

**GEARED  
FOR  
SUCCESS**

**ANNUAL REPORT 2015**



# GEARED FOR SUCCESS

Within a milestone year that saw us take on the premise of delivering a 'Bold New World' to our stakeholders, we have now created a solid foundation, which we will build upon with vigour and purpose as we continue to transform ourselves to be a stalwart within Sri Lanka's Banking sector. By enhancing our product and service offerings to the Retail Banking segment while intensifying and refining our SME and Corporate Banking propositions to achieve significant portfolio growth; our position and focus as a fully-fledged commercial bank has now been augmented. Broadening our service standards and convenience of access to all client segments, our extensive efforts in sharpening our expertise, expanding our network and revitalising our clients' banking experiences have proven our determination for evolutionary transformation. We are ready to deliver on our promise and our drive to create change that is geared for success.

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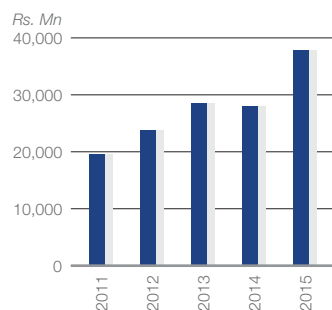
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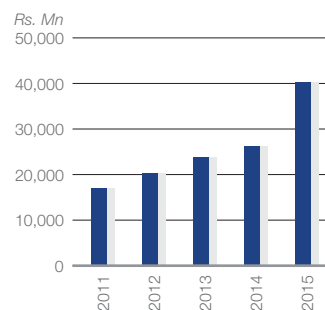
## FINANCIAL HIGHLIGHTS

	BANK			GROUP		
	2015 Rs. 000	2014 Rs. 000	% Change	2015 Rs. 000	2014 Rs. 000	% Change
<b>Results For the Year</b>						
Gross Income	5,019,258	4,546,418	10%	6,055,729	5,314,409	14%
Profit before income tax	205,994	60,803	239%	292,180	160,531	82%
Net profit after taxation	192,698	57,088	238%	254,743	78,197	226%
<b>Financial Position</b>						
Shareholders Funds						
(Capital and Reserves)	16,922,176	16,750,284	1%	16,385,842	16,184,665	1%
Deposits From Customers	37,652,508	27,808,891	35%	41,623,921	30,323,850	37%
Gross Loans and receivables to other customers	40,663,715	26,558,875	53%	46,420,781	30,648,646	51%
<b>Information Per Ordinary Shares</b>						
Earnings per Share - Basic (Rs.)	0.2	0.1		0.2	0.1	
Net Assets Value per Share (Rs.)	15.5	15.4		15.4	15.0	
Market Value at the Year end (Rs.)	20.2	25.3		-	-	
<b>Key Performance Indicators and Ratios</b>						
Return on Average shareholders' funds (%)	1.1%	0.7%		1.6%	1.0%	
Return on Average Assets - After Tax (%)	0.3%	0.1%		0.4%	0.2%	
Price Earning Ratios (Times)	114	239		-	-	
Liquid Asset Ratios (%)						
- Domestic Business Unit	21.9%	51.1%		-	-	
- Foreign Currency Business Unit	22.7%	22.5%		-	-	
<b>Capital Adequacy Ratio (%)</b>						
Tier I (Statutory Minimum Requirement - 5%)	24.4%	41.7%		20.9%	36.0%	
Tier II (Statutory Minimum Requirement - 10%)	23.9%	40.9%		20.9%	36.0%	

### DEPOSITS



### GROSS LOANS & RECEIVABLES



## 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.

## CORPORATE PROFILE

### ORGANISATIONAL PROFILE

Established in 1995 as the 8th indigenous bank, Union Bank of Colombo PLC (UB) is a fully fledged commercial bank. UB is amongst the top 5 private commercial banks in Sri Lanka in market capitalisation, offering a comprehensive portfolio of products and services to Retail, SME and Corporate segments.

Listed on the Colombo Stock Exchange, UB is synonymous as a rapidly progressive entity that has attracted top global and local investors. The global investment company TPG's investment of US\$117 million in UB, acquiring 70% of the Bank's equity through its affiliate Culture Financial Holdings Ltd., marked a milestone in the financial services industry as one the largest foreign direct investments to Sri Lanka.

With a solid foundation etched with financial stability and international know-how supported by a comprehensive product portfolio, technological innovation and a rapidly expanding branch network UB is well geared to provide a redefined banking experience to customers.

The Bank's fast growing brick and mortar presence is ably supplemented by alternate channels that include, a dedicated sales force, a 24-hour contact centre, online banking facilities and a rapidly growing island-wide ATM network providing customers even greater convenience.

The Bank's subsidiaries National Asset Management Limited and UB Finance Limited further enhance the Bank's product offering with a range of financial and unit trust products.

Delivering a unique value proposition and backed by the strength of TPG, UB 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 US\$ 70 Billion of assets under management and offices in San Francisco, Fort Worth, Austin, Houston, Beijing, Chongqing, Hong Kong, London, Luxembourg, Melbourne, Moscow, Mumbai, New York, Paris, Sao Paulo, Shanghai, Singapore and Tokyo.

TPG has extensive experience with global public and private investments executed through leveraged buyouts, recapitalisations, spinouts, growth investments, joint ventures and restructurings.





UNION BANK

தேசியக் கிள்களுல்  
யூனியன் வங்கி

UNION BANK ATM

UNION BANK ATM





# WE ARE GEARED TO DELIVER A BOLD NEW WORLD

Our vision to serve the Retail, SME and Corporate sectors supported by an enhanced product portfolio enables us to offer a new world of opportunities and growth, enriching the lives of our customers, stakeholders and the people of our nation.

The report covers the activities of the Bank and its subsidiaries during the period of assessment from 1st January 2015 to 31st December 2015, as per the annual financial reporting cycle. Union Bank's Annual Report 2015 seeks to provide an overview of the Bank's strategy, operations and stakeholder management process which are material to the Bank's sustainability within identified boundaries.

