for the year		-	-	-	-	-	514,776	514,776	36,353	551,129
Other comprehensive income		-	-	-	-	402,465	5,622	408,087	860	408,947
Total Comprehensive income		-	-	-	-	402,465	520,398	922,863	37,213	960,076
Transactions with equity holders, recognised directly in equity										
New share rights issued		-	-	-	-	-	-	-	19,627	19,627
Change in control		-	-	-	-	-	(3,093)	(3,093)	3,093	-
Fair value of ESOP	41.3	-	-	-	18,012	-	-	18,012	-	18,012
Transfers during the year	40	-	-	23,917	-	-	(23,917)	-	-	-
Dividends paid		-	-	-	-	-	(109,141)	(109,141)	(12,250)	(121,391)
Balance as at 31 December 2017		16,334,782	65,484	131,519	35,848	155,377	714,444	17,437,454	404,262	17,841,716

The Notes to the Financial Statements from pages 178 to 269 form an integral part of these Financial Statements.

## STATEMENT OF CASH FLOWS

**ACCOUNTING POLICY**

The cash flow statement has been prepared by using 'The Direct Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised.

Cash and cash equivalents for the purpose of cash flow statement comprise of cash in hand and at banks, placements with banks, reverse repurchased agreements and unfavourable balances with local & foreign banks that are subject to an insignificant risk of change in their value.

For the year ended	Note	BANK		GROUP	
		2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Cash flow from operating activities</b>					
Interest receipts		10,043,039	6,443,556	11,084,899	7,676,042
Fee and commission receipts		673,471	575,047	827,027	741,836
Interest payments		(6,616,336)	(4,130,949)	(7,616,916)	(4,728,342)
Receipts from other operating activities		650,496	937,274	732,964	1,107,951
Payments on other operating activities		(3,196,926)	(2,787,425)	(3,720,552)	(3,243,545)
Operating profit before changes in operating assets & liabilities		1,553,744	1,037,503	1,307,422	1,553,942
<b>(Increase)/decrease in operating assets:</b>					
Balances with Central Bank of Sri Lanka		(1,297,874)	(1,180,993)	(1,297,874)	(1,180,993)
Funds advanced to customers		(15,181,731)	(15,260,345)	(16,288,170)	(17,529,084)
Others		(199,659)	(172,406)	(111,782)	(171,234)
		(16,679,264)	(16,613,744)	(17,697,826)	(18,881,311)
<b>Increase/(decrease) in operating liabilities:</b>					
Due to banks & other customers		17,774,168	13,629,074	18,483,732	15,209,006
Repurchased agreements		73,167	2,016,652	53,129	2,121,571
Others		185,157	377,051	33,179	492,052
		18,032,492	16,022,777	18,570,040	17,822,629
<b>Net cash from/(used in) operating activities before income tax</b>					
		2,906,972	446,536	2,179,636	495,260
Retirement benefit obligation paid	38.1.1	(12,052)	(8,353)	(12,688)	(8,685)
Income tax paid		(64,184)	(28,020)	(84,342)	(46,053)
<b>Net cash from operating activities</b>		<b>2,830,736</b>	<b>410,163</b>	<b>2,082,606</b>	<b>440,522</b>
<b>Cash flow from/(used in) investing activities</b>					
Dividends received		12,221	16,380	2,684	1,239
Financial investments - held for trading		(4,555,008)	6,829,531	(4,555,008)	6,830,355
Financial investments - available for sale		568,180	(8,151,154)	591,858	(8,153,130)
Financial investments - held to maturity		(2,386,348)	7,115	(2,386,348)	7,115
Net increase in debt securities		(1,725,538)	(1,840,911)	(1,725,538)	(1,528,658)
Investment in subsidiaries		(280,432)	-	-	-
Purchase of property, plant & equipment	31	(243,053)	(247,817)	(272,045)	(312,068)
Purchase of intangible assets		(232,854)	(124,628)	(231,675)	(125,878)
Proceeds from sale of property, plant & equipment		16,537	2,321	29,961	8,403
<b>Net cash used in investing activities</b>		<b>(8,826,295)</b>	<b>(3,509,163)</b>	<b>(8,546,111)</b>	<b>(3,272,622)</b>
<b>Cash flow from/(used in) financing activities</b>					
Proceeds from shares		-	-	19,628	-
Increase in borrowings		6,139,694	5,089,833	7,133,795	4,401,396
Dividend paid		(109,141)	(43,656)	(121,391)	(60,806)
<b>Net cash from investing activities</b>		<b>6,030,553</b>	<b>5,046,177</b>	<b>7,032,032</b>	<b>4,340,590</b>
Net increase in cash and cash equivalents		34,994	1,947,177	568,527	1,508,490
Cash and cash equivalents at beginning of the year		5,190,479	3,243,723	5,470,814	3,563,864
<b>Cash and cash equivalents at end of the year</b>		<b>5,225,473</b>	<b>5,190,900</b>	<b>6,039,341</b>	<b>5,072,354</b>
<b>Reconciliation of cash and cash equivalents</b>					
Cash and cash equivalents	19	4,697,738	2,506,685	5,057,422	2,717,650
Placements with banks		716,147	2,819,628	866,690	2,826,710
Reverse repurchased agreements		1,795	-	301,297	273,360
Due to banks - Unfavourable balances with banks	34	(190,207)	(135,413)	(186,068)	(745,366)
		5,225,473	5,190,900	6,039,341	5,072,354

The Notes to the Financial Statements from pages 178 to 269 form an integral part of these Financial Statements.

## STATEMENT OF CASH FLOWS

## Reconciliation of liabilities arising from financing activities

2017	31 Dec 2017 Rs.'000	Cash change - Cash flow Rs.'000	Non cash change - Foreign exchange movement Rs.'000	1 Jan 2017 Rs.'000
<b>BANK</b>				
Due to banks	17,208,641	5,044,308	4,089	12,160,244
Other borrowed funds	1,224,812	1,224,812	-	-
Less : Unfavourable balances with banks	(190,207)	(54,794)	-	(135,413)
Interest payable	(144,462)	(74,631)	-	(69,831)
	18,098,784	6,139,694	4,089	11,955,000
<b>GROUP</b>				
Due to banks	17,298,727	4,524,441	4,089	12,770,197
Other borrowed funds	2,968,233	2,135,138	-	833,095
Less : Unfavourable balances with banks	(186,068)	559,298	-	(745,366)
Interest payable	(184,220)	(85,081)	-	(99,139)
	19,896,672	7,133,795	4,089	12,758,787
2016	31 Dec 2016 Rs.'000	Cash change - Cash flow Rs.'000	Non cash change - Foreign exchange movement Rs.'000	1 Jan 2016 Rs.'000
<b>BANK</b>				
Due to banks	12,160,244	5,197,712	17,284	6,945,249
Other borrowed funds	-	-	-	-
Less : Unfavourable balances with banks	(135,413)	(79,650)	-	(55,763)
Interest payable	(69,831)	(28,228)	-	(41,603)
	11,955,000	5,089,833	17,284	6,847,883
<b>GROUP</b>				
Due to banks	12,770,197	5,596,525	17,284	7,156,388
Other borrowed funds	833,095	(447,990)	-	1,281,085
Less : Unfavourable balances with banks	(745,366)	(689,603)	-	(55,763)
Interest payable	(99,139)	(57,536)	-	(41,603)
	12,758,787	4,401,396	17,284	8,340,107

## 1. Corporate Information

### 1.1 Reporting Entity

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 03. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange.

#### 1.1.1 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2017 comprise the Bank (parent company), the 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 the Companies Act No. 07 of 2007.

UB Finance Company Limited 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 and was re-registered as required under the provision of the Companies Act No. 7 of 2007. 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) Limited 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 3.1.7, management determined that, in substance, the Bank controls this entity. Consequently, Serandib Capital (Pvt) Limited is included in the Bank's consolidated financial statements."

#### 1.1.2 Parent Entity and Ultimate Controlling Parties

The Bank's immediate parent is Culture Financial Holding Limited and the ultimate holding company is TPG Asia GenPar VI, L.P. Both companies are registered in the Cayman Islands.

### 1.2 Principal Activities and Nature of Operations Bank Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, personal banking, retail 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.

#### Subsidiaries

The principal activities of the Bank's Subsidiaries are launching, operating and administering unit trusts and accepting deposits from public, providing loans, land sales, leasing and hire purchase.

#### Special Purpose Entity (SPE)

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

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

### 1.3 Date of Authorisation for Issue

The Financial Statements of the Group and the Bank for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 27 February 2018.

## 2. Basis of Preparation of Financial Statements

### 2.1 Statement of Compliance

The Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statements of Changes in Equity and Statement of Cash Flows together with Accounting Policies and related notes (Financial Statements), i.e. Consolidated Financial Statements and Separate Financial Statements, as at 31 December 2017 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 and Finance Business Act No. 42 of 2011 and amendments thereto.

### 2.2 Basis of Measurement

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

## NOTES TO THE FINANCIAL STATEMENTS

**2.3 Functional and Presentation Currency**

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank and the Group operate. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

**2.4 Presentation of Financial Statements**

The Bank and the Group present their Statement of Financial Position by grouping assets and liabilities by nature and listing in order that reflects relative liquidity and maturity pattern. 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 to the financial statement.

**2.5 Responsibility for the Financial Statements**

"The Board of Directors is responsible for the preparation and presentation of the financial statements of the Bank and Group, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' in pages 139 to 174 respectively."

These financial statements include;

- ▷ The Statement of Profit or Loss and a Statement of Other Comprehensive Income providing information on the performance for the year under review (Refer Pages 172 and 173).
- ▷ Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer Page 174).
- ▷ Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group (Refer Page 175).
- ▷ Statement of Cash Flow providing the information to the users on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilise those cash flows (Refer Page 176) and,
- ▷ Notes to the Financial Statements, which comprise of the accounting policies and other explanatory notes and information (Refer Pages 178 to 269).

**2.6 Materiality and Aggregation**

In compliance with Sri Lanka Accounting Standard: LKAS 01 (Presentation of Financial Statements), each material class of similar items is 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 is in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by an Accounting Standards or interpretations.

**2.7 Comparative Information**

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a consistent presentation.

**2.8 Statement of Cash Flow**

"The Cash Flow Statement has been prepared by using the direct method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents for the purpose of cash flow statement comprise of cash in hand and at banks, placements with banks, reverse repurchased agreements and unfavourable balances with local & foreign banks that are subject to an insignificant risk of change in their value.

**3. General Accounting Policies**

Following are the general accounting policies adopted in the presentation of Financial Statements. The specific accounting policies and the basis of measurement adopted by the Bank and the Group for each item in the Statement of Profit or Loss and each class of assets and liabilities in the Statement of Financial Position are presented along with the notes to the Financial Statements.

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

## NOTES TO THE FINANCIAL STATEMENTS

**3.1 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Financial Statements of the Bank and the Group in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses, the accompanying disclosures as well as the disclosure of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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 judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements of the Bank and the Group are as follows;”

**3.1.1 Going Concern**

The Board of Directors of the Bank, and its Group companies, 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, Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, these Financial Statements continue to be prepared on the going concern basis.

**3.1.2 Impairment Losses on Loans and Receivables****Individual Impairment Assessment**

The Bank and the Group review their individually significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment 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.

**Collective Impairment Assessment**

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 and judgments on the effect of concentrations

of risks and economic data. The impairment loss on loans and receivables is disclosed in Note 24.4 and Note 24.5 to the financial statement.

**3.1.3 Impairment of Available for Sale Investments****Debt Securities**

The Bank and 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 judgment as applied to the individual assessment of loans and receivables.

**Equity Securities**

The Bank and the Group also record impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. In determination of what is 'significant' or 'prolonged' requires judgment. In making this judgement, the Bank and 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.”

**3.1.4 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 and loan impairment allowances which will be recovered in the foreseeable future. Judgment 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.

Details of the deferred tax assets are disclosed in Note 32 to the financial statement.

**3.1.5 Defined Benefit Obligation**

The costs of the defined benefit plans 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 possible future gratuity increases, if any. Due to the long-term nature of this plan, 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 maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Bank and the Group.

## NOTES TO THE FINANCIAL STATEMENTS

The mortality rate is based on publicly available mortality tables. Details of the key assumption used in the estimates are disclosed in Note 38.4 to the financial statement. “

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

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

### 3.1.7 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 45.4.

### 3.1.8 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.

Details of the Commitment and Contingencies are disclosed in Note 43 to the financial statement.

### 3.1.9 Fair Value of Financial Instruments

“Fair values of financial assets and financial liabilities recorded in the Statement of Financial Position which cannot be derived from active market, are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to established fair values. The valuation of financial instruments is described in more detail in Note 48 to the financial statements.

The Bank and the Group measure fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 48.1.”

### 3.1.10 Impairment of Goodwill and Intangible Assets

The Group estimates the value in use of the Cash-Generating Units (CGU) to which goodwill and other intangible has been allocated in order to determine whether goodwill and intangible assets is impaired. The value-in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The assumptions and models used for estimating value in use of goodwill and intangibles are disclosed in Note 30.

### 3.1.11 Share Based Payments

The Bank measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and making assumptions about them. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in Note 41.1.

### 3.1.12 Taxation

“The Bank and the Group is subjected to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

## 3.2 Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group, unless otherwise indicated.

### 3.2.1 Basis of Consolidation

“The Consolidated Financial Statements comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2017 in terms of the Sri Lanka Accounting Standard – SLFRS 10 (Consolidated 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.

The Bank's separate Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit and the Foreign Currency Banking Unit.”

## NOTES TO THE FINANCIAL STATEMENTS

## 3.2.1.1 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 Statement of Profit or Loss.

The Group election a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognises 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 Statement of 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.

## 3.2.1.2 Subsidiaries

"Subsidiaries are entities that are controlled by the Bank. The Bank is presumed to control an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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, investments in subsidiaries are recognised using the equity method as described in Sri Lanka Accounting Standard: LKAS 27 (Separate Financial Statements) in separate financial statements of the Bank.

The total assets and liabilities of the Subsidiaries as at the reporting date are included in the Consolidated Statement of Financial Position. The total profits or losses for the year of the subsidiaries are included in the Consolidated Statement of Profit or Loss.

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 Profit or Loss.

**Loss of Control**

Upon the loss of control, the Group derecognises 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.

The Group did not acquire or dispose any Subsidiaries during the year ended 31st December 2017.

All subsidiaries of the Bank have been incorporated in Sri Lanka. The information of the subsidiaries is given in Note 29

## 3.2.1.3 Special purpose entities

"Special purpose entities (SPEs) are entities that are created to accomplish 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 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.



## NOTES TO THE FINANCIAL STATEMENTS

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.

#### 3.2.1.4 Transactions eliminated on Consolidation

Intra-group transactions and balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statement. Unrealised losses are eliminated in the same way as unrealised gains; except that they are eliminated to the extent that there is no evidence of impairment.

### 3.2.2 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

#### 3.2.2.1 Date of Recognition

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

#### 3.2.2.2 Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

All financial instruments are measured initially at their fair value plus transaction cost that are directly attributable to acquisition or issue of such financial instruments, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where they are dealt with through Statement of Profit or Loss as per the Sri Lanka Accounting Standard: LKAS 39 (Financial Instruments: Recognition and Measurement).

In respect of financial assets and liabilities held at fair value through profit or loss, any changes in fair value from the trade date to settlement date are accounted in the Statement of Profit or Loss, while for available for sale financial assets, any changes in fair value from the trade date to settlement date are accounted in the other comprehensive income.

#### 3.2.2.3 Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified in one of the following categories:

- ▷ At fair value through profit or loss
  - Held for trading
  - Designated at fair value through profit or loss
- ▷ Loans and receivables
- ▷ Available for sale
- ▷ Held to maturity

The subsequent measurement of the financial assets depends on their classification.

#### 3.2.2.4 Classification and Subsequent Measurement of Financial Liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in the Statement of Profit or Loss.

The Bank and the Group have not designated any financial liabilities upon initial recognition, at fair value through profit or loss.

#### 3.2.2.5 Classification and Subsequent Measurement of Financial Liabilities at amortised cost

Financial liabilities issued by the Group that are not designated as at fair value through profit or loss are classified as liabilities under 'due to banks', 'repurchased agreements', 'due to other customers' and 'other borrowed funds' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity, under conditions that are potentially unfavourable to the entity or settling the obligation by delivering variable number of entity's own equity instruments. The details of financial liabilities measured at amortised cost are given in Note 34,35,36,37 to the financial statements.

### 3.2.3 Reclassification of Financial Instruments

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

The Group reclassifies non derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard - 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 into the 'loans and receivables', '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 effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Profit or Loss.

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.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group has not reclassified any financial assets during the year.

### 3.2.4 De-recognition of Financial Assets and Financial Liabilities

#### (i) Financial Assets

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

- ▷ The rights to receive cash flows from the asset have expired; or
- ▷ 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 Group has transferred substantially all the risks and rewards of the asset or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On de-recognition of a financial asset, the difference between the carrying amount of the assets and consideration received and any cumulative gain or loss that has been recognised; is recognised in the Statement of Profit or Loss.

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.

#### (ii) Financial Liabilities

A financial liability is derecognised 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 related 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.

### 3.2.5 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 assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

#### (i) Financial Assets carried at amortised cost

For the financial assets carried at amortised cost, such as Cash and balances with central banks, Reverse repurchased agreements, Placement with banks, Loans and receivables to banks and other customers, Other loans and receivables and 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

## NOTES TO THE FINANCIAL STATEMENTS

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 assets 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 a true 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 receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a 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.

Details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances by class is given in Note 24.4 and Note 24.5 respectively."

### 3.2.6 Fair Value Determination and Measurement

#### 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.

#### Measurement of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument (Level 01 valuation). A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of

## NOTES TO THE FINANCIAL STATEMENTS

the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data from observable markets (Level 02 valuation), then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counter party where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Details of fair value of assets and liabilities and their inputs based on fair value hierarchy is given in Note 48 to the financial statement.

### 3.2.7 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/ forward foreign exchange rate prevailed at that date and all differences arising from these activities are taken to "Other operating income" in the Statement of Profit or Loss.

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 settlement or reporting of monetary items at rates different from those which were initially recorded are dealt within the Statement of Profit or Loss. Forward exchange contracts are valued at the forward market rates ruling on the reporting date. Resulting net unrealised gains or losses are dealt with the Statement of Profit or Loss.

### 3.3 Standards issued but not yet effective

The following new accounting standards were issued by the Institute of Chartered Accountants in Sri Lanka which are not yet effective as at 31 December 2017. Accordingly these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 December 2017.

#### 3.3.1 SLFRS 9 - Financial Instruments:

In July 2014, the Chartered Accountants of Sri Lanka issued SLFRS 9 Financial Instruments (On par with International Accounting Standards Board), the standard that will replace LKAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. The Bank plans to adopt the new standard on the required effective date. During the year, the Bank set up a multidisciplinary implementation team ('the Team') with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation ('the Project').

The Bank performed the Diagnostic Phase (Impact Assessment exercise) and identified the gaps during 2016. Thereafter the Bank involved in the process of developing and calibrating models/ solutions based on the diagnostic findings and evaluated the results.

Impairment of Financial Assets SLFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace LKAS 39's Incurred Loss approach with a forward-looking Expected Loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The Impairment methodology under SLFRS 9 requires impairment to be assessed under 3 stages.

#### Stage 01

Under LKAS 39 the Bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under SLFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12 month ECL basis.

## NOTES TO THE FINANCIAL STATEMENTS

**Stage 02**

SLFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to LKAS 39, it will result in increased allowance as most such assets are not considered to be credit impaired under LKAS 39.

**Stage 03**

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. Loans in Stage 3, where the Bank calculated the LKAS 39 impairment on an individual basis are not expected to be significantly different, but collateral values will be adjusted to reflect the amounts that can be expected to be realised.

**Classification & Measurement**

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: Fair Value through Profit or Loss (FVPL), Fair value through Other Comprehensive Income (FVOCI) and amortised cost.

The accounting for financial liabilities will largely be the same as the requirements of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

**3.3.2 SLFRS 15 Revenue from Contracts with Customers**  
*SLFRS 15*

SLFRS 15 is effective for periods beginning on 1 January 2018 with early adoption permitted. SLFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards (e.g., SLFRS 9, and SLFRS 16 Leases).

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The entity does not anticipate early adopting SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission based income of the Bank has been performed in relation to the adoption of SLFRS 15. The Bank's current assessment has not revealed a significant change to the revenue recognition pattern. However, the Bank is currently in the process of evaluating and quantifying the accounting impact and any impacts on the current systems and processors will be modified where necessary.

**3.3.3 SLFRS 16 Leases**

SLFRS 16 provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. This supersedes: LKAS 17 Leases, IFRIC 4 determining whether an arrangement contains a lease, SIC 15 Operating Leases- Incentives; and SIC 27 Evaluating the substance of Transactions Involving the Legal form of a Lease. Earlier application is permitted for entities that apply SLFRS 15 Revenue from Contracts with Customers.

**3.4 Standards issued and became effective from 1 January 2017****3.4.1 LKAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

**3.4.2 LKAS 7 Statement of Cash flows - Disclosure Initiative**

The amendments to LKAS 7 Statement of Cash Flows are part of the ICASL's Disclosure Initiative and require an entity to provide disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

## NOTES TO THE FINANCIAL STATEMENTS

**3.5 Amendments to existing accounting standards but not yet effective**

The following amendments were issued by the Institute of Chartered Accountants in Sri Lanka which are not yet effective as at 31 December 2017. Accordingly these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 December 2017.

**3.5.1 SLFRS 2 Share Based Payment - Classification and Measurement of Share-based Payment Transactions**

The ICASL issued amendments to SLFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The impact on the implementation of the above standard has not been quantified yet.

**3.5.2 Amendments to SLFRS 10 and LKAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.**

The amendments address the conflict between SLFRS 10 and LKAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in SLFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The ICASL has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

**3.5.3 IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset

or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

**3.5.4 IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- ▷ Whether an entity considers uncertain tax treatments separately
- ▷ The assumptions an entity makes about the examination of tax treatments by taxation authorities
- ▷ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ▷ How an entity considers changes in facts and circumstances an entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

## NOTES TO THE FINANCIAL STATEMENTS

**4. GROSS INCOME****ACCOUNTING POLICY**

Gross income is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Interest income (refer Note 5.1)	10,498,284	7,223,211	12,194,010	8,465,885
Fee and commission income (refer Note 6.1)	783,217	667,110	972,671	861,915
Net gains from trading (refer Note 7)	428,848	409,085	428,690	409,085
Net gains from financial investments (refer Note 8)	141,531	139,095	143,515	159,528
Other operating income (refer Note 9)	85,883	107,373	160,482	247,558
<b>Total</b>	<b>11,937,763</b>	<b>8,545,874</b>	<b>13,899,368</b>	<b>10,143,971</b>

**5. NET INTEREST INCOME****ACCOUNTING POLICY**

Interest income and interest expense of all financial instruments measured at amortised cost, interest earning financial assets classified as available for sale and financial instruments designated at fair value through profit or loss 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.

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.

Revenue recognition criteria for loans and advances in line with the Sri Lanka Accounting Standard - LKAS 18. Accordingly the Bank has discontinued the recognition of interest income on loan facilities if the arrears position is more than three months or 90 days.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Interest income (refer Note 5.1 )	10,498,284	7,223,211	12,194,010	8,465,885
Less: Interest expense (refer Note 5.2 )	7,452,377	4,716,433	8,492,442	5,445,433
<b>Net interest income</b>	<b>3,045,907</b>	<b>2,506,778</b>	<b>3,701,568</b>	<b>3,020,452</b>

**5. NET INTEREST INCOME (Contd.)**

## 5.1. Interest income

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reverse repurchase agreements	18,751	44,897	45,556	60,171
Placements with banks	34,310	103,433	219,682	262,143
Financial investments - held for trading	86,035	28,933	86,035	28,933
Loans and receivables to other customers	7,685,004	5,148,203	9,307,835	6,307,958
Other loans and receivables	529,025	400,132	363,041	290,326
Interest income accrued on impaired financial assets	206,528	169,789	233,230	188,530
Financial investments - available for sale	1,846,653	1,306,622	1,846,653	1,306,622
Financial investments - held to maturity	91,978	21,202	91,978	21,202
<b>Total</b>	<b>10,498,284</b>	<b>7,223,211</b>	<b>12,194,010</b>	<b>8,465,885</b>

## 5.2. Interest expenses

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Due to banks	822,749	519,488	1,032,796	692,329
Due to other customers	5,703,488	3,347,709	6,533,506	3,903,868
Repurchased agreements	926,140	849,236	926,140	849,236
<b>Total</b>	<b>7,452,377</b>	<b>4,716,433</b>	<b>8,492,442</b>	<b>5,445,433</b>

## 5.3. Net interest income from Sri Lanka Government securities

Interest income	2,026,939	1,383,806	2,068,533	1,416,900
Less: Interest expenses	926,140	849,236	926,140	849,236
<b>Net interest income from Sri Lanka Government securities</b>	<b>1,100,799</b>	<b>534,570</b>	<b>1,142,393</b>	<b>567,664</b>

**Notional Tax Credit on Secondary Market Transactions**

As per the Section 137 of the Inland Revenue Act no 10 of 2006 and the amendments thereto, a company which derives interest income from the secondary market transactions on Government Securities ( on or after 1 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 2017 to 31 December 2017, has been grossed up by Rs. 111.2Mn (2016 - Rs. 56.8Mn) and Rs. 110.0Mn (2016 - Rs. 53.5Mn) respectively.

**6. NET FEE AND COMMISSION INCOME****ACCOUNTING POLICY**

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 and Commission Income**

(i) *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.

(ii) *Fee and Commission 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.

**Fee and Commission Expenses**

Fee and commission expenses relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.



**6. NET FEE AND COMMISSION INCOME (Contd.)**

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Fee and commission income (refer Note 6.1)	783,217	667,110	972,671	861,915
Less: Fee and commission expenses (refer Note 6.2)	109,748	92,062	145,646	120,078
<b>Net fee and commission income</b>	<b>673,469</b>	<b>575,048</b>	<b>827,025</b>	<b>741,837</b>

**6.1. Fee and commission income**

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Loans	82,053	50,503	108,991	81,546
Cards	37,763	24,196	37,763	24,196
Trade and remittances	190,083	170,334	190,083	170,334
Bancassurance	17,754	11,005	17,754	11,005
Deposits related fee	341,115	313,168	341,115	313,168
Guarantees	62,178	58,127	62,178	58,127
Factoring related fee	5,750	5,648	39,549	43,087
Fund management	-	-	103,832	108,557
Others	46,521	34,129	71,406	51,895
<b>Total</b>	<b>783,217</b>	<b>667,110</b>	<b>972,671</b>	<b>861,915</b>

**6.2. Fee and commission expenses**

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Brokerage	22,551	18,483	22,551	18,483
Cards	20,686	13,990	20,686	13,990
Other financial services	66,511	59,589	102,409	87,605
<b>Total</b>	<b>109,748</b>	<b>92,062</b>	<b>145,646</b>	<b>120,078</b>

**7. NET GAINS FROM TRADING****ACCOUNTING POLICY**

Income arising from trading activities include all gains and losses from realised and unrealised changes in fair value, dividend income from financial assets held for trading.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Capital gain from government dealing securities	107,050	1,214	106,422	1,214
Capital gain from investment in units	321,798	407,871	322,268	407,871
<b>Total</b>	<b>428,848</b>	<b>409,085</b>	<b>428,690</b>	<b>409,085</b>

**8. NET GAINS FROM FINANCIAL INVESTMENTS****ACCOUNTING POLICY**

Net gains/(losses) from financial investments include capital gains/(losses) and dividend income on financial investments - available for sale. Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Dividend income	700	293	2,684	1,239
Gain on Government Securities	140,831	138,802	140,831	158,289
<b>Total</b>	<b>141,531</b>	<b>139,095</b>	<b>143,515</b>	<b>159,528</b>

**9. OTHER OPERATING INCOME****ACCOUNTING POLICY**

Income earned on other sources, which are not directly related to the normal operations of the Bank and the Group are recognised as other operating income on accrual basis, such as gains on disposal of property, plant and equipment, gain from investments in real estate and foreign exchange gains/(losses).

Gains/(losses) arising from disposal of property, plant and equipment are recorded after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign exchange gain includes income arising from customer transactions, revaluation of foreign currency assets/ liabilities.

Revenue from the real estate sale is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Gain/(loss) on sale of property, plant and equipment	1,128	(1,458)	6,296	731
Foreign exchange gain (refer Note 9.1)	79,106	101,210	79,106	101,210
Income from real estate	-	-	18,200	48,360
Others	5,649	7,621	56,880	97,257
<b>Total</b>	<b>85,883</b>	<b>107,373</b>	<b>160,482</b>	<b>247,558</b>

**9.1 Foreign exchange gain**

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Income from customer transactions and revaluation gain	185,049	187,152	185,049	187,152
SWAP transactions	(105,943)	(85,942)	(105,943)	(85,942)
<b>Total</b>	<b>79,106</b>	<b>101,210</b>	<b>79,106</b>	<b>101,210</b>

**10. IMPAIRMENT FOR LOANS AND OTHER LOSSES****ACCOUNTING POLICY**

The Bank and the Group recognise the changes in the impairment provisions for loans and receivables, which are assessed as per the LKAS 39 - Financial Instruments: Recognition and Measurement. The methodology adopted by the Bank and the Group is explained in Note 24.4 to these Financial Statements.

Further, the Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

## NOTES TO THE FINANCIAL STATEMENTS

**10. IMPAIRMENT FOR LOANS AND OTHER LOSSES (Contd.)**

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Loans and receivables to other customers (refer Note 10.1)	248,929	152,314	377,464	252,273
Goodwill and intangible assets (refer Note 30)	-	-	279	-
Investments in real estate	-	-	(235)	-
<b>Total</b>	<b>248,929</b>	<b>152,314</b>	<b>377,508</b>	<b>252,273</b>

**10.1 Loans and Receivables to other customers**

Term loans	114,770	111,462	157,943	130,869
Overdrafts	73,473	(20,977)	73,473	(20,977)
Trade finance	10,846	9,319	10,846	9,319
Lease and Hire Purchase	(4,459)	(5,091)	43,765	74,101
Retail loans	28,857	36,647	28,857	36,647
Pawning	(3,265)	14	(3,265)	14
Staff loans	580	(52)	580	(52)
Others	28,127	20,992	65,265	22,352
<b>Total</b>	<b>248,929</b>	<b>152,314</b>	<b>377,464</b>	<b>252,273</b>

**11. PERSONNEL EXPENSES****ACCOUNTING POLICY**

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other staff related expenses.

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The provisions for bonus is recognised if the Bank and the Group has a present legal or constructive obligation to pay this amount, as a result of past services provided by the employee and the obligation can be estimated reliably.

**Employees' Provident Fund and Employees' Trust Fund**

Employees are eligible for Employees' Provident Fund contribution and Employees' Trust Fund contribution in accordance with the respective statutes and regulations. The Bank and Group contributes 12% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively.

**Defined Benefit Plans**

Contributions to defined benefit plans are recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability of the Bank and Group in accordance with LKAS 19 - 'Employee Benefits'.

**Share Based Payments**

Share based payments represent the Bank's cost on the Employee Share Option Plan, which is more fully described in Note 41 to these Financial Statements.