This report has been compiled following the Global Reporting Initiative (GRI) G4 guidelines for sustainability reporting and is presented "in accordance" Core. This is the first integrated Annual report for Union Bank of Colombo PLC.

According to the G4 sustainability reporting guidelines, 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 on pages 107-109 of this report.

The financial statements appearing in this report have been prepared in accordance with the Sri Lanka

Accounting Standards (LKAS's/SLFRS's) in effect as at 31st December 2015, 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.

The Bank adheres to the 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.

This is the first time the Bank is complying with G4- Sustainability Global Reporting Initiative (GRI) manual, materiality and the aspect boundaries of the sustainability report determined in-accordance with the GRI manual. The previous sustainability report covers the financial year 2014 and there was no material restatement made in the previous report.

#### EXTERNAL ASSURANCE

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 MATERIALITY

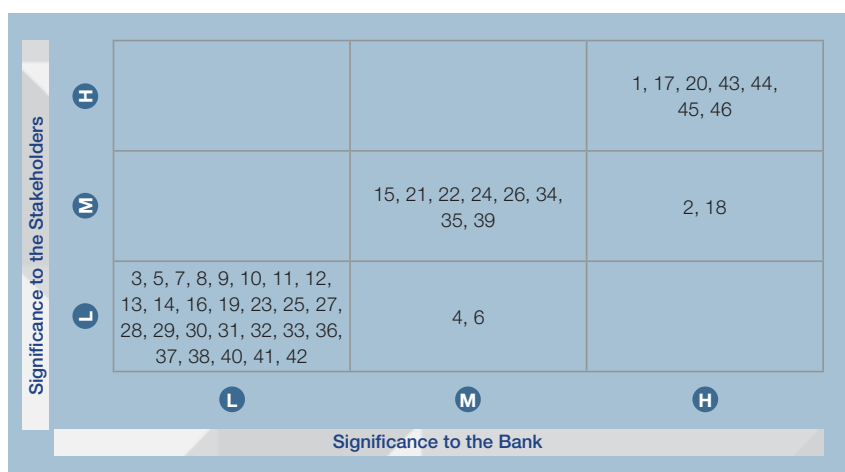
Materiality assessments are applied to identify the information to be disclosed, by considering the Bank's activities, impacts and the substantive expectations and interests of stakeholders.

In the materiality principle, each aspect have been assessed on "influence on stakeholder assessments and decisions" and "significance of the Bank's economic, environmental and social impacts" to the stakeholder in accordance with GRI G4 guidelines. Accordingly a number of qualitative and quantitative measures have been used in identifying the following material aspects.

Aspect	Sustainability Significance		Aspect Boundary				
	To the Bank's Operations	To stakeholders	Bank	Employee	Community	Customer	Supplier
<b>ECONOMIC</b>							
1. Economic performance	High	High	X				
2. Market presence	High	Moderate	X	X			
3. Indirect economic impacts	Low	Low					
4. Procurement practices	High	Moderate	X				
<b>ENVIRONMENT</b>							
5. Materials	Low	Low					
6. Energy	Moderate	Low	X				
7. Water	Low	Low					
8. Biodiversity	Low	Low					
9. Emissions	Low	Low					
10. Effluents and waste	Low	Low					
11. Product and services	Low	Low					

Aspect	Sustainability Significance		Aspect Boundary				
	To the Bank's Operations	To stakeholders	Bank	Employee	Community	Customer	Supplier
12. Compliance	Low	Low					
13. Transport	Low	Low					
14. Overall	Low	Low					
15. Supplier environment assessment	Moderate	Moderate	X				X
16. Environmental grievance mechanisms	Low	Low					
<b>SOCIAL – LABOUR PRACTICES AND DECENT WORK</b>							
17. Employment	High	High	X	X			
18. Labour/management relations	High	Moderate	X	X			
19. Occupational health and safety	Low	Low					
20. Training and education	High	High	X	X		X	
21. Diversity and equal opportunity	Moderate	Moderate	X	X			
22. Equal remuneration for women and men	Moderate	Moderate	X	X			
23. Supplier assessment for labour practices	Low	Low					
24. Labour practices governance mechanisms	Moderate	Moderate	X	X			
<b>SOCIAL – HUMAN RIGHTS</b>							
25. Investment	Low	Low					
26. Non-discrimination	Moderate	Moderate	X	X			
27. Freedom of association and collective bargaining	Low	Low					
28. Child labour	Low	Low					
29. Forced or compulsory labour	Low	Low					
30. Security practices	Low	Low					
31. Indigenous rights	Low	Low					
32. Assessment	Low	Low					
33. Supplier human rights assessment	Low	Low					
34. Human rights grievance mechanisms	Moderate	Moderate	X	X			
<b>SOCIAL – Society</b>							
35. Local communities	Moderate	Moderate			X	X	
36. Anti-corruption	Low	Low					
37. Public policy	Low	Low					
38. Anti-competitive behaviour	Low	Low					
39. Compliance	Moderate	Moderate	X		X		

Aspect	Sustainability Significance		Aspect Boundary				
	To the Bank's Operations	To stakeholders	Bank	Employee	Community	Customer	Supplier
40. Supplier assessment for impacts on society	Low	Low					
41. Grievance Mechanisms for impacts on society	Low	Low					
<b>SOCIAL – PRODUCT RESPONSIBILITY</b>							
42. Customer health and safety	Low	Low					
43. Product and service labelling	High	High	X		X		
44. Marketing communications	High	High	X		X		
45. Customer privacy	High	High	X		X		
46. Compliance	High	High	X		X		



**CONTACT**

Concerns and for any clarification on this integrated annual report please contact:

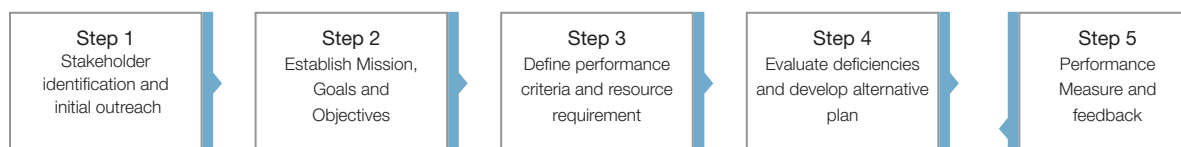
The Chief Financial Officer  
 Union Bank of Colombo PLC  
 No. 64, Galle Road,  
 Colombo 03, Sri Lanka  
 Telephone: 0112374100  
 E-mail: accounts@unionb.com

To facilitate better engagement and formal feedback, an investor / stakeholder can communicate through feedback form attached on page number 229 in this report.

STAKEHOLDERS	MISSION	GOALS
<b>SHAREHOLDERS</b>	<ul style="list-style-type: none"> <li>▶ Provide returns on investment</li> </ul>	<ul style="list-style-type: none"> <li>▶ Growth in share price</li> <li>▶ Increase ROE</li> </ul>
<b>CUSTOMERS</b>	<ul style="list-style-type: none"> <li>▶ Provide means of economic upliftment through customised financial products and services</li> </ul>	<ul style="list-style-type: none"> <li>▶ Effectively meet financial requirements of customer segments served</li> <li>▶ New Customer acquisition</li> <li>▶ Customer loyalty and retention</li> </ul>
<b>EMPLOYEE</b>	<ul style="list-style-type: none"> <li>▶ Create a pleasant work environment and a rewarding, performance based culture</li> </ul>	<ul style="list-style-type: none"> <li>▶ Select, recruit and promote based on competency</li> <li>▶ Develop capability so that employees are equipped to do their jobs as well as develop within the Bank</li> <li>▶ Engage and energise employees so that they can perform at their best</li> <li>▶ Value employees and recognise the contributions they make</li> </ul>
<b>SOCIETY &amp; ENVIRONMENT</b>	<ul style="list-style-type: none"> <li>▶ Be conscious of the need to be a responsible corporate citizen</li> </ul>	<ul style="list-style-type: none"> <li>▶ Promote financial inclusion through product technology and network development</li> <li>▶ Contribute to economic growth through SME development</li> <li>▶ Responsible energy consumption</li> <li>▶ Responsible waste management</li> </ul>
<b>REGULATORY AUTHORITIES</b>	<ul style="list-style-type: none"> <li>▶ Practice good corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ensure adherence to guidelines set out by the Banking Act, CBSL, SEC and CSE</li> <li>▶ Comply with internal compliance guidelines when implementing business strategy</li> </ul>

**STAKEHOLDER ENGAGEMENT PROCESS**

The Bank's stakeholders were identified through collection and evaluation of various data. The Bank's stakeholder engagement process is as follows.



## METHODS IN WHICH WE ENGAGE WITH OUR IMPORTANT STAKEHOLDER GROUPS

## STAKEHOLDER ENGAGEMENT

Stakeholder	Engagement Method	Key Topics	Responses
Shareholders	<ul style="list-style-type: none"> <li>▶ General Meetings</li> <li>▶ Investor Feedback Form</li> <li>▶ Publications and announcements through CSE</li> <li>▶ Access via email/telephone to contact point</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial Results</li> <li>▶ Strategy and Goals</li> <li>▶ Enhancing shareholders' wealth</li> <li>▶ Return on equity and Share Price</li> </ul>	<ul style="list-style-type: none"> <li>▶ Effective implementation of strategic plan</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</li> <li>▶ Contact Centre</li> <li>▶ Internet Banking</li> <li>▶ Social Media Interaction</li> <li>▶ Corporate Web Site</li> </ul>	<ul style="list-style-type: none"> <li>▶ Relationship Management</li> <li>▶ Products and service offering</li> <li>▶ Accessibility and convenience</li> <li>▶ Return on investments and cost of borrowing</li> </ul>	<ul style="list-style-type: none"> <li>▶ Adherence to Customer Charter</li> <li>▶ Seasonal offers and value additions</li> <li>▶ Investment in ATMs / branches to increase reach across Sri Lanka</li> <li>▶ New product development</li> </ul>
Employees	<ul style="list-style-type: none"> <li>▶ Accessible leadership - open door policy</li> <li>▶ Quarterly townhall meetings lead by CEO</li> <li>▶ Open Communication through the intranet and Emails</li> <li>▶ Regular branch visits by Leadership Team</li> <li>▶ Focus group discussions</li> <li>▶ Employee Engagement survey</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clarity on the Bank's strategy and performance updates</li> <li>▶ Compensation aligned to market</li> <li>▶ Performance based rewards</li> <li>▶ Transparent and more flexible HR policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Employee engagement survey conducted and action plans being executed</li> <li>▶ Improved, more transparent performance management and promotion processes</li> <li>▶ Introduced accelerated career progression for high performers through the Fast Track initiative</li> <li>▶ Recognised loyalty through Long Service Awards</li> <li>▶ Review and revision of HR policies and procedures to provide more clarity and transparency.</li> </ul>
Society & Environment	<ul style="list-style-type: none"> <li>▶ Feed Back forms</li> <li>▶ Registration of suppliers</li> <li>▶ Media and social networks</li> <li>▶ Workshops and seminars</li> </ul>	<ul style="list-style-type: none"> <li>▶ SME development</li> <li>▶ Financial inclusion by developing network across rural Sri Lanka</li> <li>▶ Employment opportunities and Training</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reducing wastage and energy consumption</li> <li>▶ Regional Recruitment</li> <li>▶ Strengthening relationships with public and professional training partners</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>▶ Industry forums / meetings with Central Bank of Sri Lanka</li> <li>▶ Reporting to the Central Bank and CSE</li> </ul>	<ul style="list-style-type: none"> <li>▶ Compliance with the regulatory requirements</li> <li>▶ Compliance with the Code of best practice of Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strengthening relationships with regulators</li> <li>▶ Frequent reporting to regulators</li> </ul>