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Salary and bonus	1,043,995	875,394	1,215,723	1,039,962
Contributions to defined contribution plans	142,777	121,084	165,947	143,097
Contributions to defined benefit plans (refer Note 11.1)	33,908	24,990	39,065	29,795
Share based payments	28,836	38,290	28,836	38,290
Others (refer Note 11.2)	348,894	300,894	366,871	315,493
<b>Total</b>	<b>1,598,410</b>	<b>1,360,652</b>	<b>1,816,442</b>	<b>1,566,637</b>

## NOTES TO THE FINANCIAL STATEMENTS

**11. PERSONNEL EXPENSES (Contd.)**

- 11.1 Contributions to defined benefit plans have been made based on the actuarial valuation carried out as at 31 December 2017. Refer Note 38.1 for detailed disclosure and assumptions on the retirement benefit obligation.
- 11.2 Others include conveyance expenses, staff insurance, training related expenses and amortisation of pre-paid staff cost.

**12. DEPRECIATION AND AMORTISATION****ACCOUNTING POLICY**

Depreciation and amortisation are the systematic allocation of a depreciable amount of the property, plant and equipment and intangible assets over its use full life.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Amortisation of intangible assets (refer Note 30)	162,888	136,124	164,680	138,309
Depreciation of property, plant and equipment (refer Note 31)	236,657	260,480	264,130	289,606
<b>Total</b>	<b>399,545</b>	<b>396,604</b>	<b>428,810</b>	<b>427,915</b>

**13. OTHER EXPENSES****ACCOUNTING POLICY**

Other expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Auditors' remunerations (refer Note 13.1)	11,421	7,848	14,423	9,905
Directors' fees and expenses (refer Note 13.2)	7,381	6,938	12,022	13,234
Professional and legal expenses	40,466	27,154	50,664	36,484
Advertising and marketing expenses	76,262	115,519	113,442	167,375
Office administration and establishment expenses	1,015,749	882,814	1,169,808	1,044,449
Deposit insurance expenses	53,574	37,442	61,915	44,261
Others (refer Note 13.3)	142,064	173,553	190,710	177,114
<b>Total</b>	<b>1,346,917</b>	<b>1,251,268</b>	<b>1,612,984</b>	<b>1,492,822</b>

**13.1 Auditors' remunerations**

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Audit fees	6,201	5,869	8,326	7,040
Audit related fees and expenses	263	818	1,140	1,704
Non-audit expenses	4,957	1,161	4,957	1,161
<b>Total</b>	<b>11,421</b>	<b>7,848</b>	<b>14,423</b>	<b>9,905</b>

13.2 Directors' fees and expenses include fees paid to Non Executive Director. Remunerations paid to Executive Directors are included under salary and bonus in Note 11.

13.3 Others include transportation related expenses, card related expenses and other overhead expenses incurred on day to day operations of the Bank and the Group.

## NOTES TO THE FINANCIAL STATEMENTS

**14. VALUE ADDED TAX (VAT) AND NATION BUILDING TAX (NBT) ON FINANCIAL SERVICES****ACCOUNTING POLICY****Value Added Tax (VAT)**

VAT on Financial Services is calculated in accordance with the Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non cash benefits and provision related to terminal benefits. The VAT rate applied in 2017 is 15%.

**Nation Building Tax (NBT)**

NBT on Financial Services is calculated in accordance with the Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto with effective from 1st January 2014. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services. The NBT rate applied in 2017 is 2%.

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Value added tax on financial services	267,812	186,985	307,045	216,780
Nation building tax on financial services	35,708	30,316	41,157	35,390
	303,520	217,301	348,202	252,170

**15. TAX EXPENSE****ACCOUNTING POLICY**

As per the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes', the tax expense/tax income is the aggregate amount included in determination of profits or loss for the year in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognised directly in Equity or Statement of Comprehensive Income, in which case it is recognised in Other Comprehensive Income.

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities 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.

The components of income tax expense are for the years ended 31 December 2017 and 2016 are;

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Current tax expense	4,369	-	31,734	23,312
(Over)/under provision in respect of prior years	-	-	-	(279)
Deferred tax charge/ (credit)	69,131	(15,244)	94,471	10,391
<b>Total</b>	<b>73,500</b>	<b>(15,244)</b>	<b>126,205</b>	<b>33,424</b>
<b>Effective tax rate</b>	<b>15%</b>	<b>-</b>	<b>19%</b>	<b>6%</b>

**15. TAX EXPENSE (Contd.)****15.1 Reconciliation of accounting profit to income tax expense**

A reconciliation between the taxable income and the accounting profit multiplied by income tax rate for the years ended 31 December 2017 and 2016 is given below;

For the year ended 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Profit before tax	534,118	435,936	677,334	586,643
Share of profit of equity accounted investees, net of tax	(55,801)	(76,696)	-	-
Adjusted profit before tax	478,317	359,240	677,334	586,643
Add: Disallowable expenses	939,112	820,697	997,045	899,644
Less: Tax deductible expenses	(680,402)	(553,355)	(787,473)	(666,512)
Less: Tax exempt income	(713,026)	(706,830)	(713,028)	(732,672)
Adjusted profit/ (loss) for tax purposes	24,001	(80,248)	173,878	87,103
Tax losses claimed	(8,400)	-	(54,415)	(41,329)
Taxable income	15,601	-	119,463	45,774
Income tax on current year profit @28%	4,369	-	30,546	21,263
Income tax on current year profit @10% (NAMAL)	-	-	1,188	2,049
(Over)/ under provision in respect of previous year	-	-	-	(279)
Deferred tax charge/(credit) (refer Note No 15.2)	69,131	(15,244)	94,471	10,391
Tax expense for the year	73,500	(15,244)	126,205	33,424

**15.1.1 Applicable rates of tax**

The applicable income tax rates of the Bank and the subsidiary companies are as follows:

For the year ended 31 December	2017	2016
Income tax on Union Bank of Colombo PLC	28%	28%
Income tax on UB Finance Company Limited	28%	28%
Income tax on National Asset Management Limited (NAMAL)		
- Profits from Unit trust business	10%	10%
- Others	28%	28%
Income tax on Serandib Capital (Pvt) Limited	28%	28%

**15.2 The deferred tax (credit)/charge in the Statement of Profit or Loss comprise of the following.**

The following table shows the deferred tax expense recorded in the Statement of Profit or Loss and the Statement of Comprehensive Income due to the changes in the deferred tax assets and liabilities:

**BANK**

For the year ended 31 December	2017			
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000
Depreciation allowances for tax purpose	-	443,216	88,110	-
Collective impairment	111,976	-	(9,010)	-
Carry forward losses	190,288	-	4,225	-
Re-measurement of financial investments - available for sale	-	55,329	-	156,305
Actuarial gains/ (losses) on defined benefit plan liability	4,991	-	-	2,019
Other temporary differences	46,366	-	(14,194)	-
Total	353,621	498,545	69,131	158,324

## NOTES TO THE FINANCIAL STATEMENTS

## 15. TAX EXPENSE (Contd.)

For the year ended 31 December	2016			
	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Depreciation allowances for tax purpose	-	355,105	65,837	-
Collective impairment	102,966	-	(86,488)	-
Carry forward losses	194,513	-	20,787	-
Revaluation of financial investments - available for sale	100,976	-	-	(93,895)
Actuarial gains/ (losses) on defined benefit plan liability	7,011	-	-	(3,461)
Other temporary differences	32,172	-	(15,380)	-
<b>Total</b>	<b>437,638</b>	<b>355,105</b>	<b>(15,244)</b>	<b>(97,356)</b>

## GROUP

For the year ended 31 December	2017			
	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Depreciation allowances for tax purpose	-	445,669	89,824	-
Collective impairment	114,230	-	(11,263)	-
Carry forward losses	617,262	-	36,524	-
Re-measurement of financial investments - available for sale	-	55,329	-	156,305
Actuarial gains/ (losses) on defined benefit plan liability	4,744	-	-	2,291
Other temporary differences	53,212	-	(20,614)	-
<b>Total</b>	<b>789,448</b>	<b>500,998</b>	<b>94,471</b>	<b>158,596</b>

For the year ended 31 December	2016			
	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Depreciation allowances for tax purpose	-	355,844	65,767	-
Collective impairment	102,966	-	(86,489)	-
Carry forward losses	653,786	-	46,617	-
Re-measurement of financial investments - available for sale	100,976	-	-	(93,895)
Actuarial gains/ (losses) on defined benefit plan liability	7,036	-	-	(3,354)
Other temporary differences	32,598	-	(15,504)	-
<b>Total</b>	<b>897,362</b>	<b>355,844</b>	<b>10,391</b>	<b>(97,249)</b>

**16. EARNINGS PER SHARE****ACCOUNTING POLICY**

The Bank and 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 warrants issued and employee share ownership plans as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) - 'Earnings per Share':

**16.1 Earnings per share - Basic**

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
<b>Amount used as the numerator</b>				
Net profit attributable to ordinary shareholders (Rs.'000)	460,618	451,180	514,776	504,124
<b>Amount used as the denominator</b>				
Weighted average number of ordinary shares (refer Note 16.1.1)	1,091,406	1,091,406	1,091,406	1,091,406
Basic earnings per ordinary share (Rs.)	0.42	0.41	0.47	0.46

**16.1.1 Weighted Average Number of Ordinary shares for Basic EPS**

	2017		2016	
	Outstanding 000	Weighted Average 000	Outstanding 000	Weighted Average 000
Number of shares held as at 1 January	1,091,406	1,091,406	1,091,406	1,091,406
Add: Number of shares issued	-	-	-	-
Number of shares held as at 31 December	1,091,406	1,091,406	1,091,406	1,091,406

**16.2 Earnings per share - Diluted**

Diluted Earnings per Share (Diluted EPS) as at the reporting date was calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, after adjusting for the effects of all potentially dilutive weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ESOPs into ordinary shares.

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
<b>Amount used as the numerator</b>				
Net profit attributable to ordinary shareholders (Rs.'000)	460,618	451,180	514,776	504,124
<b>Amount used as the denominator</b>				
Weighted average number of ordinary shares (refer Note 16.2.1)	1,092,798	1,099,950	1,092,798	1,099,950
Diluted earnings per ordinary share (Rs.)	0.42	0.41	0.47	0.46

**16.2.1 Weighted Average Number of Ordinary shares for Diluted EPS**

BANK & GROUP			
For the year ended 31 December	2017		2016
	000		000
Number of ordinary shares used as denominator for Basic EPS (refer Note 16.1.1)	1,091,406		1,091,406
Effect of dilution :	-		-
Add: Weighted average number of potential ordinary shares outstanding under warrant,	218,281		218,281
Add: Weighted average number of potential ordinary shares outstanding under ESOP,	12,124		12,124
Less: Weighted average number of potential ordinary shares that would have been issued at average market price	(229,013)		(221,861)
Number of shares held as at 31 December	1,092,798		1,099,950



## NOTES TO THE FINANCIAL STATEMENTS

**17. DIVIDEND PAID AND PROPOSED****ACCOUNTING POLICY**

Interim and final dividend are recognised and accrued at the time the dividend is recommended and declared by the Board of Directors, and is approved by the Board of Directors in accordance with the Companies Act No 7 of 2007.

	Gross Dividend	Dividend Tax	Net Dividend
<b>Proposed dividend for the year 2017</b>			
Out of dividend received - free of tax (Rs.'000)	12,221	-	12,221
Out of normal profit (Rs.'000)	96,920	9,692	87,228
Dividend paid (Rs.'000)	109,141	9,692	99,449
Dividend per ordinary share (Rs.)	0.10		0.09

	Gross Dividend	Dividend Tax	Net Dividend
<b>Dividend paid during the year 2016</b>			
Out of dividend received - free of tax (Rs.'000)	16,380	-	16,380
Out of normal profit (Rs.'000)	92,760	9,276	83,484
Dividend paid (Rs.'000)	109,141	9,276	99,865
Dividend per ordinary share (Rs.)	0.10		0.09

**18. MEASUREMENT OF FINANCIAL INSTRUMENTS**

Financial instruments in the Statement of Financial Position 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 recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standards - LKAS 39 (Financial Instruments: Recognition and Measurement) under headings of the Statement of Financial Position.

**BANK**

As at 31 December 2017	Held for Trading Rs.'000	Held to Maturity Rs.'000	Amortised cost Rs.'000	Available for sale Rs.'000	Total Rs.'000
<b>ASSETS</b>					
Cash and cash equivalents	-	-	4,697,738	-	4,697,738
Balances with Central Bank of Sri Lanka	-	-	3,785,679	-	3,785,679
Placements with banks	-	-	716,147	-	716,147
Reverse repurchased agreements	-	-	1,795	-	1,795
Derivative financial instruments	2,760	-	-	-	2,760
Financial investments - held for trading	5,949,023	-	-	-	5,949,023
Loans and receivables to other customers	-	-	70,577,923	-	70,577,923
Other loans and receivables	-	-	9,609,639	-	9,609,639
Financial investments - available for sale	-	-	-	16,453,207	16,453,207
Financial investments - held to maturity	-	2,546,553	-	-	2,546,553
Other financial assets	-	-	133,308	-	133,308
<b>Total financial assets</b>	<b>5,951,783</b>	<b>2,546,553</b>	<b>89,522,229</b>	<b>16,453,207</b>	<b>114,473,772</b>

**18. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd.)**

	Held for Trading Rs.'000	Amortised cost Rs.'000	Total Rs.'000
<b>LIABILITIES</b>			
Due to banks	-	17,208,641	17,208,641
Derivative financial instruments	4,867	-	4,867
Repurchased agreements	-	10,381,193	10,381,193
Due to other customers	-	70,325,594	70,325,594
Other borrowed funds	-	1,224,812	1,224,812
Other financial liabilities	-	1,402,968	1,402,968
<b>Total financial liabilities</b>	<b>4,867</b>	<b>100,543,208</b>	<b>100,548,075</b>

**BANK**

As at 31 December 2016	Held for Trading Rs.'000	Held to Maturity Rs.'000	Amortised cost Rs.'000	Available for sale Rs.'000	Total Rs.'000
<b>ASSETS</b>					
Cash and cash equivalents	-	-	2,506,685	-	2,506,685
Balances with Central Bank of Sri Lanka	-	-	2,487,805	-	2,487,805
Placements with banks	-	-	2,819,629	-	2,819,629
Reverse repurchased agreements	-	-	2,137	-	2,137
Derivative financial instruments	15,412	-	-	-	15,412
Financial investments - held for trading	1,346,932	-	-	-	1,346,932
Loans and receivables to other customers	-	-	55,438,415	-	55,438,415
Other loans and receivables	-	-	7,747,231	-	7,747,231
Financial investments - available for sale	-	-	-	16,520,365	16,520,365
Financial investments - held to maturity	-	140,231	-	-	140,231
Other financial assets	-	-	105,667	-	105,667
<b>Total financial assets</b>	<b>1,362,344</b>	<b>140,231</b>	<b>71,107,569</b>	<b>16,520,365</b>	<b>89,130,509</b>

	Held for Trading Rs.'000	Amortised cost Rs.'000	Total Rs.'000
<b>LIABILITIES</b>			
Due to banks	-	12,160,244	12,160,244
Derivative financial instruments	3,976	-	3,976
Repurchased agreements	-	10,256,670	10,256,670
Due to other customers	-	51,841,372	51,841,372
Other financial liabilities	-	1,279,019	1,279,019
<b>Total financial liabilities</b>	<b>3,976</b>	<b>75,537,305</b>	<b>75,541,281</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 18. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd.)

## GROUP

As at 31 December 2017	Held for Trading Rs.'000	Held to Maturity Rs.'000	Amortised cost Rs.'000	Available for sale Rs.'000	Total Rs.'000
<b>ASSETS</b>					
Cash and cash equivalents	-	-	5,057,422	-	5,057,422
Balances with Central Bank of Sri Lanka	-	-	3,785,679	-	3,785,679
Placements with banks	-	-	866,690	-	866,690
Reverse repurchased agreements	-	-	301,297	-	301,297
Derivative financial instruments	2,760	-	-	-	2,760
Financial investments - held for trading	5,949,023	-	-	-	5,949,023
Loans and receivables to other customers	-	-	79,220,956	-	79,220,956
Other loans and receivables	-	-	8,674,102	-	8,674,102
Financial investments - available for sale	-	-	-	16,604,761	16,604,761
Financial investments - held to maturity	-	2,546,553	-	-	2,546,553
Other financial assets	-	-	199,925	-	199,925
<b>Total financial assets</b>	<b>5,951,783</b>	<b>2,546,553</b>	<b>98,106,071</b>	<b>16,604,761</b>	<b>123,209,168</b>

	Held for Trading Rs.'000	Amortised cost Rs.'000	Total Rs.'000
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## LIABILITIES

Due to banks	-	17,298,727	17,298,727
Derivative financial instruments	4,867	-	4,867
Repurchased agreements	-	10,218,055	10,218,055
Due to other customers	-	76,747,977	76,747,977
Other borrowed funds	-	2,968,233	2,968,233
Other financial liabilities	-	1,562,527	1,562,527
<b>Total financial liabilities</b>	<b>4,867</b>	<b>108,795,519</b>	<b>108,800,386</b>

## GROUP

As at 31 December 2016	Held for Trading Rs.'000	Held to Maturity Rs.'000	Amortised cost Rs.'000	Available for sale Rs.'000	Total Rs.'000
<b>ASSETS</b>					
Cash and cash equivalents	-	-	2,717,650	-	2,717,650
Balances with Central Bank of Sri Lanka	-	-	2,487,805	-	2,487,805
Placements with banks	-	-	2,826,710	-	2,826,710
Reverse repurchased agreements	-	-	275,498	-	275,498
Derivative financial instruments	15,412	-	-	-	15,412
Financial investments - held for trading	1,346,932	-	-	-	1,346,932
Loans and receivables to other customers	-	-	62,931,936	-	62,931,936
Other loans and receivables	-	-	6,739,578	-	6,739,578
Financial investments - available for sale	-	-	-	16,694,470	16,694,470
Financial investments - held to maturity	-	140,231	-	-	140,231
Other financial assets	-	-	123,349	-	123,349
<b>Total financial assets</b>	<b>1,362,344</b>	<b>140,231</b>	<b>78,102,526</b>	<b>16,694,470</b>	<b>96,299,571</b>

**18. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd.)**

	Held for Trading Rs.'000	Amortised cost Rs.'000	Total Rs.'000
<b>LIABILITIES</b>			
Due to banks	-	12,770,197	12,770,197
Derivative financial instruments	3,976	-	3,976
Repurchased agreements	-	10,113,570	10,113,570
Due to other customers	-	57,525,156	57,525,156
Other borrowed funds	-	833,095	833,095
Other financial liabilities	-	1,643,927	1,643,927
<b>Total financial liabilities</b>	<b>3,976</b>	<b>82,885,945</b>	<b>82,889,921</b>

**19. CASH AND CASH EQUIVALENTS****ACCOUNTING POLICY**

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The balances of the cash in hand are recorded at book value and the balances with banks are carried at amortised cost in the Statement of Financial Position.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Local currency in hand	1,835,535	1,503,756	1,836,249	1,504,341
Foreign currency in hand	16,935	13,521	16,935	13,521
Balances with local banks	833	18,551	359,803	228,931
Balances with foreign banks	2,844,435	970,857	2,844,435	970,857
<b>Total</b>	<b>4,697,738</b>	<b>2,506,685</b>	<b>5,057,422</b>	<b>2,717,650</b>

**20. BALANCES WITH CENTRAL BANK OF SRI LANKA****ACCOUNTING POLICY**

Balances with Central Bank of Sri Lanka include the cash balance that is required as per the provisions of section 93 of the Monetary Law Act.

The minimum cash reserve requirement on rupee deposit liabilities was 7.5% of the rupee deposit liabilities as at 31 December 2017 (2016 - 7.5%).

There are no reserve requirement for the foreign currency deposit liabilities of Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Statutory balances with Central Bank of Sri Lanka	3,785,679	2,487,805	3,785,679	2,487,805

## NOTES TO THE FINANCIAL STATEMENTS

**21. REVERSE REPURCHASED AGREEMENTS****ACCOUNTING POLICY**

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 Bank and 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 Effective Interest Rate (EIR).

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Due from banks	-	-	163,138	273,360
Due from other customers	1,795	2,137	138,159	2,138
<b>Total</b>	<b>1,795</b>	<b>2,137</b>	<b>301,297</b>	<b>275,498</b>

**22. DERIVATIVE FINANCIAL INSTRUMENTS****ACCOUNTING POLICY**

Derivatives are financial instruments that derive their fair value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the Statement of Profit or Loss under “Other operating income” (Note 9). 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. Fair value is determined using the forward market rates ruling on the reporting date.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

**BANK & GROUP**

As at 31 December	2017			2016		
	Assets Rs.'000	Liabilities Rs.'000	Notional Amount Rs.'000	Assets Rs.'000	Liabilities Rs.'000	Notional Amount Rs.'000
Forward foreign exchange contracts						
- Sales	758	772	839,157	16	-	4,902
- Purchases	1,034	681	862,921	-	-	-
Currency SWAPS						
- Sales	-	-	-	0	3,405	1,709,000
- Purchases	968	3,414	1,009,979	15,395	571	6,745,155
<b>Total</b>	<b>2,760</b>	<b>4,867</b>	<b>2,712,057</b>	<b>15,412</b>	<b>3,976</b>	<b>8,459,057</b>

## NOTES TO THE FINANCIAL STATEMENTS

**23. FINANCIAL INVESTMENTS - HELD FOR TRADING****ACCOUNTING POLICY**

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net gain from trading" (Note 7). Interest income is recorded in "Interest income" and dividend income are recorded in "Net gain from trading" (Note 7) according to the terms of the contract, or when the right to receive the payment is been established.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets.

Financial assets held for trading include government securities and investment in units that have been acquired principally for the purpose of selling or repurchasing in the near term.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Sri Lanka Government securities (refer Note 23.1)	1,696,945	-	1,696,945	-
Investment in units (refer Note 23.2)	4,252,078	1,346,932	4,252,078	1,346,932
<b>Total</b>	<b>5,949,023</b>	<b>1,346,932</b>	<b>5,949,023</b>	<b>1,346,932</b>

**23.1 Sri Lanka Government securities****BANK & GROUP**

Year of Maturity	2017	
	Cost of Investment Rs.'000	Fair Value Rs.'000
2018	298	298
2019	-	-
2020	297,606	302,957
2021	772,127	794,726
2022	-	-
2023	263,313	269,308
2024	157,252	167,636
2025	50,110	51,946
2026	-	-
2027	108,618	110,074
<b>Total</b>	<b>1,649,324</b>	<b>1,696,945</b>

## NOTES TO THE FINANCIAL STATEMENTS

**23. FINANCIAL INVESTMENTS - HELD FOR TRADING (Contd.)**

## 23.2 Investment in Units

**BANK & GROUP**

As at 31 December	2017			2016		
	No. of Units 000	Cost Rs.'000	Market Value Rs.'000	No. of Units 000	Cost Rs.'000	Market Value Rs.'000
NAMAL Gilt Edge Fund	-	-	-	21,811	253,530	253,586
NAMAL High Yield Fund	165,033	2,977,426	2,980,423	51,712	826,972	834,983
Capital Alliance Investment Grade Fund	38,495	539,794	539,794	20,667	258,363	258,363
Capital Alliance Gilt Fund	55,042	614,047	618,544	-	-	-
Guardian Acuity Money Market Fund	7,390	113,283	113,317	-	-	-
<b>Total</b>		<b>4,244,550</b>	<b>4,252,078</b>		<b>1,338,865</b>	<b>1,346,932</b>

**24. LOANS AND RECEIVABLES TO OTHER CUSTOMERS****ACCOUNTING POLICY**

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

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

After initial measurement, the loans and receivables 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' and the losses arising from impairment are recognised in 'Impairment for loans and other losses' in the Statement of Profit or Loss.

**Write-off of Loans and Receivables**

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

**Rescheduled Loan Facilities**

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

**Collateral Valuation**

The Bank and 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 financial 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 Bank and 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.

**Collateral Repossessed**

The Bank and 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.

**24. LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Gross loans and receivables (refer Note 24.1)	71,493,285	56,109,621	80,645,569	64,105,186
Less: Individual impairment (refer Note 24.4)	(515,446)	(303,469)	(692,244)	(572,332)
Collective impairment (refer Note 24.4)	(399,916)	(367,737)	(732,369)	(600,918)
Net loans and receivables	70,577,923	55,438,415	79,220,956	62,931,936

**24.1 Loans and Receivables to Other Customers - By Product**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Term loans	42,604,832	32,089,264	44,235,792	33,512,244
Overdrafts	11,897,400	9,830,954	11,893,231	9,706,016
Trade finance	13,350,946	11,540,503	13,350,946	11,540,503
Lease and hire purchase	1,614,104	1,339,952	7,170,123	6,240,628
Factoring	521,601	411,201	2,248,966	1,967,785
Pawning	680,156	196,947	680,156	196,949
Staff loans	824,246	700,800	824,308	700,875
Others	-	-	242,047	240,186
Gross loans and receivables	71,493,285	56,109,621	80,645,569	64,105,186

**24.2 Loans and Receivables to Other Customers - By Currency**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Sri Lanka Rupee	59,717,367	48,253,021	68,869,651	56,248,584
United States Dollar	11,728,804	7,723,440	11,728,804	7,723,440
Euro	35,861	120,296	35,861	120,296
Others	11,253	12,864	11,253	12,866
Gross loans and receivables	71,493,285	56,109,621	80,645,569	64,105,186

**24.3 Loans and Receivables to Other Customers - By Industry**

As at 31 December	BANK		GROUP	
	2017 %	2016 Rs.'000	2017 %	2016 Rs.'000
Agriculture and fishing	10%	7,305,226	11%	5,908,327
Manufacturing	12%	8,289,795	11%	5,950,344
Tourism	5%	3,487,135	4%	2,302,017
Transport	0%	158,373	0%	49,994
Construction	6%	4,047,719	3%	1,943,546
Traders	24%	17,113,900	32%	18,098,764
New economy	0%	188,027	1%	375,447
Financial and business services	15%	10,782,237	16%	8,896,126
Infrastructure	0%	172,338	0%	114,674
Other services	5%	3,486,897	7%	3,778,709
Other customers including pawning	23%	16,461,638	15%	8,691,673
Gross loans and receivables		71,493,285		56,109,621



## NOTES TO THE FINANCIAL STATEMENTS

**24. LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)****GROUP**

As at 31 December	2017		2016	
	%	Rs.'000	%	Rs.'000
Agriculture and fishing	10%	7,826,380	9%	5,908,327
Manufacturing	11%	8,805,741	9%	5,950,344
Tourism	5%	3,783,136	4%	2,302,017
Transport	1%	672,472	8%	4,950,669
Construction	6%	4,631,362	6%	3,745,322
Traders	25%	20,053,226	31%	19,655,349
New economy	0%	282,213	1%	375,447
Financial and business services	13%	10,677,303	13%	8,392,392
Infrastructure	0%	206,605	0%	114,674
Other services	5%	3,651,104	6%	4,018,970
Other customers including pawning	24%	20,056,027	13%	8,691,675
<b>Gross loans and receivables</b>		<b>80,645,569</b>		<b>64,105,186</b>

**ALLOWANCE FOR IMPAIRMENT CHARGES FOR LOANS AND RECEIVABLES****ACCOUNTING POLICY**

The Bank and the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, 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.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. In lieu, with the same, expected losses as a result of future events, where identifiable due to its likeliness, is recognised under impairment.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial re-organisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual (a) financial assets in the Group, including:
  - (i) adverse changes in the payment status of borrowers in the Group (eg an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the Group (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the Group).

**24. LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)**

## Collectively assessed loans and receivables to other customers

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

## Statistical models to calculate loss statistics

Bank calculates separate loss ratios for capital and interest for the separate products using net flow rate.

## Loss Given Default (LGD) calculation method

Loss given default is the magnitude of likely loss on exposure, and is expressed as a percentage of exposure.

## Judgmental adjustment to historical loss experience

Probability of Default (PD) and Loss Given Default (LGD) calculated based on historical data should be adjusted appropriately based on relevant economic factors (i.e. GDP growth, inflation rate, employment rate, per capita income etc. ) and relevant portfolio factors such as age of the portfolio, etc.

## 24.4 Movements in allowance for impairment

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Individual impairment</b>				
Opening balance as at 1 January	303,469	204,579	572,332	430,908
Charge to Statement of Profit or Loss	211,977	98,890	237,232	141,424
Net write-off during the year	-	-	(117,320)	-
Closing balance as at 31 December	515,446	303,469	692,244	572,332
<b>Collective impairment</b>				
Opening balance as at 1 January	367,737	363,804	600,918	539,560
Charge to Statement of Profit or Loss	36,952	53,424	140,232	110,849
Net write-off during the year	(4,773)	(49,491)	(8,781)	(49,491)
Closing balance as at 31 December	399,916	367,737	732,369	600,918
<b>Total</b>	<b>915,362</b>	<b>671,206</b>	<b>1,424,613</b>	<b>1,173,250</b>

## 24.5 Movements in allowance for impairment charges - By product

## BANK

	Lease & Hire Purchases	Loans & Receivables	Pawning	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Opening balance as at 1 January 2017	55,073	608,902	7,231	671,206
Charge to Statement of Profit or Loss	(4,459)	256,653	(3,265)	248,929
Net write-off during the year	(82)	(4,615)	(76)	(4,773)
Closing balance as at 31 December 2017	50,532	860,940	3,890	915,362
Opening balance as at 1 January 2016	60,163	457,723	50,497	568,383
Charge to Statement of Profit or Loss	(5,090)	157,390	14	152,314
Net write-off during the year	-	(6,211)	(43,280)	(49,491)
Closing balance as at 31 December 2016	55,073	608,902	7,231	671,206

## NOTES TO THE FINANCIAL STATEMENTS

## 24. LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)

## GROUP

	Lease & Hire Purchases Rs.'000	Loans & Receivables Rs.'000	Pawning Rs.'000	Total Rs.'000
Opening balance as at 1 January 2017	230,795	935,224	7,231	1,173,250
Charge to Statement of Profit or Loss	43,765	336,964	(3,265)	377,464
Net write-off during the year	(101,783)	(24,242)	(76)	(126,101)
Closing balance as at 31 December 2017	172,777	1,247,946	3,890	1,424,613
Opening balance as at 1 January 2016	156,694	763,277	50,497	970,467
Charge to Statement of Profit or Loss	74,101	178,158	14	252,273
Net write-off during the year	-	(6,211)	(43,280)	(49,491)
Closing balance as at 31 December 2016	230,795	935,224	7,231	1,173,250

## 24.6 Lease rentals receivables

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Total lease rentals receivable	1,948,717	1,533,888	9,528,633	7,990,154
Unearned lease income	(365,371)	(263,696)	(2,454,874)	(2,014,480)
Gross lease receivable	1,583,346	1,270,192	7,073,759	5,975,674
Less: Impairment allowance for lease receivable	(38,174)	(42,518)	(150,521)	(178,874)
Net lease receivables	1,545,172	1,227,674	6,923,238	5,796,800
Gross lease receivable within one year	485,224	449,325	2,113,809	585,509
Gross lease receivable after one year	1,098,122	820,867	4,959,950	5,390,165
Gross lease receivable	1,583,346	1,270,192	7,073,759	5,975,674

## 24.6.1 Gross lease receivable within one year

## As at 31 December

Total lease receivable within one year	656,128	585,564	3,142,641	732,347
Unearned lease income	(170,904)	(136,239)	(1,028,832)	(146,838)
Gross lease receivable	485,224	449,325	2,113,809	585,509
Less: Impairment allowance for lease receivable	(12,749)	(13,226)	(49,529)	(38,152)
Net lease receivables	472,475	436,099	2,064,280	547,357

## 24.6.2 Gross lease receivable after one year

## As at 31 December

Total lease receivable after one year	1,292,589	948,324	6,385,991	7,257,806
Unearned lease income	(194,467)	(127,457)	(1,426,041)	(1,867,641)
Gross lease receivable	1,098,122	820,867	4,959,950	5,390,165
Less: Impairment allowance for lease receivable	(25,425)	(29,292)	(100,993)	(140,722)
Net lease receivables	1,072,697	791,575	4,858,957	5,249,443

**24. LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)**

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>24.7 Hire purchase receivables</b>				
<i>As at 31 December</i>				
Total hire purchase receivable	39,738	79,909	108,907	303,811
Unearned hire purchase income	(8,980)	(10,149)	(12,543)	(38,857)
Gross hire purchase receivable	30,758	69,760	96,364	264,954
Less: Impairment Allowance for hire purchase receivable	(12,358)	(12,555)	(22,256)	(51,921)
<b>Net hire purchase receivables</b>	<b>18,400</b>	<b>57,205</b>	<b>74,108</b>	<b>213,033</b>
Gross hire purchase receivable within one year	28,517	51,860	87,821	88,146
Gross hire purchase receivable after one year	2,241	17,900	8,543	176,808
<b>Gross hire purchase receivable</b>	<b>30,758</b>	<b>69,760</b>	<b>96,364</b>	<b>264,954</b>

*24.7.1 Gross hire purchase receivable within one year**As at 31 December*

Total hire purchase receivable within one year	37,407	60,628	99,847	98,325
Unearned hire purchase income	(8,890)	(8,768)	(12,026)	(10,179)
Gross hire purchase receivable	28,517	51,860	87,821	88,146
Less: Impairment Allowance for hire purchase receivable	(11,550)	(9,076)	(20,485)	(22,493)
<b>Net hire purchase receivables</b>	<b>16,968</b>	<b>42,784</b>	<b>67,337</b>	<b>65,653</b>

*24.7.2 Gross hire purchase receivable after one year**As at 31 December*

Total hire purchase receivable after one year	2,331	19,281	9,060	205,486
Unearned hire purchase income	(90)	(1,381)	(517)	(28,678)
Gross hire purchase receivable	2,241	17,900	8,543	176,808
Less: Impairment Allowance for hire purchase receivable	(809)	(3,479)	(1,771)	(29,428)
<b>Net hire purchase receivables</b>	<b>1,432</b>	<b>14,421</b>	<b>6,772</b>	<b>147,380</b>

**25. OTHER LOANS AND RECEIVABLES****ACCOUNTING POLICY**

Loans and receivables are 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' and the losses arising from impairment are recognised in 'Impairment for loans and other losses' in the Statement of Profit or Loss.