*Stakeholders are engaged as and when required at least once annually.*



EMPLOYEES



Growth in work force

**241**



Average training hours per employee per annum

**14.5 Hours**



Employee composition ratio  
– Male : Female

**1 : 0.7**



SHAREHOLDERS



Earnings per share

**0.18**



Growth in PAT

**135 Mn**



REGULATORY AUTHORITIES



Taxes paid to the Government

**Rs. 122.2 Mn**



Taxes collected on behalf of the Government

**Rs. 124 Mn**



CUSTOMERS



Number of ATMs and branches

**102 ATMs / 64 Branches**



Growth in customer deposits

**Rs. 9,843 Mn**



ENVIRONMENT



Energy Consumption savings

**Rs. 12 Mn/2,792 kWh**



Paper recycling

**698 Kg**



# WE ARE GEARED FOR GROWTH

Fortified by our strong positioning as one of Sri Lanka's top 5 private commercial banks in market capitalisation and with the support of a leading global investment firm, TPG; we are now geared with strength, resources and expertise to serve the emerging financial needs of our developing nation.



## **“2015 HAS BEEN A YEAR OF TRANSFORMATION AND ENHANCED BUSINESS MOMENTUM FOR THE BANK.**

A STRONG CAPITAL INFUSION JUST BEFORE THE YEAR BEGAN BY TPG, ONE OF THE WORLD'S FOREMOST PRIVATE EQUITY FUND HOUSES, PROVIDED MUCH NEEDED SPACE TO ENVISION AND EXECUTE THE TRANSFORMATIONAL PROCESS.”

2015 has been a year of transformation and enhanced business momentum for the Bank. A strong capital infusion just before the year began by TPG, one of the world's foremost private equity fund houses, provided much needed space to envision and execute the transformational process. Several building blocks accordingly went into this transformation: The business mix of the Bank altered, as it sought to capture newer business segments.

**16**

While retaining its earlier focus on meeting the funding needs of good

quality SMEs, the Bank is now active in financing larger corporates as also retail customers, and this broad-basing also assists in better risk management, by avoiding a concentration risk. Operating processes also got redesigned throughout the Bank in order to emphasise high quality process integrity and crisper efficiency, aided by the underpinnings of innovative technology platforms. Branches - the primary customer interface of the Bank - consequently have the necessary empowerment

and the process support of the rest of the Bank in order to service their customers quicker and better. Further, the quality of the Bank's loan asset portfolio has dramatically improved, with the gross NPA falling through the year from 8.4% to 3.6%, indicative of the heightened focus on risk mitigation. Provisioning for impaired assets is now more liberal, with the net NPA falling to 2.7%. The Bank will strive to attain amongst the cleanest loan portfolios within the domestic banking system by end-2017.

This qualitative transformation is a consequence of keen strategisation and significantly improved execution, and these hard-won gains need to be further reinforced in 2016. The new leadership team of the Bank led by CEO Indrajit Wickramasinghe, consisting of high calibre bankers who have been with the Bank for several years and reinforced by outstanding professionals drawn from the wider banking industry, has overseen this transformation. Their extraordinary success in 2015 provides promise and conviction that this is the start of a medium-term upgradation to a very high quality Bank.

A consequence of this transformation has been the boost to the profitable growth of the Bank during the year. The total assets of the Bank grew 45%, and net loans and advances by 55%, and with asset quality improving sharply I believe this is good quality growth. Gross fee and commission income grew by 15%. Despite operating costs also rising by 42% to finance the technology and other new process investments, as also the expanding number of bankers employed, the net profit of the Bank grew from Rs. 57 Mn in 2014 to Rs. 193 Mn in 2015, a growth of 238%. The Board of Directors has accordingly recommended the resumption of the payment of a dividend to shareholders. We believe that all stakeholders in the Bank should be deeply satisfied by the improved performance of the Bank.

#### ENVISIONING THE FUTURE

2015 was so evidently a year of inflexion for the Bank, with a new-found organisational energy which brought in novel differentiated products, refurbished branches, multiple delivery channels, and a clearer focus to the relationship and sales functions. 2016 and the years ahead would need to consolidate these gains by bringing depth to these initial changes. Wholesale Banking is poised to add a layer of sophistication through the introduction of cash management for its customers. Retail Banking customers will find continually upgraded services in the Elite Circle offerings. Customer Treasury services will attain depth. The non-resident Sri Lankans will be provided differentiated product and channel offerings. Point-of-sale merchant acquiring will enhance access to current account deposits. The Bank has much to look forward to this year which requires building new businesses in the medium-term, while also providing traction to existing businesses. The future for the Bank which I envision is therefore exciting.

#### APPRECIATION

The Bank's endeavours have benefited from multiple points of support. Members of the Board of Directors, and specially the Chairpersons and members of Board Committees, have sought to provide the critical gaze needed to reinforce strengths and caution against weaknesses. The

Central Bank, and particularly the Governor and the Deputy Governors, have provided guidance of the highest value. Our customer base has grown significantly over the year, with brutally honest feedback on how the Bank services its customers. To all of these institutions and individuals 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 thank you to the employees of the Bank for rising collectively to make possible the achievements of the year. The Team Union Bank renewed sense of mission has been heartening, with numerous examples of creative and energetic work by individual employees. Last year I had expressed confidence that the CEO would keep the scoreboard ticking. This year, with the successes of 2015 to build on, I expect his stroke-play to become more stylish.



**P. Jayendra Nayak**  
*Chairman*



## **“FORTIFIED BY A CAPITAL BASE WHICH IS WELL ABOVE THE ORDINARY,**

GUIDED BY AN INCLUSIVE BUSINESS STRATEGY AND DRIVEN BY THE INTEGRATED EXPERTISE OF OUR TEAM; UNION BANK IS NOW GEARED FOR SUCCESS.”

For Union Bank (UB), 2015 was a significant year of growth and preparation, in which we laid a strong foundation that would become the launch pad for robust growth in the ensuing years.