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>As at 31 December</b>				
Investment in deep discounted bond (refer Note 25.1)	2,778,818	2,671,941	-	-
Fixed deposits	-	-	2,120,773	1,942,454
Sri Lanka development bond	3,891,440	1,826,699	3,891,440	1,826,700
Investment in debentures (refer Note 25.2)	2,679,825	2,428,071	2,402,333	2,149,904
Lease backed trust certificates (refer Note 25.3)	259,556	820,520	259,556	820,520
<b>Total</b>	<b>9,609,639</b>	<b>7,747,231</b>	<b>8,674,102</b>	<b>6,739,578</b>

## NOTES TO THE FINANCIAL STATEMENTS

**25. OTHER LOANS AND RECEIVABLES (Contd.)**

## 25.1 Investment in deep discounted bond

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Serandib Capital (Pvt) Ltd.	2,778,818	2,671,941	-	-

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%.

## 25.2 Investment in debentures

**BANK**

As at 31 December	2017		2016	
	No. of Debentures 000	Carrying Value Rs.'000	No. of Debentures 000	Carrying Value Rs.'000

## 25.2.1 Senior debentures

Commercial Leasing & Finance PLC	5,000	548,884	5,000	548,884
DFCC Bank PLC	10,163	1,084,783	10,163	1,084,783
Pan Asia Banking Corporation PLC	3,715	381,096	3,715	381,096
Hayleys PLC	1,000	100,975	1,000	101,055
LB Finance PLC	2,500	251,834	-	-
<b>Total senior debentures</b>		<b>2,367,572</b>		<b>2,115,818</b>

## 25.2.2 Subordinated debenture

UB Finance Company Ltd.	3,000	312,253	3,000	312,253
<b>Total subordinated debenture</b>		<b>312,253</b>		<b>312,253</b>

<b>Total</b>		<b>2,679,825</b>		<b>2,428,071</b>
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**GROUP**

As at 31 December	2017		2016	
	No. of Debentures 000	Carrying Value Rs.'000	No. of Debentures 000	Carrying Value Rs.'000

## 25.2.3 Debentures

Commercial Leasing & Finance PLC	5,000	548,884	5,000	548,884
DFCC Bank PLC	10,163	1,084,783	10,163	1,084,783
Pan Asia Banking Corporation PLC	3,715	381,096	3,715	381,096
Nation Trust Bank PLC	50	5,675	100	10,654
National Development Bank PLC	100	10,329	50	5,348
Hayleys PLC	1,000	100,975	1,000	101,055
Senkadagala Finance PLC	180	18,757	180	18,084
Ceylinco Sec. & Fin. Services Company Ltd.	-	-	2	200
Ceylinco Institute of Mgt. Ltd.	-	-	2	200
LB Finance PLC	2,500	251,834	-	-
Seylan Merchant Leasing Ltd.	-	-	0	30
		<b>2,402,333</b>		<b>2,150,334</b>
Less : Impairment on debentures		-		(430)
<b>Total</b>		<b>2,402,333</b>		<b>2,149,904</b>

## NOTES TO THE FINANCIAL STATEMENTS

**25. OTHER LOANS AND RECEIVABLES (Contd.)**

## 25.3 Lease backed trust certificates

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Senkadagala Finance Company PLC	-	184,938	-	184,938
Peoples Leasing & Company PLC	143,287	444,599	143,287	444,599
Commercial Credit PLC	116,269	190,983	116,269	190,983
<b>Total</b>	<b>259,556</b>	<b>820,520</b>	<b>259,556</b>	<b>820,520</b>

**26. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE**

## ACCOUNTING POLICY

Financial investments available for sale includes equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Bank and 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 "Statement of 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 Statement of Profit or Loss in 'Net gains/(losses) from financial investments'. Where the Bank and 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 Statement of Profit or Loss as 'Net gains/(losses) from financial investments' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'Impairment for loans and other losses' and are removed from the 'available for sale reserve'.

**Impairment of Financial investments - Available for sale**

For available for sale financial investments the Bank and 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 Bank and 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 the purpose of measuring the impairment loss, the related 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 Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss.

In case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolong' decline in the fair value of the investment below its cost. Where there is an 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 Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss, increases in the fair value after impairment are recognised in 'Other comprehensive income'.

## NOTES TO THE FINANCIAL STATEMENTS

## 26. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE (Contd.)

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Sri Lanka Government securities (refer Note 26.1)	16,451,677	16,518,835	16,451,677	16,527,257
Equity securities	-	-	-	-
Unquoted	1,530	1,530	17,625	17,625
Quoted (refer Note 26.2)	-	-	40,959	45,695
Investment in unit trusts (refer Note 26.3)	-	-	94,500	103,893
<b>Total</b>	<b>16,453,207</b>	<b>16,520,365</b>	<b>16,604,761</b>	<b>16,694,470</b>

## 26.1 Sri Lanka Government securities

## BANK

As at 31 December	2017	
Year of Maturity	Cost of Investment Rs.'000	Fair Value Rs.'000
2018	7,704,025	7,834,900
2019	4,677,189	4,966,013
2020	396,277	403,942
2021	1,387,546	1,426,769
2022	711,302	770,997
2023	424,669	435,106
2024	153,066	167,636
2025	47,677	51,946
2026	374,810	394,368
2027	-	-
<b>Total</b>	<b>15,876,561</b>	<b>16,451,677</b>

As at 31 December	2016	
Year of Maturity	Cost of Investment Rs.'000	Fair Value Rs.'000
2017	5,715,071	5,714,747
2018	3,282,362	3,254,478
2019	1,929,926	1,888,623
2020	728,905	696,366
2021	2,174,278	2,074,113
2022	759,008	734,821
2023	870,176	806,291
2024	309,470	291,624
2025	424,670	405,046
2026	685,598	652,726
<b>Total</b>	<b>16,879,464</b>	<b>16,518,835</b>

## GROUP

As at 31 December	2017	
Year of Maturity	Cost of Investment Rs.'000	Fair Value Rs.'000
2018	7,704,025	7,834,900
2019	4,677,189	4,966,013
2020	396,277	403,942
2021	1,387,546	1,426,769
2022	711,302	770,997
2023	424,669	435,106
2024	153,066	167,636
2025	47,677	51,946
2026	374,810	394,368
2027	-	-
<b>Total</b>	<b>15,876,561</b>	<b>16,451,677</b>

As at 31 December	2016	
Year of Maturity	Cost of Investment Rs.'000	Fair Value Rs.'000
2017	5,715,071	5,714,747
2018	3,282,362	3,254,478
2019	1,931,926	1,890,416
2020	728,905	696,366
2021	2,174,278	2,074,113
2022	759,008	734,821
2023	870,176	806,291
2024	316,470	298,255
2025	424,670	405,046
2026	685,598	652,724
<b>Total</b>	<b>16,888,464</b>	<b>16,527,257</b>

## NOTES TO THE FINANCIAL STATEMENTS

**26. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE (Contd.)**

## 26.2 Equity securities - quoted investments

**GROUP**

As at 31 December	2017			2016		
	No. of Shares	Cost of Investment	Market Value	No. of Shares	Cost of Investment	Market Value
	000	Rs.'000	Rs.'000	000	Rs.'000	Rs.'000
Softlogic Holding PLC	-	-	-	600	9,556	7,800
Seylan Bank PLC	36	3,991	3,115	35	3,920	3,150
Seylan Bank PLC - Non Voting	47	3,050	2,607	45	2,959	2,655
Dialog Axiata PLC	702	9,479	9,129	500	5,779	5,250
Commercial Bank of Ceylon PLC - Non Voting	28	3,269	2,933	25	2,994	2,875
Tokyo Cement PLC - Non Voting	150	10,602	9,900	311	15,423	16,003
Hatton National Bank PLC	25	5,576	6,225	-	-	-
Access Engineering PLC	300	7,644	7,050	300	7,644	7,440
Blue Diamond Jewellery Worldwide PLC	-	-	-	1,041	2,609	522
		43,611	40,959		50,884	45,695
Less : Mark to market adjustment		(2,652)			(5,189)	
<b>Total</b>		<b>40,959</b>	<b>40,959</b>		<b>45,695</b>	<b>45,695</b>

## 26.3 Investment in Units

**GROUP**

As at 31 December	2017			2016		
	No. of Shares	Cost of Investment	Market Value	No. of Shares	Cost of Investment	Market Value
	000	Rs.'000	Rs.'000	000	Rs.'000	Rs.'000
Eagle Growth and Income Fund	-	-	-	9	75	75
Cey Bank Unit Trust	-	-	-	12	100	100
NAMAL Money Market Fund	67	695	728	67	695	725
NAMAL High Yield Fund	5,193	93,693	93,772	6,378	102,962	102,993
<b>Total</b>		<b>94,388</b>	<b>94,500</b>		<b>103,832</b>	<b>103,893</b>

**27. FINANCIAL INVESTMENTS - HELD TO MATURITY****ACCOUNTING POLICY**

Financial investments under held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank or the Group has the intention and ability to hold till 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 Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss under 'Impairment for loans and other losses'. If the Bank and 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 Bank and the Group would be prohibited from classifying any as financial asset as "held to maturity" for the following two years.



## NOTES TO THE FINANCIAL STATEMENTS

## 27. FINANCIAL INVESTMENTS - HELD TO MATURITY (Contd.)

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Senior debentures	67,691	110,085	67,691	110,085
Sri Lanka Government securities (refer Note 27.1)	2,478,862	30,146	2,478,862	30,146
<b>Total</b>	<b>2,546,553</b>	<b>140,231</b>	<b>2,546,553</b>	<b>140,231</b>

## 27.1 Sri Lanka Government securities

## BANK &amp; GROUP

As at 31 December	2017		2016	
Year of Maturity	Cost of Investment Rs.'000	Amortised Cost Rs.'000	Cost of Investment Rs.'000	Amortised Cost Rs.'000
2018	2,076,137	2,089,182	-	-
2019	380,777	389,680	29,715	30,146
	2,456,914	2,478,862	29,715	30,146

## 28. INVESTMENTS IN REAL ESTATE

## ACCOUNTING POLICY

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as a real estate property and is measured at the lower of cost and net realisable value.

Cost includes;

- ▷ Freehold rights for land
- ▷ Amounts paid to constructors for developments
- ▷ Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of real estate property recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

## GROUP

As at 31 December	2017 Rs.'000	2016 Rs.'000
Land	106,780	112,822
Housing projects	14,601	14,600
Other projects	384,034	414,762
Less: Impairment	(352,501)	(352,735)
<b>Total</b>	<b>152,914</b>	<b>189,449</b>

## NOTES TO THE FINANCIAL STATEMENTS

**29. INVESTMENTS IN SUBSIDIARIES****ACCOUNTING POLICY**

The investments in subsidiary companies are accounted at cost less allowance for impairment in the Financial statements of the Bank. The net assets of the each subsidiary companies are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

**BANK**

As at 31 December		2017		2016		
Subsidiary Name	Percentage Holding %	Equity Basis Rs.'000	Cost Rs.'000	Percentage Holding %	Equity Basis Rs.'000	Cost Rs.'000
National Asset Management Ltd. (refer Note 29.1.1)	51.00	332,564	331,500	51.00	328,496	331,500
UB Finance Company Ltd. (refer Note 29.1.2)	73.31	930,048	841,297	66.17	611,531	560,864
<b>Total</b>		<b>1,262,612</b>	<b>1,172,797</b>		<b>940,027</b>	<b>892,364</b>

**29.1 Movement of equity accounted investee**

As at 31 December	2017 Rs.'000	2016 Rs.'000
Balance brought forward	47,663	(8,986)
Current year share of profit (net of tax)	55,801	76,696
Other comprehensive income (net of tax)		
To be reclassified to profit or loss	538	-
Not to be reclassified to profit or loss	427	(3,959)
Change in control	(3,093)	-
Less: Dividends received	(11,521)	(16,088)
<b>Total share of equity accounted investees retained profits</b>	<b>89,815</b>	<b>47,663</b>
Total share of equity accounted investees retained profits	89,815	47,663
Cost of equity accounted investees	1,172,797	892,364
<b>Total carrying amount of investments in equity accounted investees</b>	<b>1,262,612</b>	<b>940,027</b>

**29.1.1 National Asset Management Ltd.**

As at 31 December	2017 Rs.'000	2016 Rs.'000
Percentage of ownership interest	51%	51%
Balance brought forward	(3,004)	579
Current year share of profit (net of tax)	14,775	18,217
Other comprehensive income (net of tax)		
To be reclassified to profit or loss	698	-
Not to be reclassified to profit or loss	116	(5,712)
Less: Dividends received	(11,521)	(16,088)
<b>Total share of equity accounted investees retained profits</b>	<b>1,064</b>	<b>(3,004)</b>
Total share of equity accounted investees retained profits	1,064	(3,004)
Cost of equity accounted investees	331,500	331,500
<b>Total carrying amount of investments in equity accounted investees</b>	<b>332,564</b>	<b>328,496</b>

## NOTES TO THE FINANCIAL STATEMENTS

**29. INVESTMENTS IN SUBSIDIARIES (Contd.)**

## 29.1.2 UB Finance Company Ltd.

As at 31 December	2017 Rs.'000	2016 Rs.'000
Percentage of ownership interest	73.31%	66.17%
Balance brought forward	50,667	(9,565)
Current year share of profit (net of tax)	41,026	58,479
Other comprehensive income (net of tax)		
To be reclassified to profit or loss	(160)	-
Not to be reclassified to profit or loss	311	1,753
Change in control	(3,093)	-
Less: Dividends received	-	-
<b>Total share of equity accounted investees retained profits</b>	<b>88,751</b>	<b>50,667</b>
Total share of equity accounted investees retained profits	88,751	50,667
Cost of equity accounted investees	841,297	560,864
<b>Total carrying amount of investments in equity accounted investees</b>	<b>930,048</b>	<b>611,531</b>

## 29.2 Summarised financial information of subsidiaries

	2017		2016	
	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000

## For the year ended 31 December

Net operating income	546,000	126,167	547,478	132,256
Less: Operating expenses	424,241	92,672	391,579	91,354
Profit before taxes	121,759	33,495	155,899	40,902
Less: Tax expense (including VAT and NBT on financial services)	59,758	2,115	67,521	1,728
Profit after tax	62,001	31,381	88,378	39,174
Total comprehensive income	62,230	32,976	91,026	27,976

## As at 31 December

Loans and receivables to other customers	9,264,595	-	7,997,255	-
Property, plant and equipments and intangible assets	154,047	23,842	165,659	10,787
Other assets	61,889	21,735	119,216	18,565
<b>Total assets</b>	<b>11,270,537</b>	<b>238,745</b>	<b>9,318,445</b>	<b>239,052</b>
Due to other customers	7,066,476	-	5,838,971	-
Other borrowed funds	2,673,069	-	1,524,144	-
Other liabilities	331,226	11,987	477,235	21,158
<b>Total liabilities</b>	<b>10,167,325</b>	<b>14,578</b>	<b>8,577,522</b>	<b>22,861</b>
<b>Total equity</b>	<b>1,103,212</b>	<b>224,167</b>	<b>740,922</b>	<b>216,191</b>

**30. GOODWILL AND INTANGIBLE ASSETS****ACCOUNTING POLICY****Basis of Recognition**

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

**(i) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets as initial recognition in accordance LKAS 38, subsequently the goodwill is assessed for impairment.

**(ii) Computer Software**

Software acquired by the Bank and 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 Bank and 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 closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Computer software is amortised over 10 Years of estimated useful lives on a straight line basis.

**(iii) Other Intangible Assets**

Other intangible assets consist of brand value, asset management and advisory intangible, licenses and 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.

**Subsequent Measurement**

These other intangible assets are with an indefinite useful life which shall not be amortised, is required to test for impairment by comparing its recoverable amount with its carrying amount on annually or whenever there is an indication that these intangible assets may be impaired. Accordingly, these other intangible assets are measured at cost less accumulated impairment losses.

**De-recognition of Intangible Assets**

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is derecognised.

## NOTES TO THE FINANCIAL STATEMENTS

## 30. GOODWILL AND INTANGIBLE ASSETS (Contd.)

## BANK

	2017			2016		
	Computer Software Rs.'000	Software under Development Rs.'000	Total Rs.'000	Computer Software Rs.'000	Software under Development Rs.'000	Total Rs.'000
<b>Cost</b>						
Opening balance as at 1 January	1,439,866	41,038	1,480,904	1,167,474	144,522	1,311,996
Additions	141,286	91,568	232,854	82,648	86,260	168,908
Transfers	61,062	(61,062)	-	189,744	(189,744)	-
Closing balance as at 31 December	1,642,214	71,544	1,713,758	1,439,866	41,038	1,480,904
<b>Less: Amortisation</b>						
Opening balance as at 1 January	329,871	-	329,871	193,747	-	193,747
Charge for the year	162,888	-	162,888	136,124	-	136,124
Closing balance as at 31 December	492,759	-	492,759	329,871	-	329,871
Net book value as at 31 December	1,149,455	71,544	1,220,999	1,109,995	41,038	1,151,033

## GROUP

	Goodwill	Software under Development	Computer Software	Brand Value	Asset Mgt. & Advisory Intangible	Licenses and related Infrastructure	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>2017</b>							
<b>Cost</b>							
Opening balance as at 1 January	113,031	1,479,463	41,039	10,169	118,947	136,001	1,898,650
Additions	-	141,357	90,318	-	-	-	231,675
Transfers	59,812	(59,812)	-	-	-	-	-
Closing balance as at 31 December	113,031	1,680,632	71,545	10,169	118,947	136,001	2,130,325
<b>Less: Amortisation</b>							
Opening balance as at 1 January	-	358,321	-	1,441	22,468	14,738	396,968
Charge for the year	-	164,680	-	-	-	-	164,680
Closing balance as at 31 December	-	523,001	-	1,441	22,468	14,738	561,648
Less: Impairment charge	-	-	-	(279)	-	-	(279)
Net book value as at 31 December	113,031	1,157,631	71,545	8,449	96,479	121,263	1,568,398
<b>2016</b>							
<b>Cost</b>							
Opening balance as at 1 January	113,031	1,205,771	144,523	10,169	118,947	136,001	1,728,442
Additions	-	83,948	86,260	-	-	-	170,208
Transfers	189,744	(189,744)	-	-	-	-	-
Closing balance as at 31 December	113,031	1,479,463	41,039	10,169	118,947	136,001	1,898,650
<b>Less: Amortisation</b>							
Opening balance as at 1 January	-	220,012	-	1,441	22,468	14,738	258,659
Charge for the year	-	138,309	-	-	-	-	138,309
Closing balance as at 31 December	-	358,321	-	1,441	22,468	14,738	396,968
Less: Impairment charge	-	-	-	-	-	-	-
Net book value as at 31 December	113,031	1,121,142	41,039	8,728	96,479	121,263	1,501,682

## NOTES TO THE FINANCIAL STATEMENTS

**30. GOODWILL AND INTANGIBLE ASSETS (Contd.)**

## 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 Cash Flow to Equity (FCFE)
Brand value	Free Cash Flow to Equity (FCFE)
Asset management and advisory intangibles	Customer list
Licensing and other infrastructure	Income approach

2017	Goodwill	Brand Value	License and related infrastructure
Discount rate	15.4%	15.4%	15.2%
Terminal growth rate	2.5%	2.5%	2.5%

2016	Goodwill	Brand Value	License and related infrastructure
Discount rate	16.1%	16.1%	16.1%
Terminal growth rate	2.5%	2.5%	2.5%

The calculation of the above are sensitive to discount rates, budgeted income/cash flows, terminal growth rates used to extrapolate cash flows beyond the budgeted period, market rates and market cost to income (CI) ratios.

**31. PROPERTY, PLANT AND EQUIPMENT**

## ACCOUNTING POLICY

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used for more than one period.

## Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Bank and the Group and the cost of the asset can be measured reliably in accordance with LKAS 16 "Property, plant and equipment".

## Measurement

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses if any. Initially property, plant and equipment are measured at its 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 and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that computer equipment.

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

## Subsequent costs

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

## NOTES TO THE FINANCIAL STATEMENTS

**31. PROPERTY, PLANT AND EQUIPMENT (Contd.)****De-recognition**

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in "Other operating income" in the Statement of Profit or Loss in the year the asset is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised at each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

**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. Land is not depreciated. The depreciation charges are determined separately for each significant part of an item of Property, plant and equipment and commence to depreciate when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation doesn't cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows;

Assets category	Estimated useful lives
Building	40 Years
Leasehold improvements	5 – 10 Years
Computer, equipment and generators	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.

**BANK**

	Leasehold Improvements Rs.'000	Computers & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicle Rs.'000	Work in Progress Rs.'000	Total Rs.'000
<b>2017</b>						
<b>Cost</b>						
Opening balance as at 1 January	585,152	1,092,562	306,065	52,673	75,298	2,111,750
Additions	27,824	108,923	64,330	-	41,976	243,053
Disposals	(29,782)	(8,197)	(23,178)	(4,615)	(1,874)	(67,646)
Transfers	38,218	48,792	16,866	-	(103,876)	-
Closing balance as at 31 December	621,412	1,242,080	364,083	48,058	11,524	2,287,157
<b>Less: Accumulated depreciation</b>						
Opening balance as at 1 January	441,190	612,396	141,248	19,545	-	1,214,379
Charge for the year	64,121	130,310	36,833	5,393	-	236,657
Disposals	(26,553)	(8,055)	(14,851)	(2,779)	-	(52,238)
Closing balance as at 31 December	478,758	734,651	163,230	22,159	-	1,398,798
<b>Net book value as at 31 December</b>	<b>142,654</b>	<b>507,429</b>	<b>200,853</b>	<b>25,899</b>	<b>11,524</b>	<b>888,359</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 31. PROPERTY, PLANT AND EQUIPMENT (Contd.)

## BANK

	Leasehold Improvements Rs.'000	Computers & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicle Rs.'000	Work in Progress Rs.'000	Total Rs.'000
<b>2016</b>						
<b>Cost</b>						
Opening balance as at 1 January	569,825	1,001,639	269,653	52,673	26,712	1,920,502
Additions	32,889	87,237	42,352	-	85,339	247,817
Disposals	(17,562)	(32,782)	(6,225)	-	-	(56,569)
Transfers	-	36,468	285	-	(36,753)	-
Closing balance as at 31 December	585,152	1,092,562	306,065	52,673	75,298	2,111,750
<b>Less: Accumulated depreciation</b>						
Opening balance as at 1 January	353,429	524,257	114,949	14,053	-	1,006,688
Charge for the year	105,020	117,946	32,022	5,492	-	260,480
Disposals	(17,259)	(29,807)	(5,723)	-	-	(52,789)
Closing balance as at 31 December	441,190	612,396	141,248	19,545	-	1,214,379
<b>Net book value as at 31 December</b>	<b>143,962</b>	<b>480,166</b>	<b>164,817</b>	<b>33,128</b>	<b>75,298</b>	<b>897,371</b>

## GROUP

	Land and Buildings Rs.'000	Leasehold Properties Rs.'000	Computers & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicle Rs.'000	Work in Progress Rs.'000	Total Rs.'000
<b>2017</b>							
<b>Cost</b>							
Opening balance as at 1 January	56,096	637,098	1,126,812	405,158	102,439	75,300	2,402,903
Additions	-	24,638	120,719	76,962	7,751	41,975	272,045
Disposals	(4,173)	(25,381)	(9,412)	(39,114)	(15,610)	(1,874)	(95,564)
Transfers	-	38,218	48,792	16,866	-	(103,876)	-
Closing balance as at 31 December	51,923	674,573	1,286,911	459,872	94,580	11,522	2,579,384
<b>Less: Accumulated depreciation</b>							
Opening balance as at 1 January	7,156	454,389	636,533	189,101	41,904	-	1,329,083
Charge for the year	105	70,063	137,589	45,699	10,674	-	264,130
Disposals	-	(26,551)	(8,710)	(27,326)	(9,310)	-	(71,896)
Transfers	-	-	-	-	-	-	-
Closing balance as at 31 December	7,261	497,901	765,412	207,474	43,268	-	1,521,317
<b>Net book value as at 31 December</b>	<b>44,662</b>	<b>176,673</b>	<b>521,499</b>	<b>252,398</b>	<b>51,312</b>	<b>11,522</b>	<b>1,058,067</b>

## 2016

## Cost

Opening balance as at 1 January	36,756	612,015	1,028,775	360,374	89,700	26,715	2,154,335
Additions	19,340	42,645	94,351	50,723	19,670	85,339	312,068
Disposals	-	(17,562)	(32,782)	(6,225)	(6,931)	-	(63,500)
Transfers	-	-	36,468	286	-	(36,754)	-
Closing balance as at 31 December	56,096	637,098	1,126,812	405,158	102,439	75,300	2,402,903

## Less: Accumulated depreciation

Opening balance as at 1 January	5,788	361,187	539,751	154,085	34,495	-	1,095,306
Charge for the year	1,368	110,461	126,590	40,739	10,448	-	289,606
Disposals	-	(17,259)	(29,807)	(5,723)	(3,038)	-	(55,827)
Closing balance as at 31 December	7,156	454,389	636,534	189,101	41,905	-	1,329,085
<b>Net book value as at 31 December</b>	<b>48,940</b>	<b>182,709</b>	<b>490,278</b>	<b>216,057</b>	<b>60,534</b>	<b>75,300</b>	<b>1,073,818</b>



## NOTES TO THE FINANCIAL STATEMENTS

**31. PROPERTY, PLANT AND EQUIPMENT (Contd.)****31.1 Cost of fully depreciated property, plant, equipment and intangible assets**

The initial cost of fully depreciated property, plant and equipment as at 31 December 2017, which are as follows:

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Leasehold improvements	321,494	222,347	321,494	222,347
Computers and equipment	331,960	282,569	338,697	297,394
Furniture and fittings	46,854	42,498	51,503	44,899
Motor vehicle	448	368	6,982	11,544
Intangible assets	-	-	9,249	5,524
<b>Total</b>	<b>700,756</b>	<b>547,782</b>	<b>727,925</b>	<b>581,708</b>

**32. DEFERRED TAXATION****ACCOUNTING POLICY**

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. The rates applicable as at reporting date are given in Note 15 to the financial statements.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss. 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.

**32. DEFERRED TAXATION (Contd.)**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Deferred tax assets	-	82,534	433,728	541,807
Deferred tax liabilities	144,922	-	145,278	289
<b>Deferred tax assets/ (liabilities) movement</b>				
Balance as at beginning of the year	82,534	(30,089)	541,518	454,549
Deferred tax (charged)/reversed to the Statement of Profit or Loss	(69,131)	15,244	(94,471)	(10,391)
Deferred tax (charged)/reversed to the Statement of Other Comprehensive Income	(158,325)	97,379	(158,596)	97,360
<b>Balance as at the year end</b>	<b>(144,922)</b>	<b>82,534</b>	<b>288,450</b>	<b>541,518</b>

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000

**32.1 Statement of Profit or Loss****Deferred tax assets**

Carry forward losses	190,288	194,513	617,262	653,786
Retirement benefit obligation	27,282	21,163	34,128	21,588
Collective impairment	111,976	102,966	114,230	102,966
Share based payments	19,084	11,010	19,084	11,010
	<b>348,630</b>	<b>329,652</b>	<b>784,704</b>	<b>789,350</b>

**Deferred tax liability**

Accelerated depreciation allowance for tax purposes (Property, plant and equipment)	(358,812)	(286,059)	(376,403)	(286,798)
Accelerated depreciation allowance for tax purposes (Lease rental receivable)	(84,404)	(69,046)	(69,266)	(69,046)
	<b>(443,216)</b>	<b>(355,105)</b>	<b>(445,669)</b>	<b>(355,844)</b>

**32.2 Other Comprehensive Income****Deferred tax assets/ (liabilities)**

Actuarial gains/ (losses) on defined benefit plan liability	4,991	7,011	4,744	7,036
Gains / (losses) on re-measuring available for sale financial assets	(55,329)	100,976	(55,329)	100,976
	<b>(50,338)</b>	<b>107,987</b>	<b>(50,585)</b>	<b>108,012</b>
<b>Total</b>	<b>(144,922)</b>	<b>82,534</b>	<b>288,450</b>	<b>541,518</b>

32.3 The recoverability of the carried forward tax losses have been assessed based on the future projections and the deferred tax assets have been recorded to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS

**33. OTHER ASSETS****ACCOUNTING POLICY**

The Bank and the Group classify all their other assets as 'Other financial assets' and 'Other non financial assets'.

Refundable deposits are carried at the fair value. Advances and pre-payments are amortised during the period in which they are utilised and are carried at cost less provision for impairment.

Staff loans are granted below market interest rates. When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank and the Group recognise the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Statement of Profit or Loss over the tenor of the financial instrument using the EIR method.

The Day 1 difference is classified as 'Pre-paid staff cost' and is amortised over the loan period by using the EIR. The staff loans are subsequently measured at amortised costs.

Other financial assets and other non financial assets included under other assets are summarised below:

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Other financial assets</b>				
Refundable deposits	23,037	30,385	57,836	30,610
Other debtors	110,271	75,282	142,089	92,739
<b>Total other financial assets</b>	<b>133,308</b>	<b>105,667</b>	<b>199,925</b>	<b>123,349</b>
<b>Other non financial assets</b>				
Advances	166,531	48,846	166,532	64,754
Pre-paid expenses	225,109	215,594	225,109	266,276
Pre-paid staff cost (refer Note 33.1)	275,024	205,957	277,948	206,112
Pre-paid lease rental	11	1,313	11	1,313
Others*	64,893	80,496	78,854	133,051
<b>Total other non financial assets</b>	<b>731,568</b>	<b>552,206</b>	<b>748,454</b>	<b>671,506</b>
Less : Provision for other assets	(6,181)	(13,626)	(6,181)	(13,626)
<b>Total</b>	<b>858,695</b>	<b>644,247</b>	<b>942,198</b>	<b>781,229</b>

\*Others consist of stocks such as debit card, stationeries, three wheelers and gift stocks and other sundry receivables.