Following the hallmark investment in 2014 by the global private equity giant TPG through its affiliate Culture Finance Holdings Ltd. which was one of the highest foreign direct investments into the country, UB set

out on an exciting journey into a bold new world in which all our stakeholders would enjoy unique opportunities for growth and prosperity. Delivering on this premise, in the year 2015 we have reconstituted the Bank in terms of the strategic focus and its operations to become an agile organisation with capabilities to deliver optimum results.

Our well-orchestrated efforts in re-engineering the organisational structure in line with the business

strategies, improving process efficiencies and aligning of our talent pool to deliver the best value and service; have collectively contributed to the significant growth and profitability of the Bank this year.

While harnessing our internal capabilities to boost organisational performance, we have made significant investments in people, processes, products, technology and network development this year; in a

bid to grow our customer base and enhance our ability to compete in a rapidly changing industry.

In 2015, the Bank reported strong financial results and laid the foundation for greater results in the years to come, despite the challenges in the macroeconomic environment; which in turn endorses the resilience of the UB team to deliver encouraging results. This augurs well for the future growth and expansion plans of UB. I present herewith a review of the Bank's performance for the year 2015, giving you a holistic understanding of our growth, both quantitative and qualitative and the strategic initiatives that have made these happen.

### **DELIVERING GROWTH AND PROFITABILITY**

I am delighted to announce that UB delivered a profit after tax of Rs. 193 Mn in 2015, which reflects a growth of 238% YoY, thereby enhancing shareholder value.

Backed by a strong capital base, UB took on the challenge to emerge as a compelling force in the banking industry. Furthermore, the Bank embarked on building higher brand equity and awareness, while cementing our new positioning as a fully-fledged commercial bank serving the financial requirements of SME, Corporate and Retail Banking segments.

With the enrichment of the Retail Banking portfolio and the expansion of our branch network, we experienced emphatic thrusts into new markets and territories where we managed to win through pioneering initiatives and value additions.

Within a low interest, low inflation regime, UB's performance remained resilient, recording robust growth. The focused and target-based approach to managing our lending portfolio supported SME and Corporate Banking growth while introduction of retail lending propositions in the form of Personal Loans and Home Loans

contributed to the growth of retail assets of the Bank.

On the back of low interest rates and higher private sector credit growth, the overall net loans and advances of UB grew by an impressive 55%, the growth was reflected across Corporate Banking and SME Banking while the new business of Retail Banking asset products showed good progress in a very short time period, given that the retail Personal Loan product was introduced to the market in July.

Despite the declining interest rates on deposits in the industry, particularly in the first half, UB continued on a focused effort to increase the low cost fund acquisition by building the Current and Savings (CASA) portfolios of the Bank. This focus on growing the CASA portfolio was backed by numerous strategic initiatives including expansion of delivery channels, conducting localised promotions and development of new products to enrich the offerings in this category. Such concerted efforts resulted in a savings portfolio growth of 30%, reflecting a prominent overall CASA growth of 31%.

UB has also recorded impressive revenue growth within the year 2015, with a Net Interest Income (NII) increase of 15% and Gross fee and commission income growth of 15% along with an overall net income growth of 24%. A significant improvement in portfolio quality was recorded, where the Net Non-Performing Loans (NPL) ratio of the Bank dropped from 7.4% to an impressive rate of 2.7% as at end 2015; aided by diligent risk management, targeted approach to extending credit through focus origination and persistent efforts in collections and recoveries. A detailed study and actions recommended by the global consulting firm, McKinsey and Company resulted in much stronger credit underwriting standards, process changes resulting in faster turnaround of credit proposals and the setting up of a centralised credit centre.

Customer reach expansion continued in 2015, and UB extended its network to 64 branches during the year, unveiling 03 new branches in Rajagiriya, Attidiya and Kohuwala. Over 22 branches were refurbished in line with a much better customer centric ambience and stronger branding. Greater emphasis was placed on improving accessibility via automated channels, and in this direction the Bank invested in 37 off-site ATMs at strategic locations in order to create customer convenience and enhance brand visibility resulting in the UB ATM network expanding to over 100 ATMs across the country.

The Bank also contributed to the national economic growth by continued commitment to support the entrepreneurial efforts of Small and Medium Enterprises as well as grass root level industrialists. In furtherance of this commitment, UB's SME financing unit was restructured ensuring optimised performance and faster turnaround. As a result of the changes made to the business model, SME credit saw a growth of 26% during the year.

The Corporate Banking Department of the Bank also recorded impressive growth, contributing immensely towards the overall assets and liability portfolio growth of the Bank. The growth of the Corporate Banking lending book was 100% as at end 2015. Focused efforts were placed on penetrating and acquisition of top tier corporates in addition to the rest of the segments and portfolio growth was driven through a suite of customisable products and services coupled with superior relationship building initiatives.

### **A MILESTONE YEAR OF TRANSFORMATION**

Turning an exciting new chapter in the journey of UB, the year 2015 saw significant changes being implemented.

Backed by a solid financial standing, global expertise, and best practices, in 2015 the Bank strengthened its

**“THE BANK WILL CONTINUE TO INVEST IN EXPANDING CUSTOMER REACH BOTH THROUGH BRICK AND MORTAR BRANCHES AND ALTERNATE CHANNELS, BRINGING GREATER CONVENIENCE OF ACCESS WHILE INVESTING IN TECHNOLOGY AND VALUE ADDED PRODUCTS.”**

Leadership team complementing the existing team. The organisation was restructured in line with the new business strategy and the human capital was realigned to create a performance oriented establishment. As a first step towards creating a vibrant workplace and rewarding career paths; in 2015 the Bank initiated the 'Great Place to Work' survey in order to better understand the pulse of our people, within this phase of change and growth. Greater focus was placed on career development, training and skills development of our human capital while many significant investments were also made towards enhancing the productivity of our staff.

A number of initiatives were also implemented this year to ensure that UB maintains its stringent culture of compliance where governance, principles, ethics, accountability, integrity and transparency remain in absolute focus. In furtherance of these objectives, operations of the Bank were re-organised, combining internal synergies for more effective performance, in line with the strategic goals of the Bank. Driving efficiency through centralisation of operations, outsourcing of non-core processes, setting service level agreements and setting up of a business continuity management process were key

highlights of turnaround operational changes this year.

Technology is a key driver of our business growth and hence significant investments were made in augmenting our IT excellence. The year 2015 saw UB moving on to Microsoft Office 365 (O 365) Cloud Technology, further enhancing the Bank's operational excellence while reaching a milestone in the industry as the first Bank to implement this solution in Sri Lanka. We will continue to invest in several progressive IT initiatives in 2016, to support the efficiency of the Bank operations and deliver further convenience to our clients.

Transforming the brand positioning of UB and bringing the brand into greater focus and relevance, an integrated communications campaign themed, "make the rest of your life the best of your life" was launched. The focused strategy employed in creating a strong and dynamic brand that maintains a sustainable presence in the financial services industry was evident once more, as UB was conferred the status of being listed among the LMD's Most Valuable listed companies for 2015. UB was also awarded the "Speed to market" award for 2015 by Visa International for the successful and

fast tracked launch of the Visa Debit Card.

**GEARED FOR SUCCESS**

Looking towards year 2016, I am confident that UB is well positioned with the right mix of tools and talent to make the most of the emerging opportunities. In 2016 and beyond, we will build on this strong foundation with ambitious growth objectives for enhanced balance sheet performance. Our intent to build a differentiated Retail Banking business will be continued while the business areas of Corporate Banking and SME Banking will continue to be strengthened for improved results. Fortified by a capital base which is well above the ordinary, guided by an inclusive business strategy and driven by the integrated expertise of our team; UB is now geared for success.

The Bank will continue to invest in expanding customer reach both through brick and mortar branches and alternate channels, bringing greater convenience of access while investing in technology and value added products.

UB will further enhance its investment in building brand equity with a strong national presence, and fortify its value added product range serving the diverse sectors of this economy. Aggressive expansion of the CASA portfolio, growth of inward remittance channels, buildup of higher yield corporate assets, promoting financial inclusion by broad basing SME financing across the island and increasing fee income remain key strategic priorities for the Bank in 2016.

Backed by the strength and support of TPG Capital- one of the largest private equity firms in the world, the Bank will continue on its growth

trajectory towards becoming one of the leading private sector banking institutions in Sri Lanka. Through targeted brand building activity and marketing initiatives, we will continue to build our corporate identity as a progressive Bank providing optimum financial solutions enriched with the convenience of the latest technology.

We see a few impending challenges, a key one being the need to generate a low cost fund base by growing the CASA portfolio. In addition, low interest rates will continue to exert pressure on interest margins. However, given the resurgence in key industries such as tourism, telecommunications, agriculture, services, maritime and energy sectors, we remain optimistic about the growth potential in the coming year.

With ambition, competitiveness and a readiness to achieve, UB is now geared to partner the success of our stakeholders, to become an active participant in the development milieu of our nation.

#### APPRECIATION

Our successful journey in 2015 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 phase of change and growth.


My grateful thanks to the Chairman, Deputy Chairman and members of the Board of Directors for their unstinted support and guidance.