**33.1 Pre-paid staff cost**

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Balance as at 1st January	205,957	139,416	205,957	139,416
Add : Adjustments for new grants and settlements	97,472	98,131	103,320	98,286
Less : Charge to personnel expenses	(28,405)	(31,590)	(31,329)	(31,590)
<b>Balance as at 31 December</b>	<b>275,024</b>	<b>205,957</b>	<b>277,948</b>	<b>206,112</b>

## NOTES TO THE FINANCIAL STATEMENTS

**34. DUE TO BANKS**

## ACCOUNTING POLICY

Bank borrowings include refinance borrowings, call money and term borrowings. Subsequent to initial recognition, these are measured at their amortised cost using the effective interest rate method. Amortised cost is calculated by taking in to account any discount or premium on the issue and cost that are an integral part of the EIR. The EIR amortisation is included in 'Interest expenses' in the Statement of Profit or Loss.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Local bank borrowings	13,829,476	9,469,772	13,923,701	9,469,772
Foreign bank borrowings	2,520,092	1,969,849	2,520,092	1,969,849
Refinance borrowings	135,200	38,693	135,200	38,693
Unfavourable balances with banks	190,207	135,413	186,068	745,366
Deposits	533,666	546,517	533,666	546,517
<b>Total</b>	<b>17,208,641</b>	<b>12,160,244</b>	<b>17,298,727</b>	<b>12,770,197</b>

**35. REPURCHASED AGREEMENTS**

## ACCOUNTING POLICY

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank and the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset and a corresponding obligation to return it with accrued interest, as 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank and the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Due to banks</b>				
Treasury products	6,257,543	3,806,456	6,257,543	3,806,456
<b>Due to other customers</b>				
Treasury products	3,715,047	6,450,214	3,551,909	6,307,114
Debentures	408,603	-	408,603	-
<b>Total</b>	<b>10,381,193</b>	<b>10,256,670</b>	<b>10,218,055</b>	<b>10,113,570</b>

## NOTES TO THE FINANCIAL STATEMENTS

**36. DUE TO OTHER CUSTOMERS****ACCOUNTING POLICY**

Due to other customers include non-interest bearing deposits, savings deposits, fixed deposits, certificate of deposits and margin deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the effective interest rate method, which are recognised in the Statement of Profit or Loss under 'Interest expenses'.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At amortised cost (refer Note 36.1)	70,325,594	51,841,372	76,747,977	57,525,156

**36.1 Due to other customers - By product**

Demand deposits	3,258,456	3,545,187	3,258,286	3,543,266
Savings deposits	13,051,413	8,812,711	12,421,713	8,823,308
Fixed deposits	51,392,313	37,103,699	58,444,566	42,778,807
Other deposits	2,623,412	2,379,775	2,623,412	2,379,775
<b>Total</b>	<b>70,325,594</b>	<b>51,841,372</b>	<b>76,747,977</b>	<b>57,525,156</b>

**36.1.1 Due to other customers - Local currency deposits**

Demand deposits	3,080,341	3,294,303	3,080,171	3,292,382
Savings deposits	11,495,645	7,282,591	10,865,945	7,293,188
Fixed deposits	43,806,062	33,197,398	50,858,315	38,872,506
Other deposits	2,623,412	2,379,775	2,623,412	2,379,775
<b>Total local currency deposits</b>	<b>61,005,460</b>	<b>46,154,067</b>	<b>67,427,843</b>	<b>51,837,851</b>

**36.1.2 Due to other customers - Foreign currency deposits**

Demand deposits	178,115	250,884	178,115	250,884
Savings deposits	1,555,768	1,530,120	1,555,768	1,530,120
Fixed deposits	7,586,251	3,906,301	7,586,251	3,906,301
<b>Total foreign currency deposits</b>	<b>9,320,134</b>	<b>5,687,305</b>	<b>9,320,134</b>	<b>5,687,305</b>
<b>Total</b>	<b>70,325,594</b>	<b>51,841,372</b>	<b>76,747,977</b>	<b>57,525,156</b>

**36.1.2.1 Foreign currency deposits - By currency**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
United States Dollar	8,519,819	5,191,119	8,519,819	5,191,119
Great Britain Pounds	450,304	196,043	450,304	196,043
Euro	182,142	154,265	182,142	154,265
Australian Dollar	166,376	133,923	166,376	133,923
Others	1,493	11,955	1,493	11,955
<b>Total</b>	<b>9,320,134</b>	<b>5,687,305</b>	<b>9,320,134</b>	<b>5,687,305</b>

**36.2 Due to other customers - By province**

Central	1,651,190	1,216,766	1,743,913	1,322,469
Eastern	415,379	277,477	417,908	289,336
North Central	802,724	850,380	811,218	880,302
North Western	2,971,659	2,373,859	3,046,135	2,426,395
Northern	1,454,763	879,313	1,454,763	879,313
Sabaragamuwa	1,342,213	1,054,337	1,369,731	1,061,177
Southern	2,965,592	2,300,324	3,121,549	2,457,836
Uva	345,066	252,246	345,067	252,246
Western	58,377,008	42,636,670	64,437,693	47,956,082
<b>Total</b>	<b>70,325,594</b>	<b>51,841,372</b>	<b>76,747,977</b>	<b>57,525,156</b>

**37. OTHER BORROWED FUNDS****ACCOUNTING POLICY**

Other borrowed funds include borrowings from non banking institutions. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method, which are recognised in the Statement of Profit or Loss under 'Interest expenses'.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Borrowings from non banking institutions	1,224,812	-	2,968,233	833,095

**38. OTHER LIABILITIES****ACCOUNTING POLICY**

Other liabilities include other financial liabilities and other non financial liabilities. These liabilities are recorded at amounts expected to be payable at the reporting date.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Other financial liabilities</b>				
Payable on usance bills	1,163,689	908,451	1,163,689	908,451
Other creditors	239,279	370,568	398,838	735,476
<b>Total other financial liabilities</b>	<b>1,402,968</b>	<b>1,279,019</b>	<b>1,562,527</b>	<b>1,643,927</b>
<b>Other non-financial liabilities</b>				
Accrued expenses	54,366	44,539	84,143	69,398
Retirement benefit obligation (refer Note 38.1)	115,264	100,623	138,176	119,982
Other payables	287,084	238,852	417,926	325,283
<b>Total other non financial liabilities</b>	<b>456,714</b>	<b>384,014</b>	<b>640,245</b>	<b>514,663</b>
<b>Total</b>	<b>1,859,682</b>	<b>1,663,033</b>	<b>2,202,772</b>	<b>2,158,590</b>

**38.1 Retirement benefit obligation (GRI 201-3)****ACCOUNTING POLICY**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in LKAS 19 (Employee Benefit).

In compliance with the Gratuity Act No. 12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees who joined to the Bank and the Group.

An actuarial valuation is carried out every year end to ascertain the full liability under the fund. The valuation was carried out as at 31 December 2017 by Messrs. Piyal S. Goonethileke and Associates, a qualified actuary using the Project Unit Credit Method. This item is stated under 'Other liabilities' in the Statement of Financial Position.

The Bank determines the interest expense on the defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the defined benefit liability at the end of the annual period.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's and the Group's obligations.

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

## NOTES TO THE FINANCIAL STATEMENTS

**38. OTHER LIABILITIES (Contd.)****Recognition of actuarial gains and losses**

The Bank recognises the total actuarial gains and losses that arise 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.

*38.1.1 The movement of the retirement benefit obligation*

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Defined benefit obligation as at 1 January	100,622	71,626	119,983	88,369
Profit or Loss (refer Note 38.1.2)	33,908	24,990	39,065	29,795
Other Comprehensive Income (refer Note 38.1.3)	(7,214)	12,360	(8,184)	10,503
Contribution made for retirement benefit obligation	127,316	108,976	150,864	128,667
Payments made during the year	(12,052)	(8,353)	(12,688)	(8,685)
<b>Defined benefit obligation as at 31 December</b>	<b>115,264</b>	<b>100,623</b>	<b>138,176</b>	<b>119,982</b>

*38.1.2 Net benefit expense (recognised in profit or loss)*

Current service cost	20,968	17,470	25,109	21,201
Interest cost on benefit obligation	12,940	7,521	13,956	8,593
<b>Total amount recognised for the year</b>	<b>33,908</b>	<b>24,991</b>	<b>39,065</b>	<b>29,794</b>

*38.1.3 Due to assumption change (recognised in OCI profit or loss)***(Gains)/losses due to assumption change**

- Financial assumptions	(202)	(4,054)	(22)	(4,910)
- Demographic assumptions	-	-	-	-
Experience loss/(gain) arising during the year	(7,012)	16,414	(8,162)	15,413
<b>Total amount recognised for the year</b>	<b>(7,214)</b>	<b>12,360</b>	<b>(8,184)</b>	<b>10,503</b>

*38.1.4 The principal assumptions used in determining defined benefit obligation*

	2017	2016
<b>Financial assumptions</b>		
Discount rate	10.60%	12.86%
Future salary increment rate	8.70%	11.00%
<b>Demographic assumptions</b>		
Retirement age	55 Years	55 Years
Maturity profile	12.6 Years	12.6 Years
Mortality table	GA 1983	GA 1983

## NOTES TO THE FINANCIAL STATEMENTS

**38. OTHER LIABILITIES (Contd.)**

38.1.5 Messers Piyal S. Goonathilleke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the defined benefit plan and accordingly compatible assumptions have been used in determining the cost of defined benefits.

38.1.6 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 employment benefit obligation increase/(decrease) in the liability			
		BANK		GROUP	
%	%	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
1%		(11,391)	(9,394)	(13,099)	(10,181)
(-1%)		13,294	10,954	13,876	11,875
	1%	13,035	10,729	13,598	9,822
	(-1%)	(11,370)	(9,364)	(13,081)	(10,153)

38.1.7 The expected benefit payout in the future years for retirement benefit obligation

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Within 12 months	5,821	6,422	7,283	6,566
Between 2 and 5 years	76,221	56,026	81,356	61,635
More than 5 years	238,274	222,782	254,671	240,322

**39. STATED CAPITAL**

In accordance with section 58 of Companies Act No 7 of 2007, which became effective from 3 May 2007, share capital and share premium have been classified as stated capital.

As at 31 December	BANK		GROUP	
	2017	2016	2017	2016
Ordinary shares				
Value (Rs.'000)	16,334,782	16,334,782	16,334,782	16,334,782
Number of shares - '000	1,091,406	1,091,406	1,091,406	1,091,406
39.1 Share warrants				
Share warrants (Rs.'000)	65,484	65,484	65,484	65,484

During the financial year ended 31 December 2014, the Bank had issued 218,281,250 warrants to be exercised within a period of 6 years at a price of Rs.16 per warrant.



## NOTES TO THE FINANCIAL STATEMENTS

**40. STATUTORY RESERVE FUND****Bank**

The statutory reserve fund is maintained as per the requirements under section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the section 20 (2) of the Banking Act No. 30 of 1988.

**UB Finance Company Ltd.**

5% of the profits after tax is transferred to the reserve fund as required by the section 3b (i) of the Central Bank Direction No. 01 of 2003.

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
As at 1 January	95,439	72,880	107,602	80,624
Transferred from retained earnings	20,817	22,559	23,917	26,978
<b>As at 31 December</b>	<b>116,256</b>	<b>95,439</b>	<b>131,519</b>	<b>107,602</b>

**41. SHARE BASED PAYMENT TRANSACTIONS - EMPLOYEE SHARE OPTION PLAN (ESOP)**

On 1 December 2015 the Bank established three share option plans that entitles employees to purchase shares of the Bank. The first tranche of employee share grants were issued to employees at the grade of Vice President and above. The ESOP provides employees an option to purchase shares of the Bank at the given exercise price once these vest as per the rules of the plan. Share options vest in two ways. 50% of the share options vest based on time ratably over a 5 year period. The balance 50% of options vest annually over a 5 year period provided that the Bank achieves the pre-set performance targets. Thereby ensuring that these long term incentives are linked to the Bank's performance. If an employee leaves the Bank, before the service criteria is met they are not entitled to any of share based payments.

**Equity settled transactions**

The fair value of equity settled share based payment awards granted to employees from the grant date is recognised as an expense under personnel expenses, with a corresponding increase in equity, over the period in which the service and performance conditions are fulfilled.

The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the Statement of Profit or Loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non market performance conditions are taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Bank's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non vesting conditions.

No expense is recognised for awards that do not ultimately vest because non market performance and/or service conditions have not been met. Where awards includes a market or non vesting conditions, the transactions are treated as vested irrespective of whether the market or non vesting conditions are satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense measured as at the date of modification is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Bank, any remaining element of the fair value of the award is expensed immediately through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

**41. SHARE BASED PAYMENT TRANSACTIONS (Contd.)****Cash-settled transactions**

A liability is recognised for the fair value of cash settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value of the liability is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model.

The recognition and measurement of the ESOP are in accordance with the SLFRS 2 (Share-based Payment).

The dilutive effect of outstanding options are reflected as additional share dilution in the computation of diluted earnings per share are given in Note 16.2 to the Financial Statements.

**41.1 Inputs and assumptions used for the three option plans for the year ended 31 December 2017 in determining fair value of share option:**

Fair value at measurement date	138,770
Share price	13.2
Exercise price	21.95
Expected volatility	21.97%
Option life (expected weighted average life)	5 Years
Risk free interest rate (based on government bonds)	8.90%

Total expense arising from share-based payment transactions are recorded in note 11 to the financial statements.

**41.2 Weighted average exercise prices of, and movements in, share options during the year.**

	Number of options	Weighted Average Exercise Price
Outstanding as at 1 January 2017	12,124	21.6
Granted during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
<b>Outstanding as at 31 December 2017</b>	<b>12,124</b>	<b>21.6</b>

**41.3 Movement during the year**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Balance as at 1 January	17,836	1,030	17,836	1,030
Transfer to stated capital	-	-	-	-
Charge for the year	18,012	16,806	18,012	16,806
<b>Balance as at 31 December</b>	<b>35,848</b>	<b>17,836</b>	<b>35,848</b>	<b>17,836</b>

## NOTES TO THE FINANCIAL STATEMENTS

**42 NON CONTROLLING INTERESTS (NCI)****ACCOUNTING POLICY**

Non-controlling interests represent the portion of profit and loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this resulting in a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognised as equity. Therefore no goodwill is recognised as a result of such transactions.

	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	Total Rs.'000
<b>2017</b>			
% of Ownership interest held by NCI	26.69%	49.00%	
<b>Balance as at 1 January</b>	250,646	105,933	356,579
Profit for the year	20,977	15,376	36,353
Other comprehensive income, net of tax	78	782	860
Subscribed to share right issued	19,627	-	19,627
Change in control	3,093	-	3,093
Dividends to equity holders	-	(12,250)	(12,250)
<b>Balance as at 31 December</b>	294,421	109,841	404,262
<b>2016</b>			
% of Ownership interest held by NCI	33.83%	49.00%	
<b>Balance as at 1 January</b>	219,852	109,375	329,227
Profit for the year	29,898	19,195	49,093
Other comprehensive income, net of tax	896	(5,487)	(4,591)
Dividends to equity holders	-	(17,150)	(17,150)
<b>Balance as at 31 December</b>	250,646	105,933	356,579

**43. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS****ACCOUNTING POLICY**

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 in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and acceptances 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. They carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Bank and the Group.

## NOTES TO THE FINANCIAL STATEMENTS

**43. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)**

In the normal course of business, the Bank entered in to various irrevocable commitments and incurred 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**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Commitments</b>				
Undrawn loan commitments	25,614,515	26,019,131	25,614,515	26,019,131
<b>Contingencies</b>				
Guarantees	5,983,556	3,929,130	5,983,556	3,929,130
Letters of credit	2,991,693	3,161,387	2,991,693	3,161,387
Forward contracts	790,496	7,751,728	790,496	7,751,728
Cheque pending for realisation	788,861	1,053,089	788,861	1,053,089
Spot contracts	567,036	799,505	567,036	799,505
Acceptances	784,138	598,330	784,138	598,330
Forward Bonds	108,368	49,730	108,368	49,730
Other contingent items	1,657,888	1,042,385	1,657,888	1,042,385
<b>Total contingencies</b>	<b>13,672,036</b>	<b>18,385,284</b>	<b>13,672,036</b>	<b>18,385,284</b>
<b>Total</b>	<b>39,286,551</b>	<b>44,404,415</b>	<b>39,286,551</b>	<b>44,404,415</b>

**43.2 Capital commitments**

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Approved and contracted for</b>				
New branches/ relocations and refurbishments of branches	23,880	17,873	23,880	17,873
Capital commitments for new system implementation and others	40,473	115	40,473	115
<b>Total</b>	<b>64,353</b>	<b>17,988</b>	<b>64,353</b>	<b>17,988</b>
<b>Approved but not contracted for</b>				
New branches/ relocations and refurbishments of branches	143,340	100,647	143,340	100,647
Capital commitments for new system implementation and others	51,525	137,705	51,525	137,705
<b>Total</b>	<b>194,865</b>	<b>238,352</b>	<b>194,865</b>	<b>238,352</b>
<b>Total capital commitments</b>	<b>259,218</b>	<b>256,340</b>	<b>259,218</b>	<b>256,340</b>

## NOTES TO THE FINANCIAL STATEMENTS

**43. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)****43.3 Lease arrangements****Operating lease commitments - Bank as lessee**

The Bank & Group have entered into operating leases for premises. These leases generally have a fixed term 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;

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Within one year	195,023	157,846	229,792	187,710
After one year to five years	544,224	427,707	701,495	553,024
More than five years	114,167	22,598	135,536	92,039
<b>Total</b>	<b>853,414</b>	<b>608,151</b>	<b>1,066,823</b>	<b>832,773</b>

**43.4 Litigations against the Bank and the Group****43.4.1 Bank**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has established 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.

Court actions have been initiated by third parties in District court, to claim the title of the property which has been mortgaged to the Bank by the present owners who are our customers for several facilities granted. The status of the legal cases are summarised below.

Legal status	Case No.
Trial	11745/L, 2053/L, 223/13 M (Civil), 2321/L, 23847/P, 518/2014 MR CHC, 506/2014 MR CHC, 2346/L, 2632/15 SPL, 1992/L, 30656/M, 0405/P, 0138/L, 0200/2016 MR, 0007/2016 Claim, 481/2016 MR, 389/16 Sc(HC)CALA, 2054/L, 473/P, 0496/2016 MR, 34/2017 DLM, 0055/2017 DSP, 0073/2016 MR, 0023/2017/CO, SC/HCLA 70/2017, 0025/2017 RA, 28736/L, 51/2017 CO
Appeals filed by customers to obtain enjoining orders to stay the auction of property mortgaged.	0506/2017 MR, 0628/2017 MR
Cases filed against the Bank by the employees	
Labour tribunal	23/Ku/9983/2012

## NOTES TO THE FINANCIAL STATEMENTS

**43. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)***43.4.2 UB Finance Company Limited*

a. Cases filed against the Company over the repossession of vehicles and loan facilities in District court colombo

Legal status	Case No
Trial	DSP/222/10, DMR/835/16, DMR/836/16, DMR/925/14

b. Actions filed against the Company regarding Joint Venture Projects over the construction matters, advance payments, possession of project properties and unpaid bills.

Court	Case No
Commercial HC - Colombo	HC/Civil/177/10
DC - Colombo	DLM/213/14, DMR/1608/14, DMR/1609/14, DMR/1610/14, DMR/3020/15
DC - Gampaha	4107/11/M

c. Cases filed against the Company over the Fixed Deposit matters and Unpaid Deposits.

Court	Case No
MC - Colombo	B/4004/14, B/4005/14
DC - Colombo	DTS/279/08
Commercial HC - Colombo	HC/503/15, CHC/533/15, CHC/535/15, CHC/534/15, CHC/536/15
Supreme Court	SC/FR/317/09, SC/FR/207/17

d. Actions filed against the Company with respect to mortgaged property, court orders, title of property.

Court	Case No
Status	Case No
District Courts	DSP/0266/12, DMR/3020/15, DLM/213/14, DLM/148/17, DLM/164/16, DLM/85/16, DLM/86/16, 2121/P

e. Cases filed against the Company by the employees

Court	Case No
MC - Fort	76305, 76306, 76308
LT - Case	AS/CO/E/7/280/10, 2/512/2015, 8/641/12
HC	CA(Writ)/377/13 (Appeal Case), CA(Writ)/413/13
Labour Arbitration	3540A
Supreme Court	SC/SPL/LA/26/2014

**44. ASSETS PLEDGE**

As at 31 December		2017	2016
Asset	Nature of Liability	Rs.'000	Rs.'000
<b>BANK</b>			
Treasury bills and bonds	Repurchased agreements	11,101,432	12,397,947
Debentures	Repurchased agreements	463,500	-
<b>GROUP</b>			
Treasury bills and bonds	Repurchased agreements	10,921,929	11,528,947
Debentures	Repurchased agreements	463,500	-
Lease receivables	Other borrowed funds	2,278,690	1,720,585
Factoring receivables	Overdraft	750,000	-

## NOTES TO THE FINANCIAL STATEMENTS

**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".

The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

**45.1 Parent and Ultimate controlling party**

The Bank's immediate parent is Culture Financial Holding Limited and the ultimate holding company during the financial year is TPG Asia GenPar VI, L.P. Both companies are registered in the Cayman Islands.

**45.2 Transactions with Key Management Personnel (KMPs)**

KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly, the Bank's KMP include the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary companies of the Bank.

*45.2.1 Compensation of Key Management Personnel*

	2017 Rs.'000	2016 Rs.'000
Short term employee benefits	60,810	59,871
Post employment benefits	5,555	4,976
Other long term benefits	5,343	3,449
Directors' fees and expenses	7,381	6,938
<b>Total</b>	<b>79,089</b>	<b>75,234</b>

*45.2.2 ESOP granted to KMPs*

	2017 000	2016 000
Number of options exercised during the year	-	-
Number of options remaining as at 31 December	7,644	7,644

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.

**45.3 Transactions, arrangements and agreements involving KMPs and 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 aggregate amount of transactions, which have been executed with key management personnel for the financial year.

Items in the Statement of Financial Position	2017		2016	
	Closing Balance	Maximum Balance	Closing Balance	Maximum Balance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>				
Loans and receivables to other customers	14,579	15,913	14,087	14,297
<b>Liabilities</b>				
Due to other customers	13,363	13,406	13,186	18,198

**45. RELATED PARTY DISCLOSURES (Contd.)**

Items in the Statement of Profit or Loss	2017 Rs.'000	2016 Rs.'000
Interest income	657	1,568
Interest expense	365	2,692

**45.4 Transactions with other related parties**

The following table shows the outstanding balance and the corresponding interest during the year.

**Transactions with subsidiaries**

Items in the Statement of Financial Position	2017		2016	
	Closing Balance	Maximum Balance	Closing Balance	Maximum Balance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>				
Loans and receivables to other customers	621,562	890,457	503,734	602,827
Other loans and receivables	312,253	360,343	312,253	312,253
Investments in subsidiaries	280,432	280,432	-	-
Property, plant and equipment	5,111	5,111	-	-
Other assets	121	121	2,835	2,835
<b>Liabilities</b>				
Due to other customers	538,608	550,276	3,374	308,926
Repurchased agreements	163,138	163,138	143,100	143,100

Items in the Statement of Profit or Loss	2017 Rs.'000	2016 Rs.'000
Interest income	145,859	65,015
Interest expense	22,632	21,495
Rent income	4,872	5,847
Dividend received	11,521	16,088

**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.

**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 has contributed a sum of Rs. 114.2 Mn to the Fund for the year ended 31 December 2017 (2016 - Rs.96.5Mn). Fund has invested a sum of Rs 405 Mn with the Bank as at 31 December 2017 (2016 : 286 Mn).

During the year, Bank has incurred sum of Rs 25.9 Mn ( 2016 : 12.3 Mn) as interest expense on the investment made by fund.

**Transactions with the Serandib Capital Limited (Special purpose entity)**

Bank has invested Rs.1,578Mn in a 20 year deep discount bond maturing in 2023 issued by Serandib Capital Limited, a special purpose vehicle in 2003.

	Balance as at 31 Dec 2017 Rs.'000	Income/ Expense during 2017 Rs.'000	Balance as at 31 Dec 2016 Rs.'000	Income/ Expense during 2016 Rs.'000
Serandib bond	2,778,818	177,894	2,671,941	109,806
Deposits	105,485	16,057	151,814	13,290
Agency fee	-	639	-	401



## NOTES TO THE FINANCIAL STATEMENTS

**46. SEGMENT INFORMATION**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Bank's activities have been segregated in to four different segments (Corporate, SME, Retail and treasury) based on the business activities that each unit is engaged for the purpose of reviewing the operating results of the Group as well as to make decisions about resource allocation.

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Inter segment transactions are accounted for at fair market prices.

Income taxes are not allocated to operating segments. Other expenses which cannot be directly identified have been apportioned using a reasonable basis among the segments.

	Corporate		Treasury		SME		Retail		Other Group Companies		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest income	3,373,374	2,161,126	2,373,679	1,891,082	2,945,176	2,473,046	1,605,180	540,955	1,896,601	1,399,676	12,194,010	8,465,885
Inter-segment												
interest income	-	-	-	-	-	-	4,182,709	3,098,785	-	-	4,182,709	3,098,785
Total interest income	3,373,374	2,161,126	2,373,679	1,891,082	2,945,176	2,473,046	5,787,889	3,639,740	1,896,601	1,399,676	16,376,719	11,564,670
Total interest expense	936,322	470,532	1,175,011	1,411,026	948,922	2,348	4,368,222	2,818,890	1,063,965	742,637	8,492,442	5,445,433
Inter-segment												
interest expense	1,917,213	1,143,126	919,198	53,237	1,346,298	1,902,422	-	-	-	-	4,182,709	3,098,785
Total interest expense	2,853,535	1,613,658	2,094,209	1,464,263	2,295,220	1,904,770	4,368,222	2,818,890	1,063,965	742,637	12,675,151	8,544,218
Net interest income	519,839	547,473	279,470	426,819	649,957	568,271	1,419,667	820,850	832,635	657,039	3,701,568	3,020,452
Total other income	164,068	138,436	605,791	571,625	363,969	328,050	190,393	155,865	235,491	364,030	1,559,712	1,558,006
Total net income	683,907	685,909	885,261	998,444	1,013,925	896,321	1,610,060	976,715	1,068,127	1,021,071	5,261,280	4,578,460
Less :												
Impairment	12,008	71,237	-	-	221,227	63,651	15,693	17,426	128,580	99,959	377,508	252,273
Depreciation & amortisation	63,836	70,573	64,236	71,351	135,736	127,340	135,736	127,340	29,266	31,311	428,810	427,915
Other expenses	422,838	568,418	388,581	543,014	948,097	737,958	1,187,039	766,067	482,871	444,002	3,429,426	3,059,459
Segmental results	185,225	(24,320)	432,443	384,078	(291,135)	(32,627)	271,591	65,883	427,412	445,799	1,025,536	838,813
Less: VAT and												
NBT on financial services											348,202	252,170
Less: taxation											126,205	33,424
Profit after taxation											551,129	553,219
Other information												
Segment assets	32,628,443	26,760,098	28,872,071	31,784,676	27,824,893	22,285,058	18,547,363	9,680,285	15,289,387	5,855,553	123,162,157	96,365,670
Unallocated assets											4,438,675	4,166,991
Consolidated											127,600,832	100,532,661
total assets											127,600,832	100,532,661
Segment liabilities	14,254,252	8,929,785	27,492,849	22,361,431	9,321,555	-	44,770,964	42,186,498	11,398,239	7,768,279	107,237,859	81,245,993
Unallocated liabilities											2,521,257	2,321,276
Consolidated											109,759,116	83,567,269
total liabilities											109,759,116	83,567,269
Cash flow from												
operating activities	461,019	92,765	596,751	135,034	683,483	121,222	1,085,336	132,095	(743,984)	(40,595)	2,082,606	440,522
Cash flow from												
investing activities	(120,662)	(88,459)	(8,242,680)	(3,267,805)	(178,888)	(115,595)	(284,064)	(125,963)	280,183	325,200	(8,546,111)	(3,272,622)
Cash flow from												
financing activities	-	-	6,034,643	5,063,461	-	-	-	-	997,389	(722,871)	7,032,032	4,340,590

**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, other than those disclosed below;

The Board of Directors of the Bank has recommended and approved a dividend of Rs. 0.10 per share for the financial year ended 31 December 2017 at the Board meeting held on 27 February 2018.

**48. FAIR VALUE OF ASSETS AND LIABILITIES****48.1 Assets and liabilities 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 or the Group's estimate of assumptions that a market participant would make when valuing the instruments.

**Derivative financial instruments**

Derivative products are forward foreign exchange contracts which are valued using a valuation technique with market-observable inputs. The most frequently applied valuation techniques include forward pricing models. The model incorporates various inputs including foreign exchange spot and forward premiums.

**Financial investments - Held for trading**

Financial investments held for trading, which primarily consist of Government debt securities, quoted equities and investments in units are measured at fair value.

Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka. For quoted equities and investments in units are valued using market price in active markets as at the reporting date.

**Financial investments – Available for Sale**

Financial investments - available for sale, which primarily consist of quoted and unquoted equities, and investment in units and Government debt securities.

Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka. Investment in units and quoted equities are valued using market prices in the active markets at the reporting date.