Indrajit Wickramasinghe  
*Director/ Chief Executive Officer*



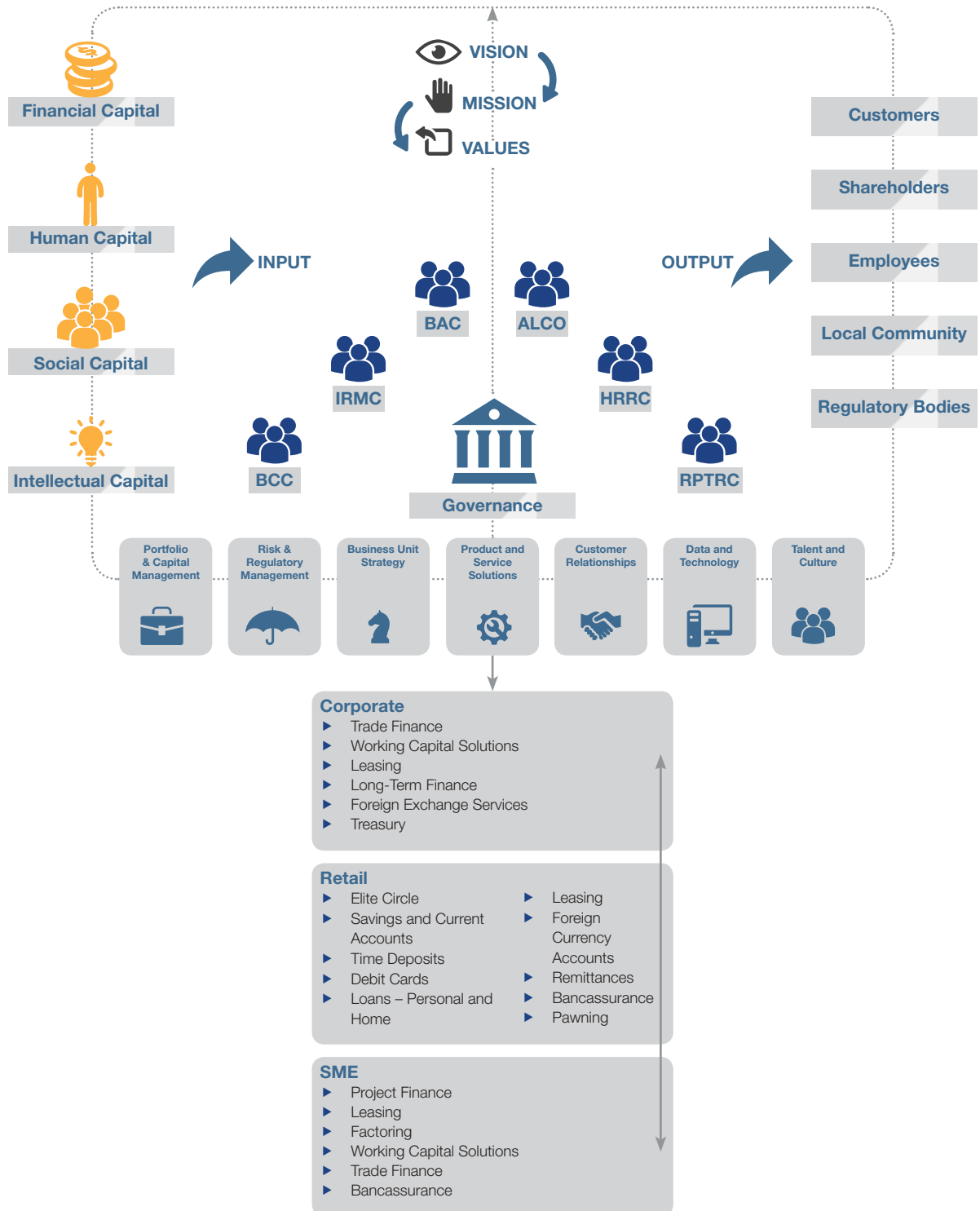
**WE ARE GEARED TO  
SERVE YOU BETTER**

The background of the page is a complex geometric pattern composed of various sized triangles. The color palette is primarily blue, ranging from a light sky blue to a deep navy blue. Interspersed among these are triangles in shades of orange and yellow, with the largest and most prominent being a bright, saturated yellow. The triangles are arranged in a way that creates a sense of depth and movement, with some pointing towards the viewer and others receding. The overall effect is modern and dynamic.

Our extensive investments  
in people, processes and  
systems have resulted  
in a knowledgeable and  
professional organisation that  
delivers a redefined banking  
experience to our customers.



CORPORATE PHILOSOPHY



# “THE BANK PERFORMED EXCEPTIONALLY WELL IN 2015, RECORDING RS. 193.0 MN IN POST-TAX PROFITS REFLECTING A 238% YEAR-ON-YEAR GROWTH. 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.”

## Sri Lanka’s Macro Economic Review

Reform was the common theme seen during the year, as Sri Lanka’s new unitary Government aimed to bring political stability and set Sri Lanka on a path towards sustainable economic growth. The most significant positive events during the year consisted of lower levels of inflation, a healthy growth in private sector credit and continued increases in domestic consumption.

Following the decision by the Department of Census and Statistics (DCS) to rebase GDP to 2010 from a base of 2002, economic growth in 2015 was expected to be between 6.0% - 6.5%, according to Central Bank of Sri Lanka (CBSL). This is higher than the revised growth of 4.5% seen in 2014. The first three quarters of this year are expected to have grown 5.2% compared to the same period last year. Agriculture production recorded stronger positive growth in 2015, rising by 6.1% Year-on-Year (YOY) in the first nine months of 2015, following its benign growth of -2.2% seen in 2014. The Industrial sector experienced marginally higher growth in 2015, buoyed by stronger growth seen in the manufacturing of food, beverages and Tobacco products. The rise came despite a marginal drop in growth seen in the Construction sub-sector. Growth in the Services sector moderated in 2015, rising 5.2% in the first 3 quarters of the year, with strong growth seen under the Telecommunication, Financial Services and Education sub-sectors.

Inflation remained depressed throughout 2015, with Sri Lanka falling into deflation territory between the months of July and September. This was mainly due to the effects of lower energy prices, as prices of crude oil remained depressed over the year, owing to the persistence of a crude oil supply glut. Fuel prices were also reduced through administrative price changes introduced in the interim budget presented in late January, further reducing energy prices. However, headline inflation picked up towards the end of the year, as adverse weather conditions caused disruptions in supplies of food, driving up Food & Beverage prices. By the end of November, Food inflation grew by 5.2% YOY, while Non-Food inflation rose 1.1% YOY.

Despite headline inflation following a declining trend through most of the year, core inflation showed more positive momentum. Core inflation recorded 4.3% YOY growth by the end of November from growth of 2.1% YOY in January. This eluded to underlying inflationary trends in the economy.

The CBSL continued to maintain a relaxed monetary policy stance, citing low levels of inflation and investments in the economy. The CBSL cut rates by 50 basis points (bps) in April in an effort to boost growth, stating that interest rates were inconsistent with the levels of inflation and investment prevalent in the economy.

Policy rates were maintained for the remainder of the year, with the CBSL remaining vigilant to the high levels of private sector credit growth and surging imports.

Private sector credit showed strong growth in 2015, rising by 22.2% YOY by the end of September. This growth was higher than the 18% growth expected by the CBSL for 2015. With an absolute increase of Rs. 377 Billion in the first 3 quarters of 2015, the CBSL attributed the high credit growth to the low interest rate environment.

Sri Lanka’s Balance of Payments position deteriorated in 2015, due to the widening current account deficit, together with lower levels of capital inflows to the financial account. The BOP is estimated to have recorded a deficit of US\$ 2.3 billion by the end of September 2015. However, with the policy decisions taken by the Central Bank and the Government, such as the reduction in the loan to value ratio (LTV) on motor vehicle loans, the CBSL expects the BOP to improve to a surplus of US\$ 700 million in 2016. Workers’ remittances moderated in 2015, recording a slower cumulative growth of 1.7% YOY, in the period from January to October. During the same period, earnings from tourism grew by 18.1% YOY. The Central Bank was able to shore up gross official reserves to US\$ 7.2 billion by the end of November, due to the inflows from the US\$1.5 billion currency SWAP agreement with the Reserve Bank of India (RBI), and the US\$2.15 billion raised through the issuance of 10-year

International Sovereign bonds during the year.

Sri Lanka faced a moderation in its external trade, as slow growth in major export destinations caused a fall in exports, amid significantly higher imports. Exports declined for most of the year, recording seven consecutive contractions as at the end of September. The declines were primarily due to lower exports of Tea, following weak demand from Russia and the Middle East as well as lower Textiles and Garments exports due to poor demand from the EU. Import growth remained strong through the first half of the year, but turned negative in the 3 months to September. The strong growth was led by imports of consumer goods, primarily attributed to the surge in motor vehicle imports, while the decline was due to a reduction in the country's fuel bill. Foreign Direct Investment (FDI) remained suppressed during the year, while capital flows turned negative on expectations of a US interest rate hike.