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

**Fair values are determined according to the following hierarchy:**

Level 1 – quoted market price (unadjusted) financial instruments with quoted prices in active markets.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

**Assets and Liabilities measured at fair value - fair value hierarchy**

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial position in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

## 48. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

## BANK

	Quoted prices in active markets (Level 1) Rs.'000	Significant observable (Level 2) Rs.'000	Significant unobservable (Level 3) Rs.'000	Total Rs.'000
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As at 31 December 2017

## Financial assets measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	1,792	-	1,792
Currency SWAP	-	968	-	968

## Financial investments - held for trading

Sri Lankan Government securities	1,696,945	-	-	1,696,945
Investment in units	4,252,078	-	-	4,252,078

## Financial investments - available for sale

Sri Lankan Government securities	16,451,677	-	-	16,451,677
Equity Securities - unquoted	-	-	1,530	1,530
<b>Total financial assets measured at fair value</b>	<b>22,400,699</b>	<b>2,760</b>	<b>1,530</b>	<b>22,404,989</b>

## Financial liabilities measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	1,453	-	1,453
Currency SWAP	-	3,414	-	3,414

<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,867</b>	<b>-</b>	<b>4,867</b>
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	Quoted prices in active markets (Level 1) Rs.'000	Significant observable (Level 2) Rs.'000	Significant unobservable (Level 3) Rs.'000	Total Rs.'000
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As at 31 December 2016

## Financial assets measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	16	-	16
Currency SWAPS	-	15,396	-	15,396

## Financial investments - held for trading

Sri Lankan Government securities	-	-	-	-
Investment in units	1,346,932	-	-	1,346,932

## Financial investments - available for sale

Sri Lankan Government securities	16,518,835	-	-	16,518,835
Equity Securities - unquoted	-	-	1,530	1,530
<b>Total financial assets measured at fair value</b>	<b>17,865,767</b>	<b>15,412</b>	<b>1,530</b>	<b>17,882,709</b>

## Financial liabilities measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	3,405	-	3,405
Currency SWAP	-	571	-	571

<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>3,976</b>	<b>-</b>	<b>3,976</b>
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## NOTES TO THE FINANCIAL STATEMENTS

## 48. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

## GROUP

	Quoted prices in active markets (Level 1) Rs.'000	Significant observable inputs (Level 2) Rs.'000	Significant unobservable inputs (Level 3) Rs.'000	Total Rs.'000
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As at 31 December 2017

## Financial assets measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	1,793	-	1,793
Currency SWAP	-	968	-	968

## Financial investments - held for trading

Sri Lanka Government securities	1,696,945	-	-	1,696,945
Investment in units	4,252,078	-	-	4,252,078

## Financial investments - available for sale

Sri Lanka Government securities	16,451,677	-	-	16,451,677
Equity securities - Quoted	40,959	-	-	40,959
Equity securities - Unquoted	-	-	17,625	17,625
Investment in units	94,500	-	-	94,500
<b>Total financial assets measured at fair value</b>	<b>22,536,158</b>	<b>2,760</b>	<b>17,625</b>	<b>22,556,544</b>

## Financial liabilities measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	1,453	-	1,453
Currency SWAP	-	3,414	-	3,414
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,867</b>	<b>-</b>	<b>4,867</b>

	Quoted prices in active markets (Level 1) Rs.'000	Significant observable inputs (Level 2) Rs.'000	Significant unobservable inputs (Level 3) Rs.'000	Total Rs.'000
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As at 31 December 2016

## Financial assets measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	16	-	16
Currency SWAP	-	15,396	-	15,396

## Financial investments - held for trading

Investment in units	1,346,932	-	-	1,346,932
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## Financial investments - available for sale

Sri Lanka Government securities	16,527,258	-	-	16,527,258
Equity securities - quoted	45,694	-	-	45,694
Equity securities - unquoted	-	-	17,625	17,625
Investment in units	103,893	-	-	103,893
<b>Total financial assets measured at fair value</b>	<b>18,023,777</b>	<b>15,412</b>	<b>17,625</b>	<b>18,056,814</b>

## Financial liabilities measured at fair value

## Derivative financial instruments

Forward foreign exchange contracts	-	-	-	-
Currency SWAP	-	3,976	-	3,976
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>3,976</b>	<b>-</b>	<b>3,976</b>

There were no transfers between Level 1 and Level 2 during the year.

## NOTES TO THE FINANCIAL STATEMENTS

**48. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)***48.1.1 Level 3 Fair value measurement***a. Reconciliation**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

**Financial Assets measured at Level 3**

	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Balance at 01 January	1,530	1,530	17,625	17,625
Gains/(losses) in Other Comprehensive Income	-	-	-	-
<b>Balance at 31 December</b>	<b>1,530</b>	<b>1,530</b>	<b>17,625</b>	<b>17,625</b>

**b. Unobservable inputs used in measuring fair value**

The table below sets out information about significant unobservable inputs used at 31 December 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy,

**Investment in unquoted equity shares****BANK**

	Fair value 2017 Rs.'000	Fair value 2016 Rs.'000	Valuation Technique
Credit Information Bureau	1,530	1,530	At Cost*

**GROUP**

	Fair value 2017 Rs.'000	Fair value 2016 Rs.'000	Valuation Technique	Significant Unobservable Inputs
DSI	15,894	15,894	Price to book value per share of similar quoted company and private company discount rate	Audited financial statements of the Company
Credit Information Bureau	1,530	1,530	At Cost*	
Finance House Consortium (Pvt) Ltd.	200	200	At Cost*	

\*Unquoted equity securities categorised under available for sale are recorded at cost since it is the most reasonable value available to represent the market value of these investments as at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

**48. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)****48.2 Fair value of financial assets and liabilities not carried at fair value**

Set out below is a comparison by class, of the carrying amounts and fair values of the financial instruments that are not carried at fair value in the financial statements. The fair values in the table below may be different from the actual amounts that will be received / paid on the settlement or maturity of the asset or liability. This table does not include the fair values of non financial assets and non financial liabilities.

**BANK**

As at 31 December 2017	Fair Value				Carrying Value Rs.'000
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Value Rs.'000	
<b>Financial assets</b>					
Cash and cash equivalents	-	4,967,738	-	4,967,738	4,697,738
Balances with Central Bank of Sri Lanka	-	3,785,679	-	3,785,679	3,785,679
Placements with banks	-	716,147	-	716,147	716,147
Reverse repurchased agreements	-	1,795	-	1,795	1,795
Loans and receivables to other customers	-	70,123,930	-	70,123,930	70,577,923
Other loans and receivables	-	9,609,639	-	9,609,639	9,609,639
Financial investments - held to maturity	2,465,373	67,691	-	2,533,064	2,546,553
Other financial assets	-	133,308	-	133,308	133,308
<b>Total</b>	<b>2,465,373</b>	<b>89,405,927</b>	<b>-</b>	<b>91,871,300</b>	<b>92,068,782</b>
<b>Financial liabilities</b>					
Due to banks	-	17,176,985	-	17,176,985	17,208,641
Repurchased agreements	-	10,381,193	-	10,381,193	10,381,193
Due to other customers	-	68,036,801	-	68,036,801	70,325,594
Other borrowed funds	-	1,224,812	-	1,224,812	1,224,812
Other financial liabilities	-	1,402,968	-	1,402,968	1,402,968
<b>Total</b>	<b>-</b>	<b>98,222,759</b>	<b>-</b>	<b>98,222,759</b>	<b>100,543,208</b>

**BANK**

As at 31 December 2016	Fair Value				Carrying Value Rs.'000
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Value Rs.'000	
<b>Financial assets</b>					
Cash and cash equivalents	-	2,506,685	-	2,506,685	2,506,685
Balances with Central Bank of Sri Lanka	-	2,487,805	-	2,487,805	2,487,805
Placements with banks	-	2,819,628	-	2,819,628	2,819,628
Reverse repurchased agreements	-	2,137	-	2,137	2,137
Loans and receivables to other customers	-	55,277,249	-	55,277,249	55,438,415
Other loans and receivables	-	7,747,231	-	7,747,231	7,747,231
Financial investments - held to maturity	28,074	110,084	-	138,158	140,231
Other financial assets	-	105,667	-	105,667	105,667
<b>Total</b>	<b>28,074</b>	<b>71,056,486</b>	<b>-</b>	<b>71,084,560</b>	<b>71,247,799</b>
<b>Financial liabilities</b>					
Due to banks	-	12,160,244	-	12,160,244	12,160,244
Repurchased agreements	-	10,256,670	-	10,256,670	10,256,670
Due to other customers	-	51,640,352	-	51,640,352	51,841,372
Other financial liabilities	-	1,279,019	-	1,279,019	1,279,019
<b>Total</b>	<b>-</b>	<b>75,336,285</b>	<b>-</b>	<b>75,336,285</b>	<b>75,537,305</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 48. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

## GROUP

As at 31 December 2017	Fair Value				Carrying Value Rs.'000
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Value Rs.'000	
<b>Financial assets</b>					
Cash and cash equivalents	-	5,057,422	-	5,057,422	5,057,422
Balances with Central Bank of Sri Lanka	-	3,785,679	-	3,785,679	3,785,679
Placements with banks	-	866,690	-	866,690	866,690
Reverse repurchased agreements	-	301,297	-	301,297	301,297
Loans and receivables to other customers	-	78,478,328	-	78,478,328	79,220,956
Other loans and receivables	-	8,674,102	-	8,674,102	8,674,102
Financial investments - held to maturity	2,465,373	67,691	-	2,533,064	2,546,553
Other financial assets	-	199,925	-	199,925	199,925
<b>Total</b>	<b>2,465,373</b>	<b>97,431,134</b>	<b>-</b>	<b>99,896,507</b>	<b>100,652,623</b>

## Financial liabilities

Due to banks	-	17,267,071	-	17,267,071	17,298,727
Repurchased agreements	-	10,218,055	-	10,218,055	10,218,055
Due to other customers	-	75,115,759	-	75,115,759	76,747,977
Other borrowed funds	-	2,968,233	-	2,968,233	2,968,233
Other financial liabilities	-	1,562,527	-	1,562,527	1,562,527
<b>Total</b>	<b>-</b>	<b>107,131,645</b>	<b>-</b>	<b>107,131,645</b>	<b>108,795,518</b>

## GROUP

As at 31 December 2016	Fair Value				Carrying Value Rs.'000
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Value Rs.'000	
<b>Financial assets</b>					
Cash and cash equivalents	-	2,717,650	-	2,717,650	2,717,650
Balances with Central Bank of Sri Lanka	-	2,487,805	-	2,487,805	2,487,805
Placements with banks	-	2,826,710	-	2,826,710	2,826,710
Reverse repurchased agreements	-	275,498	-	275,498	275,498
Loans and receivables to other customers	-	60,402,467	-	60,402,467	62,931,936
Other loans and receivables	-	6,739,578	-	6,739,578	6,739,578
Financial investments - held to maturity	28,074	110,084	-	138,158	140,231
Other financial assets	-	123,349	-	123,349	123,349
<b>Total</b>	<b>28,074</b>	<b>75,683,140</b>	<b>-</b>	<b>75,711,214</b>	<b>78,242,756</b>

## Financial liabilities

Due to banks	-	12,770,197	-	12,770,197	12,770,197
Repurchased agreements	-	10,113,570	-	10,113,570	10,113,570
Due to other customers	-	57,145,681	-	57,145,681	57,525,156
Other borrowed funds	-	833,095	-	833,095	833,095
Other financial liabilities	-	1,643,927	-	1,643,927	1,643,927
<b>Total</b>	<b>-</b>	<b>82,506,469</b>	<b>-</b>	<b>82,506,469</b>	<b>82,885,944</b>

## NOTES TO THE FINANCIAL STATEMENTS

**48. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)**

48.2.1 Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

**Loans and receivables to other customers**

The loans and receivables to other customers comprise of both fixed rate loans and floating rate loans. Majority of the floating rate loans can be re-priced either quarterly or semi-annually while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market rate. The carrying value of floating rate loans generally approximates the fair value due to the effect of re-pricing while the fair value of loans and receivables to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads.

The estimated fair value of loans and receivables with a residual maturity of more than one year, is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

**Other loans and receivables**

Other loans and receivables consist of debenture investments, Sri Lanka development bonds, fixed deposits and leased back certificates which are subsequently measured at amortised cost. Fair value of these financial assets are valued using discounted cash flow technique. Inputs in to the valuation techniques includes interest rates, repayment period and current market rates.

**Financial investments - Held to maturity**

Financial investments held to maturity which primarily comprise of Government debt securities and debenture investments, are subsequently measured at amortised cost. Fair value of Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka. Debenture investment is valued using discounted technique using observable market inputs such as interest rates and remaining maturity period.

**Due to other customers**

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year, approximates to the carrying value of such deposits. The fair value of customer deposits with a contractual maturity of more than one year, is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

For financial assets and financial liabilities that have short term maturity, it is assumed that carrying amounts approximates their fair value. This assumption is applied for following assets and liabilities which are short-term maturity or re-price to current market rates.

**Assets**

- > Cash and cash equivalents
- > Balances with Central Bank of Sri Lanka
- > Placements with banks
- > Reverse repurchased agreements
- > Other financial assets

**Liabilities**

- > Due to banks
- > Repurchased agreements
- > Other financial liabilities

**Reclassification of financial assets**

There have been no reclassifications during 2017 and 2016.



## NOTES TO THE FINANCIAL STATEMENTS

## 49. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

## BANK

As at 31 December	2017			2016		
	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000
<b>Assets</b>						
Cash and cash equivalents	4,697,738	-	4,697,738	2,506,685	-	2,506,685
Balances with Central Bank of Sri Lanka	-	3,785,679	3,785,679	-	2,487,805	2,487,805
Placements with banks	716,147	-	716,147	2,819,628	-	2,819,628
Reverse repurchased agreements	1,795	-	1,795	2,137	-	2,137
Derivative financial instruments	2,760	-	2,760	15,412	-	15,412
Financial investments - held for trading	4,291,432	1,657,591	5,949,023	1,346,932	-	1,346,932
Loans and receivables to other customers	48,109,779	22,468,144	70,577,923	39,471,691	15,966,724	55,438,415
Other loans and receivables	1,168,627	8,441,012	9,609,639	3,758,960	3,988,271	7,747,231
Financial investments - available for sale	8,138,524	8,314,683	16,453,207	5,714,748	10,805,617	16,520,365
Financial investments - held to maturity	2,165,776	380,777	2,546,553	48,096	92,135	140,231
Current tax asset	436,279	-	436,279	268,456	-	268,456
Investments in subsidiaries	-	1,262,612	1,262,612	-	940,027	940,027
Goodwill and intangible assets	-	1,220,999	1,220,999	-	1,151,033	1,151,033
Property, plant and equipment	-	888,359	888,359	-	897,371	897,371
Deferred tax assets	-	-	-	-	82,534	82,534
Other assets	430,720	427,975	858,695	218,764	425,483	644,247
<b>Total assets</b>	<b>70,159,577</b>	<b>48,847,831</b>	<b>119,007,408</b>	<b>56,171,509</b>	<b>36,837,000</b>	<b>93,008,509</b>
<b>Liabilities</b>						
Due to banks	17,110,815	97,826	17,208,641	12,144,111	16,133	12,160,244
Derivative financial instruments	4,867	-	4,867	3,976	-	3,976
Repurchased agreements	10,381,193	-	10,381,193	10,256,670	-	10,256,670
Due to other customers	67,325,790	2,999,804	70,325,594	50,583,875	1,257,497	51,841,372
Other borrowed funds	22,196	1,202,616	1,224,812	-	-	-
Current tax liabilities	-	-	-	-	-	-
Deferred tax liabilities	144,923	-	144,922	-	-	-
Other liabilities	1,682,565	177,115	1,859,682	1,567,114	95,919	1,663,033
<b>Total liabilities</b>	<b>96,672,349</b>	<b>4,477,361</b>	<b>101,149,711</b>	<b>74,555,746</b>	<b>1,369,549</b>	<b>75,925,295</b>
<b>Maturity Gap</b>	<b>(26,512,773)</b>	<b>44,370,470</b>	<b>17,857,697</b>	<b>(18,384,238)</b>	<b>35,467,453</b>	<b>17,083,214</b>
<b>Cumulative Gap</b>	<b>(26,512,773)</b>	<b>17,857,697</b>		<b>(18,384,238)</b>	<b>17,083,214</b>	

## NOTES TO THE FINANCIAL STATEMENTS

## 49. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd.)

## GROUP

As at 31 December	2017			2016		
	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000
<b>Assets</b>						
Cash and cash equivalents	5,057,422	-	5,057,422	2,717,650	-	2,717,650
Balances with Central Bank of Sri Lanka	-	3,785,679	3,785,679	-	2,487,805	2,487,805
Placements with banks	866,690	-	866,690	2,826,710	-	2,826,710
Reverse repurchased agreements	301,297	-	301,297	275,498	-	275,498
Derivative financial instruments	2,760	-	2,760	15,412	-	15,412
Financial investments - held for trading	4,291,432	1,657,591	5,949,023	1,346,932	-	1,346,932
Loans and receivables to other customers	51,476,012	27,744,944	79,220,956	41,610,692	21,321,244	62,931,936
Other loans and receivables	1,068,627	7,605,475	8,674,102	3,758,960	2,980,618	6,739,578
Financial investments - available for sale	8,289,877	8,314,884	16,604,761	5,879,533	10,814,938	16,694,470
Financial investments - held to maturity	2,165,776	380,777	2,546,553	48,096	92,135	140,231
Current tax assets	436,284	-	436,284	268,454	-	268,454
Investments in real estate	152,914	-	152,914	189,449	-	189,449
Goodwill and intangible assets	-	1,568,398	1,568,398	-	1,501,682	1,501,682
Property, plant and equipment	-	1,058,067	1,058,067	-	1,073,818	1,073,818
Deferred tax assets	-	433,728	433,728	-	541,807	541,807
Other assets	502,995	439,203	942,198	315,278	465,952	781,229
<b>Total assets</b>	<b>74,612,086</b>	<b>52,988,746</b>	<b>127,600,832</b>	<b>59,252,662</b>	<b>41,279,999</b>	<b>100,532,661</b>
<b>Liabilities</b>						
Due to banks	17,200,901	97,826	17,298,727	12,754,064	16,133	12,770,197
Derivative financial instruments	4,867	-	4,867	3,976	-	3,976
Repurchased agreements	10,218,055	-	10,218,055	10,113,570	-	10,113,570
Due to other customers	71,399,430	5,348,547	76,747,977	54,370,907	3,154,249	57,525,156
Other borrowed funds	769,509	2,198,724	2,968,233	790,244	42,851	833,095
Current tax liabilities	173,207	-	173,207	162,396	-	162,396
Deferred tax liabilities	145,278	-	145,278	289	-	289
Other liabilities	1,868,610	334,162	2,202,772	1,954,365	204,225	2,158,590
<b>Total liabilities</b>	<b>101,779,857</b>	<b>7,979,259</b>	<b>109,759,116</b>	<b>80,149,811</b>	<b>3,417,458</b>	<b>83,567,269</b>
<b>Maturity Gap</b>	<b>(27,167,771)</b>	<b>45,009,487</b>	<b>17,841,716</b>	<b>(20,897,149)</b>	<b>37,862,542</b>	<b>16,965,392</b>
<b>Cumulative Gap</b>	<b>(27,167,771)</b>	<b>17,841,716</b>		<b>(20,897,149)</b>	<b>16,965,392</b>	

## NOTES TO THE FINANCIAL STATEMENTS

**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. It is managed in terms of regulatory capital and economic capital. The main 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, concentration risk reputational risk, strategic risk, compliance 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 and 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.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

*Risk measurement and reporting systems*

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and Risk Committees. These reports include aggregate credit exposures, credit concentration, operational risk, market risk, liquidity ratios and stress tests. On a quarterly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

All risk related policy/frameworks 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.

**50. RISK MANAGEMENT (Contd.)**

Briefings are also given to other relevant members of the Bank on the utilisation 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 counter party 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 counter parties and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of borrowers, including regular collateral revisions. Bank uses a risk rating process to rate the borrowers according to its risk profile. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

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 an approved threshold. 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 collateral and repayments are in accordance with the terms of approval. A separate loan review policy approved by the Board of Directors is in place.

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)****Impairment assessment**

The methodology of the impairment assessment has explained in the Note 3.1.2 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.

*Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counter party. 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 Statement of Financial Position 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 realised
- ▷ the documentation are legally enforceable

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)***50.2.1 Maximum exposure to credit risk*

The following table shows the maximum exposure to credit risk and the net exposure to credit risk by class of financial assets.

**BANK**

As at 31 December 2017	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held											Net Exposure	
		Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Trust Certificates	Leasing and Hire Purchase Agreements	Movable Property	Other Securities	Gold		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Placements with banks	716,147	-	-	-	-	-	-	-	-	-	-	-	-	716,147
Reverse repurchased														
agreements	1,795	-	-	-	-	-	-	-	-	-	-	1,795	-	-
Derivative financial														
instruments	2,760	-	-	-	-	-	-	-	-	-	-	-	-	2,760
Financial investments														
-held for trading	5,949,023	-	-	-	-	-	-	-	-	-	-	-	-	5,949,023
Loans and receivables														
to other customers	71,493,285	5,908,340	137,893	5,764,185	29,597	539,123	12,994,648	-	1,506,922	472,971	9,404,647	667,952	34,067,007	
Other loans and														
receivables	9,609,639	-	5,458,643	-	-	-	-	259,556	-	-	-	-	-	3,891,440
Financial investments -														
available for sale	16,453,207	-	-	-	-	-	-	-	-	-	-	-	-	16,453,207
Financial investments -														
held to maturity	2,546,553	-	67,691	-	-	-	-	-	-	-	-	-	-	2,478,862
Other financial assets	133,308	-	-	-	-	-	-	-	-	-	-	-	-	133,308
<b>Total financial assets</b>	<b>106,905,717</b>	<b>5,908,340</b>	<b>5,664,227</b>	<b>5,764,185</b>	<b>29,597</b>	<b>539,123</b>	<b>12,994,648</b>	<b>259,556</b>	<b>1,506,922</b>	<b>472,971</b>	<b>9,406,442</b>	<b>667,952</b>	<b>63,691,754</b>	

As at 31 December 2016	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held											Net Exposure	
		Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Trust Certificates	Leasing and Hire Purchase Agreements	Movable Property	Other Securities	Gold		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Placements with banks	2,819,628	-	-	-	-	-	-	-	-	-	-	-	-	2,819,628
Reverse repurchased														
agreements	2,137	-	-	-	-	-	-	-	-	-	-	2,137	-	-
Derivative financial														
instruments	15,412	-	-	-	-	-	-	-	-	-	-	-	-	15,412
Financial investments														
-held for trading	1,346,932	-	-	-	-	-	-	-	-	-	-	-	-	1,346,932
Loans and receivables to														
other customers	56,109,621	85,533	153,579	4,725,462	140,988	281,017	9,909,575	-	1,225,418	462,940	8,297,744	155,711	30,671,655	
Other loans and														
receivables	7,747,231	-	5,100,011	-	-	-	-	820,520	-	-	-	-	-	1,826,700
Financial investments -														
available for sale	16,520,365	-	-	-	-	-	-	-	-	-	-	-	-	16,520,365
Financial investments -														
held to maturity	140,231	-	110,085	-	-	-	-	-	-	-	-	-	-	30,146
Other financial assets	105,667	-	-	-	-	-	-	-	-	-	-	-	-	105,667
<b>Total financial assets</b>	<b>84,807,224</b>	<b>85,533</b>	<b>5,363,675</b>	<b>4,725,462</b>	<b>140,988</b>	<b>281,017</b>	<b>9,909,575</b>	<b>820,520</b>	<b>1,225,418</b>	<b>462,940</b>	<b>8,299,881</b>	<b>155,711</b>	<b>53,336,504</b>	

## NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (Contd.)  
GROUP

As at 31 December 2017	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held												Net Exposure
		Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Personal Guarantees and Pro Notes	Trust Certificates	Leasing and Hire Purchase Agreements	Movable Property	Other Securities	Gold	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placements with banks	866,690	-	-	-	-	-	-	-	-	-	-	-	-	866,690
Reverse repurchased agreements	301,297	-	-	-	-	-	-	-	-	-	-	301,297	-	-
Derivative financial instruments	2,760	-	-	-	-	-	-	-	-	-	-	-	-	2,760
Financial investments	5,949,023	-	-	-	-	-	-	-	-	-	-	-	-	5,949,023
-held for trading														
Loans and receivables to other customers	80,645,569	5,908,340	137,893	6,202,694	29,597	539,123	13,356,285	286,597	-	7,047,870	472,971	11,707,554	667,952	34,288,693
Other loans and receivables	8,674,102	-	4,488,344	-	-	-	-	-	259,556	-	-	-	-	3,926,202
Financial investments	16,604,761	-	-	-	-	-	-	-	-	-	-	-	-	16,604,761
- available for sale														
Financial investments	2,546,553	-	67,691	-	-	-	-	-	-	-	-	-	-	2,478,862
- held to maturity														
Other financial assets	199,925	-	-	-	-	-	-	-	-	-	-	44,883	-	155,042
<b>Total financial assets</b>	<b>115,790,680</b>	<b>5,908,340</b>	<b>4,693,928</b>	<b>6,202,694</b>	<b>29,597</b>	<b>539,123</b>	<b>13,356,285</b>	<b>286,597</b>	<b>259,556</b>	<b>7,047,870</b>	<b>472,971</b>	<b>12,053,734</b>	<b>667,952</b>	<b>64,272,033</b>

As at 31 December 2016	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held												Net Exposure
		Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Personal Guarantees and Pro Notes	Trust Certificates	Leasing and Hire Purchase Agreements	Movable Property	Other Securities	Gold	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placements with banks	2,826,710	-	-	-	-	-	-	-	-	-	-	-	-	2,826,710
Reverse repurchased agreements	275,498	-	-	-	-	-	-	-	-	-	-	275,498	-	-
Derivative financial instruments	15,412	-	-	-	-	-	-	-	-	-	-	-	-	15,412
Financial investments														
-held for trading	1,346,932	-	-	-	-	-	-	-	-	-	-	-	-	1,346,932
Loans and receivables to other customers	64,105,186	85,534	153,579	4,998,763	140,988	281,017	10,311,491	107,299	-	6,113,344	462,940	10,377,806	155,711	30,916,714
Other loans and receivables	6,739,578	-	5,100,011	-	-	-	-	-	820,520	-	-	-	-	819,047
Financial investments														
- available for sale	16,694,470	-	-	-	-	-	-	-	-	-	-	-	-	16,694,470
Financial investments														
- held to maturity	140,231	-	110,085	-	-	-	-	-	-	-	-	-	-	30,146
Other financial assets	123,349	-	-	-	-	-	-	-	-	-	-	-	-	123,349
<b>Total financial assets</b>	<b>92,267,366</b>	<b>85,534</b>	<b>5,363,675</b>	<b>4,998,763</b>	<b>140,988</b>	<b>281,017</b>	<b>10,311,491</b>	<b>107,299</b>	<b>820,520</b>	<b>6,113,344</b>	<b>462,940</b>	<b>10,653,304</b>	<b>155,711</b>	<b>52,772,780</b>

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)***50.2.2 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 and geographic regions. All internal ratings are rechecked at several approval levels within the Bank via business heads, zonal units, risk management unit, credit department; and also reviewed post fact by the loan review manager. The Bank has a comprehensive, fully automated loan origination system for credit approval process including risk rating modules and 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.

**BANK**

As at 31 December 2017	Neither past due nor impaired Rs.'000	Past due but not impaired				Individually impaired Rs.'000	Total Rs.'000
		Less than 3 months Rs.'000	3-6 months Rs.'000	6-12 months Rs.'000	Over 12 months Rs.'000		
		Cash and cash equivalents	4,697,738	-	-		
Balances with Central Bank of Sri Lanka	3,785,679	-	-	-	-	-	3,785,679
Placements with banks	716,147	-	-	-	-	-	716,147
Reverse repurchased agreements	1,795	-	-	-	-	-	1,795
Derivative financial instruments	2,760	-	-	-	-	-	2,760
Financial investments -held for trading	5,949,023	-	-	-	-	-	5,949,023
Loans and receivables to other customers (Gross)	60,408,602	7,470,331	87,951	132,975	743,798	2,649,628	71,493,285
Other loans and receivables	9,609,639	-	-	-	-	-	9,609,639
Financial investments - available for sale	16,453,207	-	-	-	-	-	16,453,207
Financial investments - held to maturity	2,546,553	-	-	-	-	-	2,546,553
Other financial assets	133,308	-	-	-	-	-	133,308
<b>Total financial assets</b>	<b>104,304,451</b>	<b>7,470,331</b>	<b>87,951</b>	<b>132,975</b>	<b>743,798</b>	<b>2,649,628</b>	<b>115,389,134</b>

As at 31 December 2016	Neither past due nor impaired Rs.'000	Past due but not impaired				Individually impaired Rs.'000	Total Rs.'000
		Less than 3 months Rs.'000	3-6 months Rs.'000	6-12 months Rs.'000	Over 12 months Rs.'000		
		Cash and cash equivalents	2,506,685	-	-		
Balances with Central Bank of Sri Lanka	2,487,805	-	-	-	-	-	2,487,805
Placements with banks	2,819,628	-	-	-	-	-	2,819,628
Reverse repurchased agreements	2,137	-	-	-	-	-	2,137
Derivative financial instruments	15,412	-	-	-	-	-	15,412
Financial investments -held for trading	1,346,932	-	-	-	-	-	1,346,932
Loans and receivables to other customers (Gross)	43,270,880	8,824,396	61,649	96,234	723,151	3,133,311	56,109,621
Other loans and receivables	7,747,231	-	-	-	-	-	7,747,231
Financial investments - available for sale	16,520,365	-	-	-	-	-	16,520,365
Financial investments - held to maturity	140,231	-	-	-	-	-	140,231
Other financial assets	105,667	-	-	-	-	-	105,667
<b>Total financial assets</b>	<b>76,962,973</b>	<b>8,824,396</b>	<b>61,649</b>	<b>96,234</b>	<b>723,151</b>	<b>3,133,311</b>	<b>89,801,714</b>



## NOTES TO THE FINANCIAL STATEMENTS

## 50. RISK MANAGEMENT (Contd.)

## GROUP

As at 31 December 2017	Neither past due nor impaired Rs.'000	Past due but not impaired				Over 12 months Rs.'000	Individually impaired Rs.'000	Total Rs.'000
		Less than 3 months Rs.'000	3-6 months Rs.'000	6-12 months Rs.'000				
Cash and cash equivalents	5,057,422	-	-	-	-	-	5,057,422	
Balances with								
Central Bank of Sri Lanka	3,785,679	-	-	-	-	-	3,785,679	
Placements with banks	866,690	-	-	-	-	-	866,690	
Reverse repurchased agreements	301,297	-	-	-	-	-	301,297	
Derivative financial instruments	2,760	-	-	-	-	-	2,760	
Financial investments								
- held for trading	5,949,023	-	-	-	-	-	5,949,023	
Loans and receivables								
to other customers (Gross)	63,700,799	11,080,928	792,567	529,015	1,483,301	3,058,959	80,645,569	
Other loans and receivables	8,674,102	-	-	-	-	-	8,674,102	
Financial investments								
- available for sale	16,604,761	-	-	-	-	-	16,604,761	
Financial investments								
- held to maturity	2,546,553	-	-	-	-	-	2,546,553	
Other financial assets	199,925	-	-	-	-	-	199,925	
<b>Total financial assets</b>	<b>107,689,011</b>	<b>11,080,928</b>	<b>792,567</b>	<b>529,015</b>	<b>1,483,301</b>	<b>3,058,959</b>	<b>124,633,781</b>	

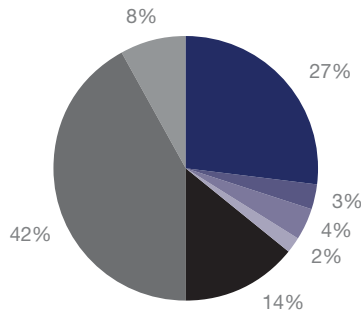
As at 31 December 2016	Neither past due nor impaired Rs.'000	Past due but not impaired				Over 12 months Rs.'000	Individually impaired Rs.'000	Total Rs.'000
		Less than 3 months Rs.'000	3-6 months Rs.'000	6-12 months Rs.'000				
Cash and cash equivalents	2,717,650	-	-	-	-	-	2,717,650	
Balances with								
Central Bank of Sri Lanka	2,487,805	-	-	-	-	-	2,487,805	
Placements with banks	2,826,710	-	-	-	-	-	2,826,710	
Reverse repurchased agreements	275,498	-	-	-	-	-	275,498	
Derivative financial instruments	15,412	-	-	-	-	-	15,412	
Financial investments								
- held for trading	1,346,932	-	-	-	-	-	1,346,932	
Loans and receivables								
to other customers (Gross)	46,604,649	11,898,263	438,473	200,887	1,397,849	3,565,065	64,105,186	
Other loans and receivables	6,739,578	-	-	-	-	-	6,739,578	
Financial investments								
- available for sale	16,694,470	-	-	-	-	-	16,694,470	
Financial investments								
- held to maturity	140,231	-	-	-	-	-	140,231	
Other financial assets	123,349	-	-	-	-	-	123,349	
<b>Total financial assets</b>	<b>79,972,284</b>	<b>11,898,263</b>	<b>438,473</b>	<b>200,887</b>	<b>1,397,849</b>	<b>3,565,065</b>	<b>97,472,821</b>	

## 50. RISK MANAGEMENT (Contd.)

### 50.2.3 Risk rating

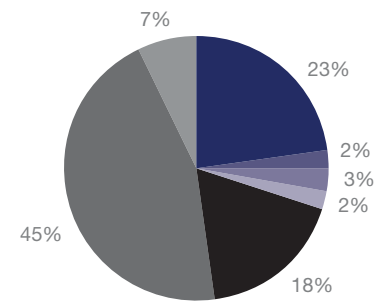
#### CORPORATE AND SME

2017



- ▶ Low credit risk
- ▶ Very low credit risk
- ▶ Lowest credit risk
- ▶ High credit risk
- ▶ Moderate credit risk
- ▶ Average credit risk
- ▶ Unrated credit risk

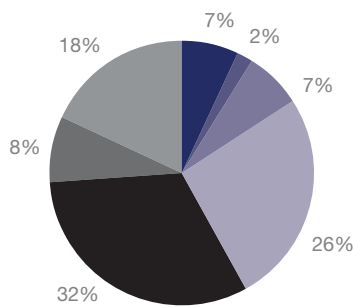
2016



- ▶ Low credit risk
- ▶ Very low credit risk
- ▶ Lowest credit risk
- ▶ High credit risk
- ▶ Moderate credit risk
- ▶ Average credit risk
- ▶ Unrated credit risk

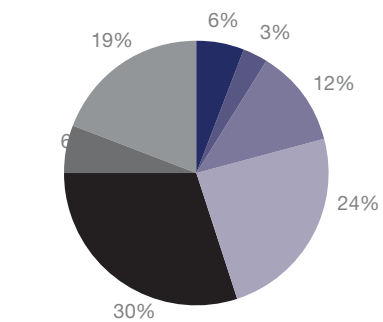
#### RETAIL

2017



- ▶ Minimal credit risk
- ▶ Lowest credit risk
- ▶ Lower credit risk
- ▶ Low credit risk
- ▶ Moderate credit risk
- ▶ Average credit risk
- ▶ Unrated credit risk

2016



- ▶ Minimal credit risk
- ▶ Lowest credit risk
- ▶ Lower credit risk
- ▶ Low credit risk
- ▶ Moderate credit risk
- ▶ Average credit risk
- ▶ Unrated credit risk

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)***50.2.2 Analysis of risk concentration*

The Group's concentrations of risk are managed by client/counter party, 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.

<b>BANK</b>								
<b>As at 31 December 2017</b>	<b>Financial Services</b>	<b>Government</b>	<b>Consumer</b>	<b>Retail and Wholesale</b>	<b>Construction</b>	<b>Manufacturing</b>	<b>Service</b>	<b>Total</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
<b>Financial Assets</b>								
Cash and cash equivalents	4,697,738	-	-	-	-	-	-	4,697,738
Balances with								
Central Bank of Sri Lanka	-	3,785,679	-	-	-	-	-	3,785,679
Placements with banks	716,147	-	-	-	-	-	-	716,147
Reverse repurchased agreements	1,795	-	-	-	-	-	-	1,795
Derivative financial instruments	2,760	-	-	-	-	-	-	2,760
Financial investments -held for trading	4,252,078	1,696,945	-	-	-	-	-	5,949,023
Loans and receivables								
to other customers	10,488,823	-	16,309,721	16,746,800	4,558,468	15,436,813	7,037,298	70,577,923
Other loans and receivables	5,718,198	3,891,440	-	-	-	-	-	9,609,639
Financial investments - available for sale	1,530	16,451,677	-	-	-	-	-	16,453,207
Financial investments - held to maturity	67,691	2,478,862	-	-	-	-	-	2,546,553
Other financial assets	-	-	-	-	-	-	133,308	133,308
<b>Total</b>	<b>25,946,760</b>	<b>28,304,603</b>	<b>16,309,721</b>	<b>16,746,800</b>	<b>4,558,468</b>	<b>15,436,813</b>	<b>7,170,606</b>	<b>114,473,772</b>

<b>As at 31 December 2016</b>	<b>Financial Services</b>	<b>Government</b>	<b>Consumer</b>	<b>Retail and Wholesale</b>	<b>Construction</b>	<b>Manufacturing</b>	<b>Service</b>	<b>Total</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
<b>Financial Assets</b>								
Cash and cash equivalents	2,506,685	-	-	-	-	-	-	2,506,685
Balances with								
Central Bank of Sri Lanka	-	2,487,805	-	-	-	-	-	2,487,805
Placements with banks	2,819,628	-	-	-	-	-	-	2,819,628
Reverse repurchased agreements	2,137	-	-	-	-	-	-	2,137
Derivative financial instruments	15,412	-	-	-	-	-	-	15,412
Financial investments - held for trading	1,346,932	-	-	-	-	-	-	1,346,932
Loans and receivables								
to other customers	8,789,707	-	8,587,701	17,882,259	2,404,555	11,716,813	6,057,381	55,438,415
Other loans and receivables	7,747,231	-	-	-	-	-	-	7,747,231
Financial investments - available for sale	1,530	16,518,835	-	-	-	-	-	16,520,365
Financial investments - held to maturity	110,085	30,146	-	-	-	-	-	140,231
Other financial assets	-	-	-	-	-	-	105,667	105,667
<b>Total</b>	<b>23,339,348</b>	<b>19,036,786</b>	<b>8,587,701</b>	<b>17,882,259</b>	<b>2,404,555</b>	<b>11,716,813</b>	<b>6,163,047</b>	<b>89,130,509</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 50. RISK MANAGEMENT (Contd.)

## GROUP

As at 31 December 2017	Financial Services Rs.'000	Government Rs.'000	Consumer Rs.'000	Retail and Wholesale Rs.'000	Construction Rs.'000	Manufacturing Rs.'000	Service Rs.'000	Total Rs.'000
<b>Financial Assets</b>								
Cash and cash equivalents	5,057,422	-	-	-	-	-	-	5,057,422
Balances with								
Central Bank of Sri Lanka	-	3,785,679	-	-	-	-	-	3,785,679
Placements with banks	866,690	-	-	-	-	-	-	866,690
Reverse repurchased agreements	301,297	-	-	-	-	-	-	301,297
Derivative financial instruments	2,760	-	-	-	-	-	-	2,760
Financial investments - held for trading	4,252,078	1,696,945	-	-	-	-	-	5,949,023
Loans and receivables								
to other customers	13,799,286	-	16,309,721	19,532,933	5,111,693	15,925,870	8,541,453	79,220,956
Other loans and receivables	4,782,662	3,891,440	-	-	-	-	-	8,674,102
Financial investments								
- available for sale	153,084	16,451,677	-	-	-	-	-	16,604,761
Financial investments								
- held to maturity	67,691	2,478,862	-	-	-	-	-	2,546,553
Other financial assets	44,883	-	-	-	-	-	155,042	199,925
<b>Total</b>	<b>29,327,853</b>	<b>28,304,603</b>	<b>16,309,721</b>	<b>19,532,933</b>	<b>5,111,693</b>	<b>15,925,870</b>	<b>8,696,495</b>	<b>123,209,168</b>

As at 31 December 2016	Financial Services Rs.'000	Government Rs.'000	Consumer Rs.'000	Retail and Wholesale Rs.'000	Construction Rs.'000	Manufacturing Rs.'000	Service Rs.'000	Total Rs.'000
<b>Financial Assets</b>								
Cash and cash equivalents	2,717,650	-	-	-	-	-	-	2,717,650
Balances with								
Central Bank of Sri Lanka	-	2,487,805	-	-	-	-	-	2,487,805
Placements with banks	2,826,710	-	-	-	-	-	-	2,826,710
Reverse repurchased agreements	275,498	-	-	-	-	-	-	275,498
Derivative financial instruments	15,412	-	-	-	-	-	-	15,412
Financial investments - held for trading	1,346,932	-	-	-	-	-	-	1,346,932
Loans and receivables								
to other customers	8,238,795	-	13,343,583	19,295,618	4,157,926	11,641,635	6,254,379	62,931,936
Other loans and receivables	6,739,578	-	-	-	-	-	-	6,739,578
Financial investments - available for sale	167,212	16,527,258	-	-	-	-	-	16,694,470
Financial investments - held to maturity	110,085	30,146	-	-	-	-	-	140,231
Other financial assets	17,682	-	-	-	-	-	105,667	123,349
<b>Total</b>	<b>22,455,554</b>	<b>19,045,209</b>	<b>13,343,583</b>	<b>19,295,618</b>	<b>4,157,926</b>	<b>11,641,635</b>	<b>6,360,046</b>	<b>96,299,571</b>

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)***50.2.5 Concentration by Location*

Concentration by location for loans and advances is measured based on the location of the customer center that granted the facility, which has a high correlation with the location of the borrower except for loans granted by the Foreign Currency Banking Unit (FCBU). Concentration of loans and advances by location is given below.

**BANK**

As at 31 December	2017		2016	
	Rs.'000	%	Rs.'000	%
Central	1,761,445	2%	1,512,961	3%
Eastern	322,313	0%	229,800	0%
North Central	871,404	1%	881,227	2%
North Western	2,223,182	3%	1,759,759	3%
Northern	1,119,324	2%	659,242	1%
Sabaragamuwa	2,172,043	3%	1,609,489	3%
Southern	4,404,819	6%	3,003,698	5%
Uva	415,516	1%	415,626	1%
Western	57,287,877	82%	45,366,613	82%
<b>Total</b>	<b>70,577,923</b>		<b>55,438,415</b>	

**GROUP**

As at 31 December	2017		2016	
	Rs.'000	%	Rs.'000	%
Central	2,433,792	3%	2,068,924	3%
Eastern	511,011	1%	361,899	1%
North Central	1,284,261	2%	1,182,751	2%
North Western	2,941,344	4%	2,381,527	4%
Northern	1,112,175	1%	655,012	1%
Sabaragamuwa	2,764,753	3%	2,092,553	3%
Southern	6,115,937	8%	4,607,813	7%
Uva	412,862	1%	412,959	1%
Western	61,644,821	77%	49,168,497	78%
<b>Total</b>	<b>79,220,956</b>		<b>62,931,936</b>	

**50. RISK MANAGEMENT (Contd.)***50.2.6 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 recognised 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

As at 31 December	BANK		GROUP	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Undrawn loan commitments	25,614,515	26,019,131	25,614,515	26,019,131
Guarantees	5,983,556	3,929,130	5,983,556	3,929,130
Letters of credit	2,991,693	3,161,387	2,991,693	3,161,387
Forward Contracts	898,864	7,751,728	898,864	7,751,728
Cheque pending for realisation	788,861	1,053,089	788,861	1,053,089
Spot Contracts	567,036	799,505	567,036	799,505
Acceptances	784,138	598,330	784,138	598,330
Other contingent items	1,657,888	1,042,385	1,657,888	1,042,385
<b>Total</b>	<b>39,286,551</b>	<b>44,404,415</b>	<b>39,286,551</b>	<b>44,404,415</b>

**50.3 Liquidity risk**

Liquidity risk in simple terms is the risk of a bank's inability to meet its commitments as and when due. In addition to being satisfied with the adequacy of liquid funds to meet its day today commitments. It is managed by Assets and Liability 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.

*50.3.1 Liquidity risk management*

Liquidity measurement is a difficult task and measured through stock and flow approaches.

- Stock approach – Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet.
- Flow approach – Banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to the residual time to maturity

	2017 %	2016 %
Year End	21.32	22.17
Maximum	23.01	22.71
Minimum	20.75	20.78
Average	21.5	21.77

## NOTES TO THE FINANCIAL STATEMENTS

## 50. RISK MANAGEMENT (Contd.)

	BANK		GROUP	
	2017 %	2016 %	2017 %	2016 %
Advances to deposits ratio	101.7	108.2	105.1	111.4
Net loans to assets	59.3	59.6	62.1	62.6

## 50.3.2 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.

## BANK

As at 31 December 2017	On demand Rs.'000	Trading derivatives Rs.'000	Less than 3 months Rs.'000	3 to 12 months Rs.'000	1 to 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
<b>Financial Assets</b>							
Cash and cash equivalents	4,697,738	-	-	-	-	-	4,697,738
Balances with							
Central Bank of Sri Lanka	-	-	-	-	-	3,785,679	3,785,679
Placements with banks	-	-	716,147	-	-	-	716,147
Reverse repurchased agreements	-	-	1,795	-	-	-	1,795
Derivative financial instruments	-	2,760	-	-	-	-	2,760
Financial investments - held for trading	-	-	4,270,725	83,091	1,595,406	499,822	6,449,044
Loans and receivables to							
other customers	15,959,643	-	28,713,680	9,919,073	23,604,945	5,934,766	84,132,107
Other loans and receivables	-	-	136,206	702,415	7,065,174	3,458,109	11,361,904
Financial investments - available for sale	-	-	858,575	8,125,183	8,609,789	1,183,467	18,777,014
Financial investments - held to maturity	-	-	125,210	2,292,601	408,787	-	2,826,598
Other financial assets	-	-	103,593	10,484	19,231	-	133,308
<b>Total undiscounted financial assets</b>	<b>20,657,381</b>	<b>2,760</b>	<b>34,925,931</b>	<b>21,132,847</b>	<b>41,303,332</b>	<b>14,861,843</b>	<b>132,884,094</b>
<b>Financial Liabilities</b>							
Due to banks	-	-	12,431,333	4,949,797	1,300,441	-	18,681,571
Derivative financial instruments	-	4,867	-	-	-	-	4,867
Repurchased agreements	-	-	9,939,380	486,564	-	-	10,425,944
Due to other customers	20,697,715	-	30,032,995	22,240,264	4,850,496	-	77,821,470
Other borrowed funds	-	-	-	22,196	1,202,616	-	1,224,812
Other financial liabilities	-	-	1,216,009	173,275	13,684	-	1,402,968
<b>Total undiscounted financial liabilities</b>	<b>20,697,715</b>	<b>4,867</b>	<b>53,619,717</b>	<b>27,872,096</b>	<b>7,367,237</b>	<b>-</b>	<b>109,561,632</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>(40,334)</b>	<b>(2,107)</b>	<b>(18,693,786)</b>	<b>(6,739,249)</b>	<b>33,936,095</b>	<b>14,861,843</b>	<b>23,322,462</b>
<b>Cumulative gap</b>	<b>(40,334)</b>	<b>(42,441)</b>	<b>(18,736,227)</b>	<b>(25,475,476)</b>	<b>8,460,619</b>	<b>23,322,462</b>	

## NOTES TO THE FINANCIAL STATEMENTS

## 50. RISK MANAGEMENT (Contd.)

## BANK

As at 31 December 2016	On demand	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Assets</b>							
Cash and cash equivalents	2,506,685	-	-	-	-	-	2,506,685
Balances with							
Central Bank of Sri Lanka	-	-	-	-	-	2,487,805	2,487,805
Placements with banks	-	-	2,819,628	-	-	-	2,819,628
Reverse repurchased agreements	-	-	-	2,228	-	-	2,228
Derivative financial instruments	-	15,412	-	-	-	-	15,412
Financial investments - held for trading	-	-	1,346,932	-	-	-	1,346,932
Loans and receivables to							
other customers	13,096,595	-	21,734,225	8,501,746	16,689,962	2,949,658	62,972,186
Other loans and receivables	-	-	24,935	2,203,253	3,956,332	3,458,109	9,642,629
Financial investments - available for sale	-	-	2,444,934	1,732,956	10,031,192	3,536,707	17,745,789
Financial investments - held to maturity	-	-	-	67,909	148,511	-	216,420
Other financial assets	-	-	-	149,870	-	36,293	186,163
<b>Total undiscounted financial assets</b>	<b>15,603,280</b>	<b>15,412</b>	<b>28,370,654</b>	<b>12,657,962</b>	<b>30,825,997</b>	<b>12,468,572</b>	<b>99,941,877</b>
<b>Financial Liabilities</b>							
Due to banks	-	-	8,583,339	3,560,773	16,133	-	12,160,245
Derivative financial instruments	-	3,976	-	-	-	-	3,976
Repurchased agreements	-	-	10,120,572	165,207	-	-	10,285,779
Due to other customers	14,695,822	-	23,285,318	16,648,093	2,004,994	-	56,634,227
Other financial liabilities	-	-	1,061,856	190,482	-	38,647	1,290,985
<b>Total undiscounted financial liabilities</b>	<b>14,695,822</b>	<b>3,976</b>	<b>43,051,085</b>	<b>20,564,555</b>	<b>2,021,127</b>	<b>38,647</b>	<b>80,375,212</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>907,458</b>	<b>11,436</b>	<b>(14,620,430)</b>	<b>(7,906,593)</b>	<b>28,804,870</b>	<b>12,429,925</b>	<b>19,566,666</b>
<b>Cumulative gap</b>	<b>907,458</b>	<b>918,894</b>	<b>(13,761,536)</b>	<b>(21,668,129)</b>	<b>7,136,741</b>	<b>19,566,666</b>	

## GROUP

As at 31 December 2017	On demand	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Assets</b>							
Cash and cash equivalents	5,057,318	-	-	-	-	-	5,057,318
Balances with Central Bank of Sri Lanka	-	-	-	-	-	3,785,679	3,785,679
Placements with banks	-	-	860,435	-	-	-	860,435
Reverse repurchased agreements	-	-	301,297	-	-	-	301,297
Derivative financial instruments	-	2,760	-	-	-	-	2,760
Financial investments-held for trading	-	-	4,270,725	83,091	1,595,406	499,822	6,449,044
Loans and receivables to							
other customers	15,338,081	-	30,585,531	12,690,652	29,749,872	7,059,910	95,424,046
Other loans and receivables	2,120,773	-	136,206	702,415	7,065,174	367,038	10,391,606
Financial investments – available for sale	-	-	858,575	8,125,183	8,609,789	1,183,668	18,777,215
Financial investments – held to maturity	-	-	125,210	2,292,601	408,787	-	2,826,598
Other financial assets	-	-	103,593	55,367	19,231	-	178,191
<b>Total undiscounted financial assets</b>	<b>22,516,172</b>	<b>2,760</b>	<b>37,241,572</b>	<b>23,949,309</b>	<b>47,448,259</b>	<b>12,896,117</b>	<b>144,054,189</b>



## NOTES TO THE FINANCIAL STATEMENTS

## 50. RISK MANAGEMENT (Contd.)

## GROUP

As at 31 December 2017	On demand	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Liabilities</b>							
Due to banks	90,057	-	12,431,333	4,949,797	1,300,441	-	18,771,628
Derivative financial instruments	-	4,867	-	-	-	-	4,867
Repurchased agreements	-	-	9,776,241	486,564	-	-	10,262,805
Due to other customers	20,053,622	-	30,032,995	22,240,264	4,850,496	-	77,177,377
Other borrowed funds	-	-	-	70,638	2,897,595	-	2,968,233
Other financial liabilities	-	-	1,354,306	192,981	15,240	-	1,562,527
<b>Total undiscounted financial liabilities</b>	<b>20,143,679</b>	<b>4,867</b>	<b>53,594,875</b>	<b>27,940,244</b>	<b>9,063,772</b>	<b>0</b>	<b>110,747,437</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>2,372,493</b>	<b>(2,107)</b>	<b>(16,353,303)</b>	<b>(3,990,935)</b>	<b>38,384,487</b>	<b>12,896,117</b>	<b>33,306,750</b>
<b>Cumulative Gap</b>	<b>2,372,493</b>	<b>2,370,386</b>	<b>(13,982,917)</b>	<b>(17,973,852)</b>	<b>20,410,635</b>	<b>33,306,752</b>	

## GROUP

As at 31 December 2016	On demand	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Assets</b>							
Cash and cash equivalents	1,708,685	-	-	-	-	-	1,708,685
Balances with Central Bank of Sri Lanka	-	-	-	-	-	1,306,812	1,306,812
Placements with banks	-	-	294,074	-	-	-	294,074
Reverse repurchase agreements	-	-	1,619,467	-	-	-	1,619,467
Derivative financial instruments	-	13,481	-	-	-	-	13,481
Financial investments - held for trading	-	-	8,463,807	-	-	-	8,463,807
<b>Loans and receivables</b>							
to other customers	13,096,595	-	12,760,733	7,086,448	14,969,719	1,419,080	49,332,575
Other loans and receivables	-	-	1,426,100	338,545	1,421,948	1,780,685	4,967,278
Financial investments - available for sale	-	-	8,506,461	-	32,098	-	8,538,559
Financial investments - held to maturity	-	-	6,815	427	133,286	-	140,528
Other financial assets	-	-	75,136	-	-	-	75,136
<b>Total undiscounted financial assets</b>	<b>14,805,280</b>	<b>13,481</b>	<b>33,152,593</b>	<b>7,425,420</b>	<b>16,557,051</b>	<b>4,506,577</b>	<b>76,460,402</b>
<b>Financial Liabilities</b>							
Due to banks	-	-	3,830,852	2,265,055	1,060,481	-	7,156,388
Derivative financial instruments	-	2,860	-	-	-	-	2,860
Repurchased agreements	-	-	7,830,786	163,747	-	-	7,994,533
Due to other customers	14,695,822	-	11,300,186	13,946,303	2,133,991	288	42,076,590
Other borrowed funds	-	-	163,466	606,043	511,576	-	1,281,085
Other financial liabilities	-	-	810,819	406,599	-	-	1,217,418
<b>Total undiscounted financial liabilities</b>	<b>14,695,822</b>	<b>2,860</b>	<b>23,936,109</b>	<b>17,387,747</b>	<b>3,706,048</b>	<b>288</b>	<b>59,728,874</b>
<b>Net undiscounted financial assets/(liabilities)</b>	<b>109,458</b>	<b>10,621</b>	<b>9,216,484</b>	<b>(9,962,327)</b>	<b>12,851,003</b>	<b>4,506,289</b>	<b>16,731,528</b>
<b>Cumulative Gap</b>	<b>109,458</b>	<b>120,079</b>	<b>9,336,563</b>	<b>(625,764)</b>	<b>12,225,239</b>	<b>16,731,528</b>	

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)***50.3.3 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 2017	Total	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000

**Commitments**

Undrawn OD	1,620,525	1,620,525	-	-	-	-
Commitments for unutilised facilities	23,993,990	23,993,990	-	-	-	-
<b>Total</b>	<b>25,614,515</b>	<b>25,614,515</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Acceptances	784,138	389,128	341,160	53,850	-	-
Guarantees	5,983,556	1,311,405	2,152,950	1,980,192	499,591	39,417
Documentary credit	2,991,693	329,698	2,340,624	321,371	-	-
Forward contracts	790,496	-	790,496	-	-	-
Forward bonds	108,368	-	108,368	-	-	-
Spot contracts	567,036	-	567,036	-	-	-
Cheque pending for realisation	788,861	788,861	-	-	-	-
Other contingent items	1,657,888	758,321	740,293	75,521	83,753	-
<b>Total</b>	<b>13,672,036</b>	<b>3,577,413</b>	<b>7,040,927</b>	<b>2,430,934</b>	<b>583,344</b>	<b>39,417</b>

<b>Total commitments and contingent liabilities</b>	<b>39,286,551</b>	<b>29,191,928</b>	<b>7,040,927</b>	<b>2,430,934</b>	<b>583,344</b>	<b>39,417</b>
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As at 31 December 2016	Total	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000

**Commitments**

Undrawn OD	1,807,523	1,807,523	-	-	-	-
Commitments for unutilised facilities	24,211,609	24,211,609	-	-	-	-
<b>Total</b>	<b>26,019,132</b>	<b>26,019,132</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Acceptances	598,330	205,329	376,229	16,772	-	-
Guarantees	3,929,130	328,355	1,799,594	1,517,325	283,856	-
Documentary credit	3,161,387	141,224	2,680,526	339,637	-	-
Forward contracts	7,659,551	-	7,659,551	-	-	-
Forward bonds	141,907	-	141,907	-	-	-
Spot contracts	799,505	-	799,505	-	-	-
Cheque pending for realisation	1,053,089	1,053,089	-	-	-	-
Other contingent items	1,042,384	217,522	675,841	13,062	87,042	48,917
<b>Total</b>	<b>18,385,283</b>	<b>1,945,519</b>	<b>14,133,153</b>	<b>1,886,796</b>	<b>370,898</b>	<b>48,917</b>

<b>Total commitments and contingent liabilities</b>	<b>44,404,415</b>	<b>27,964,651</b>	<b>14,133,153</b>	<b>1,886,796</b>	<b>370,898</b>	<b>48,917</b>
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## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)****50.4 Market risk**

Market risk is defined as the risk of losses in on or off balance sheet positions arising from movements in market price. The market risk comprises of interest rate risk, foreign exchange risk, equity price risk and commodity price risk. Other risks such as volatility risk and basis risk are integral parts of these risk types. 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) who's independent from Treasury front office and is reporting to the Chief Risk Officer. Various Board approved limits pertain to Market Risk also monitored on a daily basis by TMO,

**50.5 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 Statement of Profit or Loss and the economic value of equity. The Board has established limits on the non-trading interest rate gaps for stipulated periods.

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.

*50.5.1 Interest rate sensitivity analysis*

The following table demonstrates the sensitivity of the Bank's profit before tax to reasonable possible changes in interest rate with all other variables held constant.

<b>2017</b>	<b>Increase/(Decrease) in basis points</b>	<b>Sensitivity of effect on Profit/(Loss)</b>
Rate sensitive assets	100 / (100)	514Mn / (514Mn)
Rate sensitive liabilities	100 / (100)	(572Mn) / 572Mn
Net effect		(58Mn) / 58Mn
<b>2016</b>	<b>Increase/(Decrease) in basis points</b>	<b>Sensitivity of effect on Profit/(Loss)</b>
Rate sensitive assets	100 / (100)	412Mn / (412Mn)
Rate sensitive liabilities	100 / (100)	(538Mn) / 538Mn
Net effect		(126Mn) / 126Mn

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)***50.5.2 interest rate risk exposure*

The table below analyses the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's financial assets and financial liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

**BANK**

As at 31 December 2017	Carrying Amount Rs.'000	Interest Sensitive				Non interest Sensitive Rs.'000
		Less than 3 months Rs.'000	3 to 12 months Rs.'000	1 to 5 years Rs.'000	Over 5 years Rs.'000	
<b>Assets</b>						
Cash and cash equivalents	4,697,738	-	-	-	-	4,697,738
Balances with Central Bank of Sri Lanka	3,785,679	-	-	-	-	3,785,679
Placements with banks	716,147	716,147	-	-	-	-
Reverse repurchased agreements	1,795	1,795	-	-	-	-
Derivative financial instruments	2,760	-	-	-	-	2,760
Financial investments-held for trading	5,949,023	39,056	298	1,233,078	424,513	4,252,078
Loans and receivables to other customers	70,577,923	39,686,513	8,423,266	16,943,469	5,524,675	-
Other loans and receivables	9,609,639	372,860	695,767	8,541,012	-	-
Financial investments – available for sale	16,453,207	959,921	7,178,603	7,306,010	1,007,143	1,530
Financial investments – held to maturity	2,546,553	89,639	2,076,137	380,777	-	-
Other financial assets	133,308	-	-	-	-	133,308
<b>Total financial assets</b>	<b>114,473,772</b>	<b>41,865,931</b>	<b>18,374,071</b>	<b>34,404,346</b>	<b>6,956,331</b>	<b>12,873,093</b>
<b>Liabilities</b>						
Due to banks	17,208,641	12,391,519	4,719,296	97,826	-	-
Derivative financial instruments	4,867	-	-	-	-	4,867
Repurchased agreements	10,381,193	9,912,838	468,355	-	-	-
Due to other customers	70,325,594	43,673,516	20,393,818	2,999,804	-	3,258,456
Other borrowed funds	1,224,812	22,196	-	1,202,616	-	-
Other financial liabilities	1,402,968	-	-	-	-	1,402,968
<b>Total financial liabilities</b>	<b>100,548,075</b>	<b>66,000,069</b>	<b>25,581,469</b>	<b>4,300,246</b>	<b>-</b>	<b>4,666,291</b>
<b>Interest rate sensitivity gap</b>	<b>13,925,697</b>	<b>(24,134,138)</b>	<b>(7,207,398)</b>	<b>30,104,100</b>	<b>6,956,331</b>	<b>8,206,802</b>

As at 31 December 2016	Carrying Amount Rs.'000	Interest Sensitive				Non interest Sensitive Rs.'000
		Less than 3 months Rs.'000	3 to 12 months Rs.'000	1 to 5 years Rs.'000	Over 5 years Rs.'000	
<b>Assets</b>						
Cash and cash equivalents	2,506,685	-	-	-	-	2,506,685
Balances with Central Bank of Sri Lanka	2,487,805	-	-	-	-	2,487,805
Placements with banks	2,819,628	2,819,628	-	-	-	-
Reverse repurchased agreements	2,137	-	2,137	-	-	-
Derivative financial instruments	15,412	-	-	-	-	15,412
Financial investments - held for trading	1,346,932	-	-	-	-	1,346,932
Loans and receivables to other customers	55,438,415	32,524,385	6,947,306	12,443,684	3,523,040	-
Other loans and receivables	7,747,231	2,487,148	1,271,812	3,988,271	-	-
Financial investments – available for sale	16,520,365	2,690,179	3,024,568	7,913,581	2,890,507	1,530
Financial investments – held to maturity	140,231	431	47,665	92,135	-	-
Other financial assets	105,667	-	-	-	-	105,667
<b>Total financial assets</b>	<b>89,130,508</b>	<b>40,521,771</b>	<b>11,293,488</b>	<b>24,437,671</b>	<b>6,413,547</b>	<b>6,464,031</b>
<b>Liabilities</b>						
Due to banks	12,160,244	8,583,339	3,560,773	16,132	-	-
Derivative financial instruments	3,976	-	-	-	-	3,976
Repurchased agreements	10,256,670	10,102,958	153,712	-	-	-
Due to other customers	51,841,372	31,842,947	15,195,741	1,257,497	-	3,545,187
Other financial liabilities	1,279,019	-	-	-	-	1,279,019
<b>Total financial liabilities</b>	<b>75,541,281</b>	<b>50,529,244</b>	<b>18,910,226</b>	<b>1,273,629</b>	<b>-</b>	<b>4,828,182</b>
<b>Interest rate sensitivity gap</b>	<b>13,589,227</b>	<b>(10,007,473)</b>	<b>(7,616,738)</b>	<b>23,164,042</b>	<b>6,413,547</b>	<b>1,635,849</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 50. RISK MANAGEMENT (Contd.)

## GROUP

As at 31 December 2017	Carrying Amount Rs.'000	Interest Sensitive				Non interest Sensitive Rs.'000
		Less than 3 months Rs.'000	3 to 12 months Rs.'000	1 to 5 years Rs.'000	Over 5 years Rs.'000	
<b>Assets</b>						
Cash and cash equivalents	5,057,422	359,684	-	-	-	4,697,738
Balances with Central Bank of Sri Lanka	3,785,679	-	-	-	-	3,785,679
Placements with banks	866,690	866,690	-	-	-	-
Reverse repurchased agreements	301,297	301,297	-	-	-	-
Derivative financial instruments	2,760	-	-	-	-	2,760
Financial investments - held for trading	5,949,023	39,056	298	1,233,078	424,513	4,252,078
Loans and receivables to other customers	79,220,956	39,642,806	11,764,991	21,462,551	6,350,608	-
Other loans and receivables	8,674,102	372,861	730,528	7,570,713	-	-
Financial investments - available for sale	16,604,761	1,111,274	7,178,603	7,306,010	1,007,143	1,731
Financial investments - held to maturity	2,546,553	89,639	2,076,137	380,777	-	-
Other financial assets	199,925	-	34,799	-	-	165,126
<b>Total financial assets</b>	<b>123,209,168</b>	<b>42,783,307</b>	<b>21,785,356</b>	<b>37,953,129</b>	<b>7,782,264</b>	<b>12,905,112</b>

**Liabilities**

Due to banks	17,298,727	12,481,576	4,719,296	97,826	-	29
Derivative financial instruments	4,867	-	-	-	-	4,867
Repurchased agreements	10,218,055	9,749,700	468,355	-	-	-
Due to other customers	76,747,977	44,305,438	23,835,536	5,348,547	-	3,258,456
Other borrowed funds	2,968,233	1,444,997	386,920	1,096,558	-	39,758
Other financial liabilities	1,562,527	-	-	-	-	1,562,527
<b>Total financial liabilities</b>	<b>108,800,386</b>	<b>67,981,711</b>	<b>29,410,107</b>	<b>6,542,931</b>	<b>-</b>	<b>4,865,637</b>
<b>Interest rate sensitivity gap</b>	<b>14,408,782</b>	<b>(25,198,404)</b>	<b>(7,624,751)</b>	<b>31,410,198</b>	<b>7,782,264</b>	<b>8,039,475</b>

As at 31 December 2016	Carrying Amount Rs.'000	Interest Sensitive				Non interest Sensitive Rs.'000
		Less than 3 months Rs.'000	3 to 12 months Rs.'000	1 to 5 years Rs.'000	Over 5 years Rs.'000	
<b>Assets</b>						
Cash and cash equivalents	2,717,650	-	-	-	-	2,717,650
Balances with Central Bank of Sri Lanka	2,487,805	-	-	-	-	2,487,805
Placements with banks	2,826,710	2,816,481	-	-	-	10,229
Reverse repurchased agreements	275,498	273,361	2,137	-	-	-
Derivative financial instruments	15,412	-	-	-	-	15,412
Financial investments - held for trading	1,346,932	-	-	-	-	1,346,932
Loans and receivables to other customers	62,931,936	35,585,680	6,860,034	13,125,678	7,360,544	-
Other loans and receivables	6,739,578	2,487,148	1,271,812	2,980,618	-	-
Financial investments - available for sale	16,694,470	2,854,964	3,025,465	7,922,004	2,890,507	1,530
Financial investments - held to maturity	140,231	431	47,665	92,135	-	-
Other financial assets	123,349	-	-	-	-	123,349
<b>Total financial assets</b>	<b>96,299,571</b>	<b>44,018,065</b>	<b>11,207,113</b>	<b>24,120,435</b>	<b>10,251,051</b>	<b>6,702,907</b>

**Liabilities**

Due to banks	12,770,197	8,458,401	3,560,773	16,133	-	734,891
Derivative financial instruments	3,976	-	-	-	-	3,976
Repurchased agreements	10,113,570	9,959,859	153,711	-	-	-
Due to other customers	57,525,156	32,718,504	18,107,216	3,154,248	-	3,545,187
Other borrowed funds	833,095	365,848	424,396	42,851	-	-
Other financial liabilities	1,643,927	-	-	-	-	1,643,927
<b>Total financial liabilities</b>	<b>82,889,921</b>	<b>51,502,612</b>	<b>22,246,095</b>	<b>3,213,232</b>	<b>-</b>	<b>5,927,981</b>
<b>Interest rate sensitivity gap</b>	<b>13,409,650</b>	<b>(7,484,547)</b>	<b>(11,038,983)</b>	<b>20,907,203</b>	<b>10,251,051</b>	<b>774,926</b>

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)****50.6 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 with established limits. Following table illustrate the changes to the Bank's capital adequacy ratio (CAR) due to the volatility in the exchange rates.

*50.6.1 Adjusted CAR for the possible exchange rate movements*

2017	If Exchange Rate	Current	Revised CAR After Stress Testing		
			Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank Tier 1 Ratio	Moves down by	18.85%	18.85%	18.85%	18.86%
Total CAR	Moves down by	18.85%	18.85%	18.85%	18.86%
Bank Tier 1 Ratio	Moves up by	18.85%	18.85%	18.85%	18.84%
Total CAR	Moves up by	18.85%	18.85%	18.84%	18.84%

2016	If Exchange Rate	Current	Revised CAR After Stress Testing		
			Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank Tier 1 Ratio	Moves down by	17.81%	17.81%	17.81%	17.81%
Total CAR	Moves down by	17.81%	17.81%	17.81%	17.81%
Bank Tier 1 Ratio	Moves up by	17.81%	17.80%	17.80%	17.80%
Total CAR	Moves up by	17.81%	17.80%	17.80%	17.79%

*50.6.2 Foreign currency sensitivity*

The following table demonstrates the maximum impact in Statement of Profit or Loss for the maximum usage if the allowable net open position limit

	Changes in FCY currency rate	Net open position (Before currency sensitivity)	Net open position (After currency sensitivity)	Effect on profit
2017	5%/(5%)	72Mn	75.5Mn/68.5Mn	(3.5Mn)/ 3.5Mn
2016	5%/(5%)	88Mn	84Mn/92Mn	(4.0Mn)/ 4.0Mn

**50.7 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.

**50.8 Country risk**

Country risk is the risk that an occurrence within the country could have an adverse effect on the Group directly by impairing the value of the Group or indirectly through an obligor's inability to meet its obligations to the Group.

Generally, these occurrences relate, but are not limited to sovereign events as defaults or restructuring; political events such as contested elections, restrictions on currency movements, non market currency convertibility, regional currency conflicts, economic contagion from other events such as sovereign default issues or regional turmoil, banking and currency crisis and natural disasters.

*50.8.1 Geographical analysis***BANK AND GROUP**

As at 31 December 2017	Asia	Europe	America	Australia	Middle East	Total
Balances with foreign banks	33,878	448,099	2,201,540	160,076	842	2,844,435
Placements with banks	-	-	409,159	-	-	409,159
	33,878	448,099	2,610,699	160,076	842	3,253,593

## NOTES TO THE FINANCIAL STATEMENTS

**50. RISK MANAGEMENT (Contd.)**

As at 31 December 2016	Asia	Europe	America	Australia	Middle East	Total
Balances with foreign banks	16,394	40,094	1,141,603	3,591	929	1,202,610
Placements with banks	-	-	491	-	-	491
	16,394	40,094	1,142,094	3,591	929	1,203,101

Except for the above, the Bank does not carry any other financial asset or financial liability outside Sri Lanka.

**51. CAPITAL**

The Bank maintains an actively managed capital base to cover risks inherent in the business and is meeting 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 ratio 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.

**51.1 Capital management**

The Bank's capital management objectives can be summarised as follows;

- ▷ Maintain sufficient capital to meet minimum regulatory capital requirements.
- ▷ Hold sufficient capital to support the Bank's risk appetite.
- ▷ Provide additional capital to business segment of the Bank to achieve the overall strategic objectives.

**51.2 Regulatory capital**

The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed commercial banks in Sri Lanka based on the BASEL framework. Accordingly, commercial banks in Sri Lanka need to maintain minimum capital adequacy ratios as specified in the CBSL guidelines. The Bank is well above the minimum requirements.

**BANK**

As at 31 December	2017		2016*	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (Rs. '000)	15,357,209		NA	
Tier 1 Capital (Rs. '000)	15,357,209		15,579,019	
Total Capital (Rs. '000)	15,357,209		15,148,587	
Risk Weighted Assets (Rs. '000)	81,454,631		68,571,631	
CET1 Capital Ratio (%)	18.85%	7.25%	22.72%	10.00%
Total Capital Ratio (%)	18.85%	11.25%	22.09%	5.00%

**GROUP**

As at 31 December	2017		2016*	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (Rs. '000)	16,332,655		NA	
Tier 1 Capital (Rs. '000)	16,332,655		14,633,157	
Total Capital (Rs. '000)	16,332,655		14,628,817	
Risk Weighted Assets (Rs. '000)	90,300,332		75,733,463	
CET1 Capital Ratio (%)	18.09%	7.25%	19.33%	10.00%
Total Capital Ratio (%)	18.09%	11.25%	19.32%	5.00%

\* Comparative figures are reported based on Basel II

	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Operating Results</b>				
Gross income	11,937,763	8,545,874	5,005,441	4,546,418
Interest income	10,498,284	7,223,211	4,155,484	3,972,062
Interest expense	7,452,377	4,716,433	2,133,782	2,209,487
Net interest income	3,045,907	2,506,778	2,021,702	1,762,575
Non interest income	1,439,479	1,322,663	849,957	574,356
Share of profit of equity accounted investees, net of tax	55,801	76,696	43,069	-
Operating expenses (Including impairment & VAT)	4,007,069	3,470,201	2,679,483	2,276,128
Profit/ (loss) before taxation	534,118	435,936	235,246	60,803
Income tax	73,500	(15,244)	13,296	3,715
<b>Profit/ (loss) after income tax</b>	<b>460,618</b>	<b>451,180</b>	<b>221,950</b>	<b>57,088</b>
<b>Assets</b>				
Cash & balances with Central Bank	8,483,417	4,994,490	2,811,325	2,408,572
Investment securities	-	-	-	-
Sri Lanka government securities	-	-	-	-
Reverse repurchased agreements	1,795	2,137	1,513,425	10,543,106
Placement with banks	716,147	2,819,628	284,078	73,995
Derivative financial instruments	2,760	15,412	13,481	4,150
Financial investments - held for trading	5,949,023	1,346,932	8,463,807	2,584,471
Bills of exchange	-	-	-	-
Net loans and advances	-	-	-	-
Loans and receivables to other customers	70,577,923	55,438,415	40,095,332	25,944,570
Other loans and receivables	9,609,639	7,747,231	5,721,549	2,470,115
Financial investments - available for sale	16,453,207	16,520,365	8,356,130	1,647,686
Financial investments - held to maturity	2,546,553	140,231	140,529	140,027
Investments in subsidiaries	1,262,612	940,027	883,378	892,364
Property, plant & equipment	888,359	897,371	913,814	754,548
Goodwill and intangible assets	1,220,999	1,151,033	1,118,200	951,750
Current tax asset	436,279	268,456	208,404	149,448
Deferred tax asset	-	82,534	-	-
Other assets	858,695	644,247	475,909	430,318
<b>Total</b>	<b>119,007,408</b>	<b>93,008,509</b>	<b>70,999,362</b>	<b>48,995,121</b>
<b>Liabilities</b>				
Due to banks	17,208,641	12,160,244	6,945,249	2,090,588
Derivative financial instruments	4,867	3,976	2,860	-
Repurchased agreements	10,381,193	10,256,670	8,242,551	1,116,489
Due to other customers	70,325,594	51,841,372	37,652,508	27,808,891
Other borrowed funds	1,224,812	-	-	-
Current tax liabilities	-	-	-	-
Deferred tax liabilities	144,922	-	30,089	25,284
Other liabilities	1,859,682	1,663,033	1,212,916	1,203,584
<b>Total liabilities</b>	<b>101,149,711</b>	<b>75,925,295</b>	<b>54,086,172</b>	<b>32,244,837</b>
<b>Shareholder's funds</b>				
Stated capital	16,334,782	16,334,782	16,334,782	16,334,782
Share warrants	65,484	65,484	65,484	65,484
Reserves	1,457,431	682,951	512,923	350,018
<b>Total equity</b>	<b>17,857,697</b>	<b>17,083,214</b>	<b>16,913,189</b>	<b>16,750,284</b>
<b>Total</b>	<b>119,007,408</b>	<b>93,008,509</b>	<b>70,999,362</b>	<b>48,995,121</b>
<b>Share information</b>				
Earnings per share	0.42	0.41	0.20	0.10



## TEN YEARS AT A GLANCE

2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
4,792,752	3,924,168	2,523,139	2,078,120	2,052,704	1,935,829
4,129,391	3,444,114	2,083,742	1,771,977	1,855,784	1,750,332
2,973,676	2,211,053	1,102,215	997,841	1,392,873	1,387,001
1,155,715	1,233,061	981,527	774,135	462,911	363,332
663,361	480,055	413,064	306,144	196,920	185,497
-	-	-	-	-	-
1,715,108	1,250,141	943,348	772,287	525,848	473,383
103,967	462,975	451,244	307,992	133,983	75,445
(8,747)	149,331	143,550	158,195	71,842	52,343
112,714	313,644	307,693	149,797	62,141	23,102
2,134,479	2,325,987	1,887,571	1,092,432	1,396,635	2,144,049
-	-	-	-	4,795,821	2,350,343
-	1,632,054	1,006,065	2,434,527	-	-
1,349,743	601,313	245,127	1,852,605	-	-
314,545	1,601,622	1,951,978	943,349	-	-
1,458	-	148	1,275	-	-
989,206	431,054	149,622	161,206	-	-
-	-	-	-	330,735	121,274
-	-	-	-	7,189,590	7,535,681
23,461,925	20,024,729	17,292,929	9,919,465	-	-
2,375,111	-	-	-	-	-
139,556	-	-	-	-	-
1,736,728	2,285,290	2,197,453	2,112,995	-	-
892,364	912,364	912,382	-	-	-
1,025,088	614,441	465,108	235,670	201,581	163,032
53,951	39,996	10,671	4,025	-	-
94,515	-	-	-	39,182	65,762
-	-	-	-	-	-
442,293	354,025	272,269	212,907	352,606	299,213
35,010,962	30,822,875	26,391,323	18,970,453	14,306,149	12,679,354
163,448	911,898	380,999	320,825	11,963,996	10,492,077
2,058	2,058	1,913	-	92,397	92,983
129,450	499,495	128,289	81,785	-	-
28,339,687	23,142,802	19,754,597	13,442,439	-	-
-	-	-	-	-	-
36,134	36,134	21,535	-	-	-
23,964	37,155	19,661	5,884	-	-
897,127	730,329	885,386	538,351	650,983	613,331
29,553,677	25,359,871	21,192,379	14,414,048	12,707,375	11,198,391
4,979,791	4,979,791	4,979,791	4,604,791	1,813,170	1,757,500
-	-	-	-	-	-
477,494	483,213	219,153	(48,385)	(214,396)	(276,537)
5,457,285	5,463,004	5,198,944	4,556,406	1,598,774	1,480,963
35,010,962	30,822,875	26,391,323	18,970,453	14,306,149	12,679,354
0.30	0.90	0.90	0.60	0.40	0.20

## Key Regulatory Ratios - Capital and Liquidity

As at 31 December	BANK		GROUP	
	2017	2016	2017	2016
<b>Regulatory Capital (Rs.'000)</b>				
Common Equity Tier 1	15,357,209	NA	16,332,655	NA
Tier 1 Capital	15,357,209	15,579,019*	16,332,655	14,633,157*
Total Capital	15,357,209	15,148,587*	16,332,655	14,628,817*

## Regulatory Capital Ratios

Common Equity Tier 1 Capital Ratio (Minimum Requirement - 4.5%)	18.85%	NA	18.09%	NA
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	18.85%	22.72%*	18.09%	19.33%*
Total Capital Ratio (Minimum Requirement - 11.25%)	18.85%	22.09%*	18.09%	19.32%*

## Regulatory Liquidity

## Statutory Liquid Assets

Domestic Banking Unit (Rs.'000)	16,953,184	13,246,635
Off-Shore Banking Unit (USD'000)	12,168	6,007
<b>Statutory Liquid Assets Ratio (Minimum Requirement - 20%)</b>		
Domestic Banking Unit	21.27%	22.02%
Off -Shore Banking Unit	21.13%	21.79%
<b>Liquidity Coverage Ratio (Minimum Requirement - 80%)</b>		
Rupee	160.14%	111.97%
All Currency	83.02%	82.28%

\* Comparative figures are reported based on Basel II

## PILLAR III MARKET DISCLOSURES

## Basel III Computation of Capital Ratio

As at 31 December	2017	
	BANK	GROUP
	Rs.'000	Rs.'000
Common Equity Tier I (CETI) Capital after adjustments	15,357,209	16,332,655
<b>Common Equity Tier I (CET1) Capital</b>	<b>17,957,003</b>	<b>18,189,503</b>
Equity capital or Stated capital/Assigned capital	16,334,782	16,334,782
Reserve fund	116,255	131,519
Published retained earnings/(Accumulated retained losses)	1,159,782	714,443
Published accumulated other comprehensive income (OCI)	244,852	245,368
General and other disclosed reserves	101,332	101,332
Unpublished current year's profit/(loss) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	662,060
<b>Total Adjustments to CET1 Capital</b>	<b>2,599,794</b>	<b>1,856,848</b>
Goodwill (net)	-	113,031
Intangible assets (net)	1,220,999	1,455,367
Deferred tax assets (net)	-	288,450
Shortfall of the cumulative impairment to specific provisions	72,632	-
Significant investments in the capital of financial institutions where the Bank owns more than 10 per cent of the issued ordinary share capital of the entity	1,306,163	-
<b>Additional Tier 1 (AT1) Capital after adjustments</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (AT1) Capital</b>	<b>-</b>	<b>-</b>
Qualifying additional Tier 1 capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total adjustments to AT1 capital</b>	<b>-</b>	<b>-</b>
Investment in own shares	-	-
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	-	-
<b>Tier 2 Capital after Adjustments</b>	<b>-</b>	<b>-</b>
<b>Tier 2 Capital</b>	<b>-</b>	<b>-</b>
Qualifying Tier 2 capital instruments	-	-
Revaluation gains	-	-
Loan Loss provision	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
<b>Total Adjustments to Tier 2</b>	<b>-</b>	<b>-</b>
Investment in own shares	-	-
Reciprocal cross holdings in Tier 2 capital instruments	-	-
<b>CET1 Capital</b>	<b>15,357,209</b>	<b>16,332,655</b>
<b>Total Tier 1 Capital</b>	<b>15,357,209</b>	<b>16,332,655</b>
<b>Total Capital</b>	<b>15,357,209</b>	<b>16,332,655</b>

## Basel III Computation of Capital Ratio contd.

As at 31 December	2017	
	BANK	GROUP
	Rs.'000	Rs.'000
Total Risk Weighted Amount (RWA)	81,454,631	90,300,332
RWAs for Credit Risk	64,377,014	71,018,733
RWAs for Market Risk	12,398,293	12,632,642
RWAs for Operational Risk	4,679,324	6,648,957
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs)	18.85%	18.09%
of which : Capital Conservation Buffer	1.25%	1.25%
of which : Countercyclical Buffer	-	-
of which : Capital Surcharge on D-SIBs	NA	NA
Total Tier 1 Capital Ratio	18.85%	18.09%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs)	18.85%	18.09%
of which : Capital Conservation Buffer	1.25%	1.25%
of which : Countercyclical Buffer	-	-
of which : Capital Surcharge on D-SIBs	NA	NA

## Basel III Computation of Liquidity Coverage Ratio

## BANK

As at 31 December	2017		2016	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Total stock of High -Quality Liquid Assets (HQLA)	25,436,389	10,491,612	7,622,409	7,584,640
Total Adjusted Level 1A Assets	24,817,846	10,574,856	7,370,622	7,509,373
Level 1 Assets	9,965,850	9,965,850	7,370,622	7,370,622
Total Adjusted Level 2A Assets	618,544	525,762	251,787	214,019
Level 2A Assets	618,544	525,762	251,787	214,019
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	113,281,336	24,186,020	97,731,828	16,305,754
Deposits	46,370,678	4,637,068	12,757,355	1,268,316
Unsecured wholesale funding	32,304,044	18,400,185	38,408,782	14,481,155
Secured funding transaction	-	-	-	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	34,604,508	1,146,661	46,565,691	556,284
Additional requirements	2,106	2,106	-	-
Total Cash inflows	18,751,724	11,548,664	9,605,574	7,087,763
Maturing secured lending transactions backed by collateral	192,686	192,678	-	-
Committed facilities	-	-	-	-
Other inflows by counter party which are maturing within 30 days	18,556,193	11,355,986	9,605,574	7,087,763
Operational deposits	2,845	-	-	-
Other cash inflows	-	-	-	-
Liquidity Coverage Ratio,(%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)*100		83.02%		82.28%

**Main Features of Regulatory Capital Instruments**

As at 31 December	2017	
	BANK	GROUP
	Rs.'000	Rs.'000
Description of the Capital Instrument	-	-
Issuer	-	-
Unique identifier	-	-
Governing law(s) of the instrument	-	-
Original date of issuance	-	-
Par value of instrument	-	-
Perpetual or dated	-	-
Original maturity date, if applicable	-	-
Amount recognised in regulatory capital	15,357,209*	16,332,655**
Accounting classification (Equity/Liability)	Equity	Equity
Issuer Call subject to Prior Supervisory Approval	-	-
Optional call date, contingent call dates and redemption amount	-	-
Subsequent call dates, if applicable	-	-
Coupons/Dividends	-	-
Fixed or floating dividend/coupon	-	-
Coupon rate and any related index	-	-
Non-cumulative or cumulative	-	-
Convertible or Non-Convertible	-	-
If Convertible, conversion trigger (s)	-	-
If Convertible, fully or partially	-	-
If Convertible, mandatory or optional	-	-
If Convertible, conversion rate	-	-

\* Tier 1 and Tier 2 Instruments not yet issued.

\*\* Debenture worth of Rs. 300 Mn was issued by UB Finance Company Ltd., and it was invested by Union Bank of Colombo PLC.

**Current and Future Capital Requirement**

Capital planning and assessment process	The Bank does a rolling three year strategic plan.
Material risk exposures in line with strategic plan	Planning is sensitive to stability of external variables and tax regulations.
Current and future capital needs, anticipated capital expenditure and desirable capital level	The Bank is sufficiently capitalised and does not see a requirement of capital infusion for the foreseeable future.
Internal and external capital sources	Main shareholder of the Bank holds share warrants. Right issue or a debenture issue could also be an option.
Assessment of the adequacy of Bank's capital commensurate with all material risks and other capital needs in relation to its current and future activities. General contingency plan for dealing with divergences and unexpected events such as raising additional capital, restricting business activities or using risk mitigation techniques.	Currently the Bank is adequately capitalised. In an unlikely event of capital requirement the above mentioned sources can be used.

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

As at 31 December 2017	BANK					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post (CCF) and CRM		RWA and RWA Density	
	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWA	RWA Density
Asset Classes	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	%
Claims on Central Government and Central Bank of Sri Lanka	26,154,959	-	26,154,959	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks exposures	4,949,218	-	4,949,218	-	1,371,229	28%
Claims on financial institutions	13,813,021	-	13,813,021	-	9,285,640	67%
Claims on corporate	11,873,257	39,286,551	11,873,257	3,722,705	15,515,611	99%
Retail claims	33,167,551	-	30,292,430	-	26,167,346	86%
Claims secured by residential property	4,008,919	-	4,008,919	-	2,742,652	68%
Claims secured by commercial real estate	3,996,667	-	3,996,667	-	3,996,667	100%
Non-Performing Assets (NPAs)	1,246,956	-	1,246,956	-	1,413,420	113%
Higher-risk categories	166,634	-	166,634	-	416,584	250%
Cash items and other assets	10,482,662	253,468	5,266,580	128,794	3,467,865	64%
<b>Total</b>	<b>109,859,844</b>	<b>39,540,019</b>	<b>101,768,641</b>	<b>3,851,499</b>	<b>64,377,014</b>	<b>63%</b>

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

## Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects (Contd.)

As at 31 December 2017	GROUP					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post (CCF) and CRM		RWA and RWA Density	
	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWA	RWA Density
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	%
Claims on Central Government and Central Bank of Sri Lanka	26,454,460	-	26,454,460	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks exposures	5,280,794	-	5,280,794	-	1,447,348	27%
Claims on financial institutions	13,359,459	-	13,359,459	-	9,013,858	67%
Claims on corporate	11,889,151	39,286,551	11,889,151	3,722,705	15,531,505	131%
Retail claims	41,702,349	-	38,827,228	-	32,568,445	84%
Claims secured by residential property	4,010,247	-	4,010,247	-	2,743,316	68%
Claims secured by commercial real estate	4,149,575	-	4,149,575	-	4,149,575	100%
Non-Performing Assets (NPAs)	1,867,624	-	1,867,624	-	1,795,030	96%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	10,785,709	253,468	5,569,627	128,794	3,769,655	68%
<b>Total</b>	<b>119,499,368</b>	<b>39,540,019</b>	<b>111,408,165</b>	<b>3,851,499</b>	<b>71,018,733</b>	<b>64%</b>

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.



## PILLAR III MARKET DISCLOSURES

## Credit Risk under Standardised Approach : Exposures by Asset Classes and Risk Weights

As at 31 December 2017	BANK								Total Credit Exposures Amount
	Post CCF & CRM								
Risk Weight	0%	20%	50%	75%	100%	150%	>150%		
Asset Classes	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Claims on Central Government and Central Bank of Sri Lanka	26,154,959	-	-	-	-	-	-	26,154,959	
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	
Claims on Banks exposures	-	4,238,798	373,901	-	336,518	-	-	4,949,218	
Claims on financial institutions	-	281,612	8,604,185	-	4,927,225	-	-	13,813,021	
Claims on corporates	-	-	160,702	-	15,435,261	-	-	15,595,962	
Retail claims	-	-	-	15,140,103	14,472,151	-	-	29,612,254	
Claims secured by residential property	-	-	2,532,534	-	1,476,385	-	-	4,008,919	
Claims secured by commercial real estate	-	-	-	-	3,996,667	-	-	3,996,667	
Non-Performing Assets (NPAs)	-	-	109,132	-	695,763	442,060	-	1,246,956	
Higher-risk categories	-	-	-	-	-	-	166,634	166,634	
Cash Items and other assets	1,940,119	405,780	-	-	3,729,651	-	-	6,075,550	
<b>Total</b>	<b>28,095,078</b>	<b>4,926,190</b>	<b>11,780,454</b>	<b>15,140,103</b>	<b>45,069,620</b>	<b>442,060</b>	<b>166,634</b>	<b>105,620,140</b>	

## Credit Risk under Standardised Approach : Exposures by Asset Classes and Risk Weights (Contd.)

As at 31 December 2017	GROUP							
	Post CCF & CRM							
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Claims on Central Government and Central Bank of Sri Lanka	26,454,460	-	-	-	-	-	-	26,454,460
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-
Claims on Banks exposures	-	4,537,787	406,431	-	336,575	-	-	5,280,794
Claims on financial institutions	-	431,612	8,000,622	-	4,927,225	-	-	13,359,459
Claims on corporates	-	-	160,702	-	15,451,155	-	-	15,611,856
Retail claims	-	-	-	23,674,901	14,472,151	-	-	38,147,052
Claims secured by residential property	-	-	2,533,862	-	1,476,385	-	-	4,010,247
Claims secured by commercial real estate	-	-	-	-	4,149,575	-	-	4,149,575
Non-Performing Assets (NPAs)	-	-	587,247	-	838,316	442,060	-	1,867,624
Higher-risk categories	-	-	-	-	-	-	-	-
Cash items and other assets	1,941,376	405,780	-	-	4,031,441	-	-	6,378,597
<b>Total</b>	<b>28,395,837</b>	<b>5,375,179</b>	<b>11,688,865</b>	<b>23,674,901</b>	<b>45,682,822</b>	<b>442,060</b>	<b>-</b>	<b>115,259,664</b>

## Market Risk under Standardised Measurement Method

As at 31 December 2017	Risk Weighted Assets	
	BANK	GROUP
	Rs.'000	Rs.'000
(a) RWA for Interest Rate Risk	429,546	429,546
General Interest Rate Risk	429,546	429,546
(i) Net Long or Short Position	429,546	429,546
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	956,717	983,082
(i) General Equity Risk	478,359	491,925
(ii) Specific Equity Risk	478,359	491,157
(c) RWA for Foreign Exchange & Gold	8,545	8,545
Capital Charge for Market Risk [(a)+(b)+ (c)] * CAR	12,398,293	12,632,642



### Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

#### BANK

As at 31 December 2017	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>	<b>119,007,407</b>	<b>118,354,229</b>	<b>101,768,641</b>	<b>5,909,966</b>	<b>10,618,365</b>
Cash and cash equivalents	4,697,738	4,697,738	4,697,738	-	-
Balances with the Central Bank of Sri Lanka	3,785,679	3,785,679	3,785,679	-	-
Placements with banks	716,147	716,092	716,092	-	-
Derivative financial instruments	2,760	-	-	-	-
Other financial assets - held for trading	5,949,023	5,911,761	1,795	5,909,966	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-
Loans and receivables to other customers	80,189,357	70,491,540	62,400,337	-	8,091,203
Financial investments - available for sale	16,453,207	16,075,694	16,075,694	-	-
Financial investments - held to maturity	2,546,553	11,374,212	11,374,212	-	-
Investments in subsidiaries	1,262,611	1,472,797	166,634	-	1,306,163
Investments in associates and joint ventures	-	-	-	-	-
Property, plant and equipment	888,358	888,358	888,358	-	-
Investment properties	-	-	-	-	-
Goodwill and intangible assets	1,220,999	1,220,999	-	-	1,220,999
Deferred tax assets	-	57,257	-	-	-
Other assets	1,294,976	1,662,102	1,662,102	-	-
<b>Liabilities</b>	<b>101,149,710</b>	<b>101,174,137</b>	<b>-</b>	<b>-</b>	<b>-</b>
Due to banks	23,466,185	26,843,346	-	-	-
Derivative financial instruments	4,867	-	-	-	-
Other financial liabilities - held for trading	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
Due to other customers	74,449,244	68,963,781	-	-	-
Other borrowings	1,224,812	1,227,520	-	-	-
Debt securities issued	-	-	-	-	-
Current tax liabilities	-	125,550	-	-	-
Deferred tax liabilities	144,923	-	-	-	-
Other provisions	-	-	-	-	-
Other liabilities	1,859,680	4,013,939	-	-	-
Due to subsidiaries	-	-	-	-	-

## Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories (Contd.)

## BANK

As at 31 December 2017	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Subordinated term debts	-	-	-	-	-
<b>Off -Balance Sheet Liabilities</b>	<b>39,286,551</b>	<b>39,286,551</b>	<b>39,286,551</b>	-	-
Guarantees	2,406,026	2,406,026	2,406,026	-	-
Performance bonds	1,220,179	1,220,179	1,220,179	-	-
Letter of credits	2,991,693	2,991,693	2,991,693	-	-
Other contingent items	7,054,138	7,054,138	7,054,138	-	-
Undrawn loan commitments	25,614,515	25,614,515	25,614,515	-	-
Other commitments	-	253,468	253,468	-	-
<b>Shareholders' Equity</b>	-	-	-	-	-
Equity capital (Stated capital)/Assigned capital	16,334,782	16,400,266	-	-	-
of which amount eligible for CET 1	16,334,782	16,400,266	-	-	-
of which amount eligible for AT1	-	-	-	-	-
Retained earnings	1,159,782	648,540	-	-	-
Accumulated other comprehensive income	145,546	-	-	-	-
Other reserves	217,587	131,286	-	-	-
<b>Total Shareholders' Equity</b>	<b>17,857,697</b>	<b>17,180,093</b>	-	-	-

Column (a) above carries values as reported in Published Financial Statements, while (b) above carries values under scope of Regulatory Reporting.

The reasons for more than 1% (as a percentage of assets under scope of Regulatory Reporting) of the variances between (a) and (b) are as follows.

- ▷ As per (a) above Loans & receivables to other customers are inclusive of debt securities, as per (b) it is classified under Financial investments-held to maturity.
- ▷ As per (a) above Due to banks and Due to other customers are inclusive of Interest payable and Repurchase agreements, as per (b) the same has been reported under Other liabilities.

## QUARTERLY PERFORMANCE OF THE BANK

	2017			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>For the Quarter ended (Rs'000)</b>				
Net Interest Income	766,960	793,865	757,839	727,243
Non Interest Income	244,428	309,352	424,166	351,785
Less:				
Impairment	93,367	38,315	80,033	37,214
Operating Expenses	771,400	847,803	835,073	890,596
Operating Profit Before VAT and Corporate Tax	166,974	226,273	276,842	167,549
Share of Profit of equity accounted investees, net of tax	20,353	9,174	9,943	16,331
Operating Profit After Corporate Tax	94,944	112,380	134,118	119,176
<b>As at the Quarter ended (Rs'000)</b>				
Total Assets	100,907,274	103,246,632	116,299,046	119,007,408
Loans and Receivables to other customers	61,168,137	64,047,982	67,391,069	70,577,923
Due to other customers	57,200,325	62,719,122	67,397,892	70,325,594
Equity Capital and reserves	16,999,271	17,367,426	17,739,200	17,857,697
<b>Regulatory Capital Adequacy (%)</b>				
Common Equity Tier 1 Capital Ratio (Minimum Requirement, 4.5%)	-	-	19.14%	18.85%
Tier 1 Capital Ratio (Minimum Requirement, 7.25%)	22.09%*	21.41%*	19.14%	18.85%
Total Capital Ratio (Minimum Requirement, 11.25%)	21.49%*	20.82%*	19.14%	18.85%
<b>Assets Quality (%)</b>				
Gross Non-Performing Advances Ratio, % (net of interest in suspense)	2.73%	2.62%	2.53%	2.69%
Net-Non Performing Advances, % (net of interest in suspense and provision)	1.90%	1.78%	1.66%	1.76%
<b>Regulatory Liquidity (%)</b>				
Statutory Liquid Assets, Ratio (Minimum Requirement, 20% )				
Domestic Banking Unit	21.41%	21.32%	21.85%	21.27%
Off-Shore Banking Unit	21.87%	21.03%	21.57%	21.13%
<b>Profitability (Annualised) (%)</b>				
Interest Margin	3.16%	3.18%	2.95%	2.87%
Return on Assets (before Tax)	0.44%	0.51%	0.56%	0.50%
Return on Equity	2.23%	2.41%	2.61%	2.64%
<b>Ordinary share information (Rs.)</b>				
Market Value - Closing price	14.20	15.40	13.30	13.20
High	15.30	16.00	15.50	15.00
Low	13.10	13.90	13.10	13.10

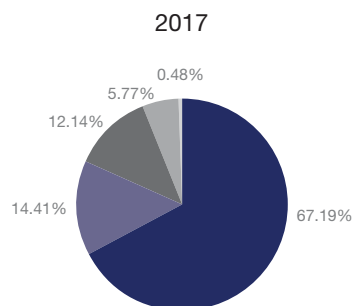
\* Quarter 1 and 2 are reported based on Basel II

## 2017 - DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

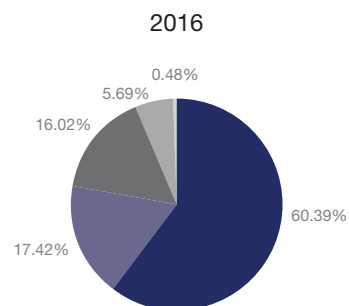
(GRI 201-1)

For the year ended 31st December	2017 Rs.000	2016 Rs.000
<b>Direct Economic Value Generated</b>		
Interest Income	10,498,284	7,223,211
Net Fee Commission Income	673,469	575,048
Net Gain/(loss) from Trading	428,848	409,085
Other Operating Income	227,414	246,468
	<b>11,828,015</b>	<b>8,453,812</b>
<b>Economic Value Distributed</b>		
To Depositors and Lender as a interest	7,452,377	4,716,433
To Employees as Emoluments		
- Salary, bonus and contribution plans	1,219,680	1,021,467
- Benefits	377,730	339,185
To providers of Suppliers and Services	1,346,917	1,251,268
<b>To Government as Taxation</b>		
VAT on Financial Services	267,812	186,985
NBT on Financial Services	35,708	30,316
Crop Insurance Levy	4,875	3,906
Stamp duty and Other Local Taxes	331,705	223,460
To Central Bank of Sri Lanka as Deposit Insurance premium	53,574	37,442
	<b>11,090,378</b>	<b>7,810,462</b>
<b>Economic Value Retained</b>	<b>736,637</b>	<b>643,350</b>

### Economic Value Distributed



- ▶ To Depositors & Lender as a interest
- ▶ To Employees as Emoluments
- ▶ To providers of Suppliers & Services
- ▶ To Government as Taxation
- ▶ To Central Bank of Sri Lanka as Deposit Insurance premium



- ▶ To Depositors & Lender as a interest
- ▶ To Employees as Emoluments
- ▶ To providers of Suppliers & Services
- ▶ To Government as Taxation
- ▶ To Central Bank of Sri Lanka as Deposit Insurance premium



## COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF CENTRAL BANK OF SRI LANKA

### Compliance with Annual Report Disclosure Requirements of Central Bank of Sri Lanka

Given below is the state of compliance with the Disclosure requirements specified by the Central Bank of Sri Lanka for the preparation of Annual Financial Statements of Licensed Commercial Banks.

1. INFORMATION ABOUT THE SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE	
1.1 Statement of Financial Position	
1.1.1 Disclosures on categories of financial assets and financial liabilities	Note 18
1.1.2 Other disclosures	
(i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement	N/A
(ii) Reclassifications of financial instruments from one category to another	N/A
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral	Note 44
(iv) Reconciliation of the allowance account for credit losses by class of financial assets	Note 24.4
(v) Information about compound financial instruments with multiple embedded derivatives	N/A
(vi) Breaches of terms of loan agreements	N/A
1.2 Statement of Comprehensive Income	
1.2.1 Disclosures on items of income, expense, gains and losses	Note 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13.
1.2.2 Other disclosures	
(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss	Note 5
(ii) Fee income and expense	Note 6
(iii) Amount of impairment losses by class of financial assets	Note 10.1
(iv) Interest income on impaired financial assets	Note 5.1
1.3 Other disclosures	
1.3.1 Accounting policies for financial instruments	Note 3.1.9, 3.1.2, 3.2.2, 3.2.3, 3.2.4, 24, 25, 26 and 27

COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF  
CENTRAL BANK OF SRI LANKA

1.3.2 Information on hedge accounting	N/A
1.3.3 Information about the fair values of each class of financial asset and financial liability, along with:	
(i) Comparable carrying amounts	Note 48
(ii) Description of how fair value was determined	Note 48
(iii) The level of inputs used in determining fair value	Note 48
(iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments that fair value is determined using level 3 inputs	Note 48
(v) Information if fair value cannot be reliably measured	N/A
<b>2 INFORMATION ABOUT THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS</b>	
2.1 Qualitative disclosures	
2.1.1 Risk exposures for each type of financial instrument	Note 50 – Risk Management
2.1.2 Management’s objectives, policies, and processes for managing those risks	Note 50.1 – Risk Management
2.1.3 Changes from the prior period	Risk Management
2.2 Quantitative disclosures	
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date	Note 50 – Risk Management
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed	
(i) Credit Risk	
(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets	Note 50.2 – Risk Management
(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset	Note 50.2 – Risk Management
(c) Information about collateral or other credit enhancements obtained or called	Note 50.2 – Risk Management
(d) For other disclosures, refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	Note 50.2 – Risk Management
(ii) Liquidity Risk	
(a) A maturity analysis of financial liabilities	Note 50.3 – Risk Management
(b) Description of approach to risk management	Note 50.3 – Risk Management
(c) For other disclosures, refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	Note 50.3 – Risk Management
(iii) Market Risk	
(a) A sensitivity analysis of each type of market risk to which the entity is exposed	Note 50.4
(b) Additional information, if the sensitivity analysis is not representative of the entity’s risk exposure	N/A
(c) For other disclosures, refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H)	Note 50.4

COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF  
CENTRAL BANK OF SRI LANKA

<p>(iv) <b>Operational Risk</b> Refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H) “Risk Management report”</p>	Risk Management
<p>(v) <b>Equity risk in the banking book</b></p> <p>(a) <b>Qualitative disclosures</b> *Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</p> <p>*Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.</p> <p>(b) <b>Quantitative disclosures</b> *Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.</p> <p>*The types and nature of investments. * The cumulative realised gains/ (losses) arising from sales and liquidations in the reporting period.</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>
<p>(vi) <b>Interest rate risk in the banking book</b></p> <p>(a) <b>Qualitative disclosures</b> Nature of interest rate risk in the banking book (IRRBB) and key assumptions</p> <p>(b) <b>Quantitative disclosures</b> The increase/ (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management’s method for measuring IRRBB, broken down by currency (as relevant).</p>	<p>Note 50.5 – Risk Management</p> <p>Note 50.5 – Risk Management</p>
<p>2.2.3 Information on concentrations of risk “Risk Management report”</p>	Risk Management

**COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF  
CENTRAL BANK OF SRI LANKA**

<b>3 MARKET DISCLOSURES</b>	
<b>3.1 Regulatory Requirements on Capital and Liquidity</b>	
i. Key Regulatory Ratios – Capital and Liquidity	Page 272
ii. Basel III Computation of Capital Ratios	Page 273, 274
iii. Basel III Computation of Liquidity Coverage Ratio	Page 275
iv. Main Features of Regulatory Capital Instruments	Page 276
<b>3.2 Risk Weighted Assets (RWA)</b>	
i. Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements	Page 276
ii. Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Page 277, 278
iii. Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Page 279, 280
iv. Market Risk under Standardised Measurement Method	Page 281
v. Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach	Page 282
<b>3.3 Linkages Between Financial Statements &amp; Regulatory Exposures</b>	
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## A

**Acceptances**

The signature on a bill of exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words a bill of exchange that has been accepted.

**Accounting Policies**

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

**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.

**Actuarial Gain/Loss**

Gain or Loss arising from the difference between estimates and actual experience in a Company's Pension Plan.

**Amortisation**

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Amortised Cost**

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or in collectability.

**Amounts Due to Customers**

Money deposited by account holders. Such funds are recorded as liabilities.

**Associates**

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

**Asset and Liability Committee (ALCO)**

A risk-management committee in a bank that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure.

Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance-sheet allocations.

**Available For Sale (AFS) Financial Assets**

A debt or equity security that is purchased with the intent of selling before it reaches maturity, or selling prior to a lengthy time period in the event the security does not have a maturity.

## B

**Bills of Collection**

A bill of exchange drawn by an exporter usually at a team, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

**Basel II**

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the 'International Convergence of Capital Measurements and Capital Standards'.

**Basel III**

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on Bank capital adequacy and liquidity.

**Basis Point (BP)**

One hundredth of a percentage point, i.e., 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

## C

**Capital Adequacy Ratio**

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 Gain (Capital Profit)**

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

**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 the 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.

**Cash Flow Hedge**

A cash flow hedge is a hedge of the exposure to the variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

**Collectively Assessed Loan Impairment Provisions**

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Consumer Banking business (Housing, personal, vehicle loans etc) are assessed on a portfolio basis.

**Commercial Paper ('CP')**

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

**Commitments**

Credit facilities approved but not yet utilised by the clients at the date of Statement of Financial Position.

**Contingencies**

A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

**Control**

Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

**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 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.

**Cost to Income Ratio**

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

**Country Risk**

The risk that a foreign government will not satisfy its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (political risk).

**Credit Rating**

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

**Credit Risk**

Credit risk or default risk is most simply defined as the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

**Credit Risk Mitigation**

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

**Currency Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Currency SWAPs**

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

**Customer Deposits**

Money deposited by account holders. Such funds are recorded as liabilities.

**D****Dealing Securities**

These are marketable securities acquired and held with the intention to resale over a short period of time.

**Deferred Taxation**

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.

**Delinquency**

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

## GLOSSARY OF FINANCIAL TERMS

**Depreciation**

The systematic allocation of the depreciable amount of an asset over its useful life.

**Derecognition**

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

**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).

**Discount Rate**

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

**Dividend Cover**

Profit after tax divided by gross Dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

**Dividend Yield**

Dividend earned per share as a percentage of its market value.

**Documentary Letters of Credit (LCs)**

Commercial letters of credit provided for payment by a bank to the name beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

## E

**Earnings Per Ordinary Share (EPS)**

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

**Economic Value Added (EVA)**

A measure of productivity which takes into consideration cost of total invested equity.

**Effective Interest Rate (EIR)**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

**Effective Tax Rate (ETR)**

Provision for taxation including deferred tax divide by the profit before taxation.

**Equity Instrument**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Equity Risk**

The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

**Equity Method**

This 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 and loss of investor includes the investor's share of the profit or the loss of the investee.

**Expected Loss (EL)**

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

**Exposure**

A claim, contingent claim or position which carries a risk of financial loss.

**ESOP (Employee Share Option Plan)**

A method of giving employees shares in the business for which they work.

## F

**Fair Value**

Fair Value is the amount for which an asset could be exchanged or liability settled between a knowledgeable willing parties in an arm's length transaction.

**Fair Value Adjustment**

An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

**Finance Lease**

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over and agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

**Financial Asset**

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

**Financial Guarantee Contract**

A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

**Fair Value Through Profit or Loss**

A financial assets/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of profit taking or derivative (except for a derivative that is a financial guarantee contract).

**Financial Instrument**

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Liability**

A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

**Forward Exchange Contract**

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

**Foreign Exchange Profit**

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last date of the Statement of Financial Position and the settlement/date of the Statement of Financial Position. Also arises from trading in foreign currencies.

**Firm Commitment**

A Firm Commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

**G****Gearing**

Long term borrowings divided by the total funds available for shareholders.

**Gross Dividend**

The portion of profits distributed to the shareholders including the tax withheld.

**Group**

A group is a parent and all its subsidiaries and associates.

**Guarantees**

A promise made by a third party (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.

**Held To Maturity (HTM) Financial Assets**

Held to maturity investments are non- derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

**H****Hedging**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest Rate, Prices and Commodities, etc.).

**Held for Trading**

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

**Historical Cost**

Historical cost is the original nominal value of an economic item.

**I****Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impairment Charges for Loan Losses**

Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

**Impairment Allowances**

Management's best estimate of losses incurred in the loan portfolios at the reporting date.

**Individually Assessed Impairment**

Individually Assessed Impairment Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

**Intangible Asset**

An identifiable non-monetary asset without physical substance held for use in the production / supply of goods / services or for rental to others or for administrative purposes.



## GLOSSARY OF FINANCIAL TERMS

**Interest Margin**

Net interest income expressed as a percentage of interest earning assets.

**Interest Rate Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Interest Rate SWAP**

Arrangement whereby one party exchanges one set of interest payments for another.

**Interest Spread**

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

**Investment Securities**

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

**Integrated Reporting**

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context.

## K

**Key Management Personnel**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

## L

**LCR Definition**

With the introduction of Basel III rules on Liquidity Risk Management LCR has been identified as a key policy measured to further strengthen the liquidity risk management to promote a more resilient banking sector.

LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

LCR represents the Ratio of Stock of high quality liquid assets available to total net cash outflows over next 30 calendar days.

**Level 1 – Quoted Market Price**

Financial instruments with quoted prices for identical instruments in active markets.

**Level 2 – Valuation Technique Using Observable Inputs**

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

**Level 3 – Valuation Technique with Significant Unobservable Inputs**

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

**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.

**Liquidity Risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**Loans and Receivables**

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

**Loans Payable**

Loans payable are financial liabilities, other than short term trade payables on normal credit terms.

**Loss Given Default ('LGD')**

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

## M

**Market Capitalisation**

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

**Market Risk**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

**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, in a company more than 50% of which is owned by a holding company.

## N

**Net Asset Value Per Share**

Shareholders' Funds excluding preference shares if any, 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 220 liabilities such as deposits refinance Union Bank of Colombo PLC funds and inter-bank borrowings.

**Non-Performing Loans (NPL)**

A loan or an receivables placed on cash basis (i.e., Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

**NPL Ratios**

Total non-performing loans and receivables (net of interest in suspense) divided by total loans and receivables portfolio (net of interest in suspense)

**Non-controlling Interest**

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

**Non-Performing Loans Cover (NPL Cover)**

Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense).

## O

**Operational Risk**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

## P

**Parent**

A parent is an entity that has one or more subsidiaries.

**Past Due**

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

**Price Earnings Ratio (P/E Ratio)**

The current market price of the share is divided by the earnings per share.

**Probability of Default ('PD')**

The probability that an obligor will default within a given period of time.

**Provision Cover**

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

**Prudence**

Inclusion of a degree of caution in the exercise of judgment 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.

## R

**Related Parties**

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

**Repurchase Agreement**

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

**Return On Average Assets (ROA)**

Net income expressed as a percentage of average total assets.

**Return On Average Equity (ROE)**

Net income, less preferred share Dividend if any, expressed as a percentage of average ordinary shareholders' equity.

**Reverse Repurchase Agreement**

Transaction involving the purchase of government securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

**Risk Weighted Assets**

On-Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

## S

**Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically industries in which it operates.

**Shareholders' Funds**

Total of issued and fully paid share capital and capital and revenue reserves.

**Significant Influence**

If an entity holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, it is presumed that entity has significant influence it can be clearly demonstrated otherwise.

**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.

**Subsidiary Company**

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

**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.

**SWAPS (Currency)**

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

**Stakeholders**

Stakeholders are defined as entities or individuals that can reasonably be expected to be significantly affected by the organisation's activities, products, and services; and whose actions can reasonably be expected to affect the ability of the organisation to successfully implement its strategies and achieve its objectives. This includes entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organisation.

## T

**Total Regulatory Capital**

Regulatory capital of licensed banks will consist the following

**Tier 1 Capital****a) Common Equity Tier 1 (CET1)**

This is a component of Tier 1 capital that consists mostly of common stock held by a bank .

**b) Additional Tier 1 Capital (AT1)**

This is similar to CET 1, but may additionally include non-redeemable non-cumulative preferred stock.

**Tier 2 Capital**

This is the secondary component of a bank's capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and it is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

**Transfer Pricing Arrangement**

Transfer pricing involves the terms and prices at which related parties sell (or should sell) goods or services to each other. When the parties are located in different taxing jurisdictions, opportunities exist for the movement of income to a lower-taxing jurisdiction. A transfer pricing arrangement is developed to combat potential losses of income tax revenue.

## U

**Unit Trust**

An undertaking formed to invest in securities under the terms of a trust deed.

## V

**Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

**Value-at-Risk ('VaR')**

A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g., rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

## Y

**Yield to Maturity**

Discount rate at which the security's present value of future payments would equal the security's current price.

## BRANCH NETWORK

Branch	Address	Telephone
01. Head Office	64, Galle Road, Colombo 3.	011 2374100
02. Akuressa	50A, D.C.Wanigasekara Mawatha, Akuressa.	041 2284672
03. Ambalangoda	118, Galle Road, Ambalangoda.	091 2256420
04. Ambalantota	133/1, Hambantota Road, Ambalantota.	047 2225642
05. Angunakolapelessa	Hungama Road, Angunakolapelessa.	047 2228500
06. Anuradhapura	38, Main Street, Anuradhapura.	025 2224888
07. Atchuveley	Pathameny, Sannadhy Road, Atchuveley.	021 2058650
08. Attidiya	126, Main Street, Attidiya.	011 2761292
09. Badulla	81, Bank Road, Badulla.	055 2224657
10. Balangoda	167/B, Barns Rathwaththa Mawatha, Balangoda.	045 2289455
11. Bandarawela	No.348, Badulla Road, Bandarawela.	057 2221808
12. Batticaloa	03, Station Road, Batticaloa.	065 2228512
13. Borella	40, Gnanartha Pradeepa Mawatha, Colombo 8.	011 2672404
14. Chilaw	50, Colombo Road, Chilaw.	032 2224556
15. Chunnakam	118, Sir P Ramanathan Road, Chunnakam.	021 2240930
16. Dambulla	723, Anuradhapura Road, Dambulla.	066 2285511
17. Elpitiya	40, Ambalangoda Rd, Elpitiya.	091 2291695
18. Embilipitiya	58, Main Street, Pallegama, Embilipitiya.	047 2230761
19. Galle	143, Main Street, Galle.	091 2247307
20. Gampaha	No. 170 A, Colombo Road, Gampaha.	033 2248813
21. Gampola	121, Kandy Road, Gampola.	081 2353785
22. Ganemulla	367/B3, Kadawatha Road, Ganemulla.	033 2250170
23. Horana	41, Panadura Road, Horana.	034 2263156
24. Horowpatana	Rest House Junction, Trincomalee Road, Horowpatana.	025 2278558
25. Ibbagamuwa	48, Aluth Mawatha, Ibbagamuwa.	037 2057177
26. Ja Ela	151/B, Colombo Road, Ja-Ela.	011 2228573
27. Jaffna	398, Hospital Road, Jaffna.	021 2224567
28. Kadawatha	315F, Kandy Road, Kadawatha.	011 2927716
29. Kandy	165, D.S.Senanayake Veediya, Kandy.	081 2224500
30. Kebithigollewa	Padaviya Road, Kebithigollewa.	025 2298111
31. Kegalle	340, Kandy Road, Kegalle.	035 2223605
32. Kekirawa	21D, Yakalla Road, Kekirawa.	025 2265350
33. Kohuwala	96B, Dutugamunu Street, Kohuwala.	011 2813693

## BRANCH NETWORK

Branch	Address	Telephone
34. Kollupitiya	51A, Ananda Coomaraswamy Mawatha, Colombo 3.	011 2565475
35. Kotahena	16A, Kotahena Street, Colombo 13.	011 2448825
36. Kuliypitiya	203, Hettipola Road, Kuliypitiya.	037 2284446
37. Kurunagala	11, Rajapihilla Road, Kurunagala.	037 2225419
38. Maharagama	140, High Level Road, Maharagama.	011 2088800
39. Mannar	66, Main Street, Mannar.	023 2251343
40. Marawila	44, Chilaw Road, Marawila.	032 2252522
41. Matara	17, Station Road, Matara.	041 2228442
42. Matugama	121/B, Agalawatta Road, Matugama.	034 2248555
43. Medawachchiya	40, Kandy Road, Medawachchiya.	025 2245580
44. Minuwangoda	68, Veyangoda Road, Minuwangoda.	011 2299277
45. Monaragala	48, New Bus Stand Road, Monaragala.	055 2055456
46. Moratuwa	729, Galle Road, Moratuwa.	011 2642502
47. Narammala	64, Kuliypitiya Road, Narammala.	037 2248710
48. Nawala	232, Nawala Road, Nawala.	011 2806987
49. Nawalapitiya	21, Dolosbage Road, Nawalapitiya.	054 2050722
50. Negombo	387, Main Street, Negombo.	031 2238299
51. Nugegoda	114, Stanley Thilakaratne Mawatha, Nugegoda.	011 2832323
52. Old Moor Street	343, Old Moor Street, Colombo 12.	011 2399994
53. Panadura	495, Galle Road, Panadura.	038 2237098
54. Pelawatte	966, Pannipitiya Road, Pelawatte.	011 2785337
55. Peradeniya	921, Peradeniya Road, Kandy.	081 2068440
56. Pettah	111, Main Street, Colombo 11.	011 2321139
57. Pilimathalawa	211/A, Colombo Road, Pilimathalawa.	081 2575901
58. Piliyandala	71, Moratuwa Road, Piliyandala.	011 2606152
59. Rajagiriya	115, Old Kotte Road, Rajagiriya.	011 2075566
60. Ratmalana	143C, Mount City, Galle Road, Ratmalana.	011 2731860
61. Ratnapura	109, Main Street, Ratnapura.	045 2224422
62. Trincomalee	306, Central Road, Trincomalee.	026 2226505
63. Vavuniya	124, Bazaar Street, Vavuniya.	024 2225612
64. Warakapola	238B, Kandy Road, Warakapola.	035 2268226
65. Wattala	258, Negombo Road, Wattala.	011 2980731
66. Wellawatte	605, Galle Road, Colombo 6.	011 2553223
67. Wennappuwa	33, Colombo Road, Wennappuwa.	031 2253543

## NOTICE OF MEETING

UNION BANK OF COLOMBO PLC  
(PB 676 PQ)

NOTICE IS HEREBY GIVEN THAT the 23rd Annual General Meeting of UNION BANK OF COLOMBO PLC will be held on 28th March 2018 at 2.00 p.m. at the "Auditorium" of Sri Lanka Foundation at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2017 together with the Report of the Auditors thereon.
2. To re-elect as a director in terms of Article 89 of the Articles of Association of the Bank, Mr. Sabry Ghouse who retires at this Annual General Meeting in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank.
3. To re-elect as a director in terms of Article 89 of the Articles of Association of the Bank, Mr. Priyantha Fernando who retires at this Annual General Meeting in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank.
4. To re-elect as a director in terms of Article 89 of the Articles of Association of the Bank, Mr. Ranvir Dewan who retires at this Annual General Meeting in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank.
5. To re-elect as a director in terms of Article 89 of the Articles of Association of the Bank, Mr. Gaurav Trehan who retires at this Annual General Meeting in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank.
6. To re-elect as a director in terms of Article 95 of the Articles of Association of the Bank, Mrs. Dilshani Wijayawardana who retires at this Annual General Meeting in terms of the said Article 95.
7. To re-elect as a director in terms of Article 95 of the Articles of Association of the Bank, Mr. Trevine Fernandopulle who retires at this Annual General Meeting in terms of the said Article 95.
8. To re-elect as a director in terms of Article 95 of the Articles of Association of the Bank, Mr. Atul Malik who retires at this Annual General Meeting in terms of the said Article 95.
9. To authorise the Directors to determine donations for the year ending 31st December 2018 and up to the date of the next Annual General Meeting.
10. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors for the ensuing year and to authorise the Board of Directors to determine their remuneration.

By order of the Board.



**Inoka Jayawardhana**  
*Company Secretary*

28th February 2018

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 of the Bank at No. 64, Galle Road, Colombo 03 not less than thirty six (36) hours before the time appointed for the holding of the meeting.

## FORM OF PROXY

I/We,.....Of.....  
 ..... being a Shareholder/Shareholders  
 of Union Bank of Colombo PLC hereby appoint Mr/Mrs/Miss .....  
 ..... (holder of NIC No.....) of .....  
 ..... (or failing him/her)

Mr. Atul Malik	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Priyantha Damian Joseph Fernando	of No.12/14, Dharmaratne Avenue, Rawatawatte, Moratuwa or failing him
Mr. Mohamed Hisham Sabry Ghouse	of No. 127A, Campbell Place, Colombo 08 or failing him
Mr. Ranvir Dewan	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Gaurav Trehan	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Puneet Bhatia	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Michael J. O’Hanlon	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Indrajit Asela Wickramasinghe	of No. 410/35, Bauddhaloka Mawatha, Colombo 07 or failing him
Mrs. Sow Lin Chiew	of No. 64, Galle Road, Colombo 03 or failing her
Mr. Yudhishtan Kanagasabai	of No.56/15, Kurunduwatte Road, Kumaragewatte, Pelawatte, Battaramulla or failing him
Mrs. Dilshani Gayathri Wijayawardana	of No. 40/15, Park Road, Colombo 05 or failing her
Mr. Trevine Sylvester Anthony Fernandopulle	of No.03, Austin Place, Off Kynsey Road, Colombo 08

as my/our proxy to represent me/us and to speak and vote whether on a show of hands or on a poll for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 28th March 2018 at 2.00 p.m. at the “Auditorium” of Sri Lanka Foundation at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 and at any adjournment thereof.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2017 together with the Report of the Auditors thereon.	<input type="radio"/>	<input type="radio"/>
2. To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Bank, Mr. Sabry Ghouse who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank.	<input type="radio"/>	<input type="radio"/>
3. To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Bank, Mr. Priyantha Fernando who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank.	<input type="radio"/>	<input type="radio"/>
4. To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Bank, Mr. Ranvir Dewan who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank.	<input type="radio"/>	<input type="radio"/>
5. To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Bank, Mr. Gaurav Trehan who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank.	<input type="radio"/>	<input type="radio"/>
6. To re-elect, as a director, in terms of Article 95 of the Articles of Association of the Bank, Mrs. Dilshani Wijayawardana who retires at this Annual General Meeting in terms of the said Article 95.	<input type="radio"/>	<input type="radio"/>
7. To re-elect, as a director, in terms of Article 95 of the Articles of Association of the Bank, Mr. Trevine Fernandopulle who retires at this Annual General Meeting in terms of the said Article 95.	<input type="radio"/>	<input type="radio"/>
8. To re-elect, as a director, in terms of Article 95 of the Articles of Association of the Bank, Mr. Atul Malik who retires at this Annual General Meeting in terms of the said Article 95.	<input type="radio"/>	<input type="radio"/>
9. To authorise the Directors to determine donations for the year ending 31st December 2018 and up to the date of the next Annual General Meeting.	<input type="radio"/>	<input type="radio"/>
10. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors for the ensuing year and authorise the Board of Directors to determine their remuneration.	<input type="radio"/>	<input type="radio"/>

Signed on this ..... day of ..... Two Thousand and Eighteen.

.....  
 Signature

**Notes:**

1. Instructions as to completion appear overleaf.
2. Please indicate with an ‘X’ in the space provided, how your Proxy is to vote on the Resolutions. If no indication is given, the Proxy in it’s discretion will vote as it thinks fit.

## FORM OF PROXY

### INSTRUCTIONS FOR COMPLETION

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Form of Proxy should be deposited at the Registered Office of the Bank at No.64, Galle Road, Colombo 03 not less than thirty six (36) hours before the time appointed for the holding of the Meeting.
3. The Proxy shall –
  - (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Bank.
  - (b) in the case of a Company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the constitution of that company or corporate body. The Bank may but shall not be bound to, require evidence of the authority of any such attorney or officer.
  - (c) in the case of joint holders, be signed by the joint holder whose name appears first in the Register of Members.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in close proximity to the alteration or addition intended to be authenticated.
5. Please indicate with an 'X' in the space provided how your Proxy is to vote on the resolution. If no indication is given, the Proxy will vote as it thinks fit.

Please fill the details:

Share Certificate No./ CDS Account No.	:
Name	:
Address	:
Jointly with	:
National Identity Card No/s. Passport No/s of the shareholders	:



## STAKEHOLDER FEEDBACK FORM

We welcome your valuable feedback on this integrated Annual Report, on our commitments and our performance. Please complete the following and return this page to :

Chief Financial Officer  
Union Bank of Colombo PLC  
No. 64, Galle Road,  
Colombo 03,  
Sri Lanka

Name : .....

Permanent Mailing Address : .....

Contact Number – (Tel) : .....

(Fax) : .....

Email : .....

Queries/Comments:

Recommendations:



## CORPORATE INFORMATION

### NAME OF THE COMPANY

Union Bank of Colombo PLC

### LEGAL FORM

A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007. Listed as a public quoted Company on the Colombo Stock Exchange. A Licensed Commercial Bank under the Banking Act No. 30 of 1988.

### DATE OF INCORPORATION

2nd February 1995

### COMPANY REGISTRATION NUMBER

PB 676 PQ

### REGISTERED OFFICE

No. 64, Galle Road,  
Colombo 03,  
Sri Lanka.

Tel : +94 11 2374100  
Fax : +94 11 2370971  
E-mail : info@unionb.com  
Website : www.unionb.com

### SWIFT CODE

UBCL LK LC

### VAT REGISTRATION NUMBER

134005610-7000

### AUDITORS

M/s. Ernst & Young,  
Chartered Accountants,  
No.201, De Saram Place,  
Colombo 10.

### BOARD OF DIRECTORS

Atul Malik - *Chairman*  
Priyantha Damian Joseph Fernando- *Deputy Chairman/Senior Director*  
Indrajit Asela Wickramasinghe - *Executive Director/Chief Executive Officer*  
Mohamed Hisham Sabry Ghouse  
Ranvir Dewan  
Gaurav Trehan  
Puneet Bhatia  
Michael J O' Hanlon  
Sow Lin Chiew  
Yudhishtan Kanagasabai  
Dilshani Gayathri Wijayawardana  
Trevine Sylvester Anthony Fernandopulle

### ALTERNATE DIRECTORS

Yoke Sun Woon  
Sumedh Jog


### BOARD SECRETARY

Inoka Jayawardhana



Union Bank of Colombo PLC

Head office: 64, Galle Road, Colombo 03, Sri Lanka.

 +94 11 2374100 | [www.unionb.com](http://www.unionb.com)