These capital outflows, together with robust demand pressures driven by non-fuel imports, kept the Sri Lankan Rupee under depreciatory pressure throughout the year. The Central Bank's subsequent defense of the rupee saw significant reductions in gross official reserves. As a result, the CBSL removed its daily reference rate for the rupee in September, causing the currency to fall 9.2% Year-to-Date (YTD), as at 15th December 2015.

The Colombo Stock Exchange experienced volatility during the year, as the change in the political environment created uncertainty over the economic direction of the country. The All Share Price Index (ASPI) fell by 7.2% YTD, with market capitalisation declining by Rs. 1.9 Billion to Rs. 2.9 trillion YTD, as at 15th December.

Looking ahead, the maiden budget of the new Government for 2016 is slated to bring a host of policies geared towards reforms, liberalisations and tax simplification. Many experts, including ratings agencies such as Fitch and Moody's, believe the government's policies for 2016 lack near-term fiscal consolidation, but do include positive reforms for the economy.

## Global Economic Overview

The global economy is expected to grow at a slower pace than the 3.4% growth seen in 2014, with the IMF forecasting a growth rate of 3.1% in 2015 and 3.6% in 2016. However, the IMF warns that the global economy may be facing persistently weak growth, having repeatedly reduced its growth forecasts over the last five years. The IMF sees the imminent tightening of monetary policy in the US, the fall in commodity prices and the slowdown in China as the main reasons for the benign global growth.

According to the IMF's latest Regional Economic Outlook report, published in October, the Asian region is expected to grow at a rate of 5.4% in both 2015 and 2016, higher than the rate of global growth. Similarly, it expects the South Asian region to maintain its lead as the fastest growing region in the world, forecasting growth of 7.2% and 7.4%, in 2015 and 2016, respectively.

The Chinese economy is cooling down, forecast to grow by 6.8% in 2015 and 6.3% in 2016. However, the People's Bank of China (PBOC), in an attempt to boost growth, initiated several stimulus measures. The most notable among these was the surprise devaluation of the Yuan and six interest rate cuts this year. China's woes were not limited to its economy, having faced a stock market sell-off in August 2015, to the tune of \$5 trillion. The Chinese Yuan, however, made history this year after the IMF decided to include the currency into its reserve basket.

With the slowing Chinese economy, commodities and commodity exporting countries are under pressure. The lower Chinese demand has exacerbated the decline in oil prices, which were caused by a global supply glut of crude oil. The lower prices are beginning to show negative effects in oil exporting nations. Saudi Arabia, the largest of the OPEC nations, was forecast to run out of its reserves within 5 years, in addition to seeing

a downgrade in its debt rating from S&P due to a pronounced negative swing in its fiscal balance. Meanwhile, Russia fell into a technical recession, with the Ruble in free fall, but has since recovered, despite economic sanctions following its annexation of Crimea. The global oversupply of oil, responsible for keeping prices depressed, shows no signs of waning with the potential for Iranian oil to enter the market once again if its sanctions are lifted during talks scheduled for December 2015.

Expectations of a rate hike from the US Federal Reserve (Fed) persisted throughout the year due to increasing evidence of the strength of the US economy, although inflation remained below the Fed's target. These prolonged expectations of a US rate hike saw capital outflows from emerging markets continuing, with the Institute of International Finance (IIF) predicting that capital flows to emerging markets will turn negative this year for the first time since 1988.

These outflows saw negative effects on emerging market currencies, with many falling to multi-year lows. The Malaysian Ringgit fell to a 17-year low this year, while the Brazilian Real fell to an all-time low against the dollar. This depreciation was met with rigorous attempts by Central Banks to mitigate the fall, at the expense of their foreign exchange reserves.

The European Central Bank (ECB) delivered on its promise of bond purchases by initiating its 1 trillion Quantitative Easing program in March 2015 and planned to see the program through to September 2016. Accordingly, the ECB purchased 60 billion in bonds every month. However, the Euro Area remained mired by weak inflation, even falling into deflation in September 2015 and the Greek debt crisis during the year.

Loan growth which picked up in the latter half of 2014 remained moderate during the first half of 2015, but subsequently accelerated by the end of the year. Banking sector loan growth for the first 9 months of the year stands at 15.6% aided by low interest rates and increase in economic activity.

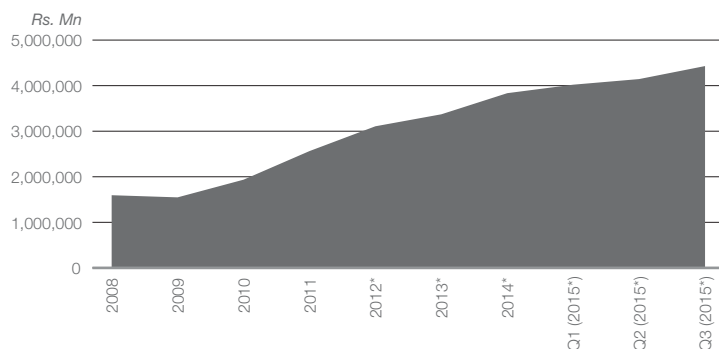
With inflation pressures remaining subdued it provide space for the CBSL to maintain a more relaxed monetary policy stance. In March 2015, the Central Bank removed the restriction placed on banks with respect to accessing the Standing Deposit Facility (SDF) and the 5 per cent SDF rate was withdrawn.

Loan disbursement was largely concentrated in Term Loans while banks increased their exposure to the leasing segment. The 2016 Budget proposed Banks to cease leasing activities by June 2016. Pawning portfolio of most private banks continued to dip and accounts for approx. 2% of the total loan book. This is a timely development in lieu of the budget proposal for Banks limit their exposure to pawning to 5% of their loan book. As of September 2015 all private banks meet this requirement.

Prevalent low interest rate environment added pressure on Net Interest Margins which witnessed a downward trend throughout the year.

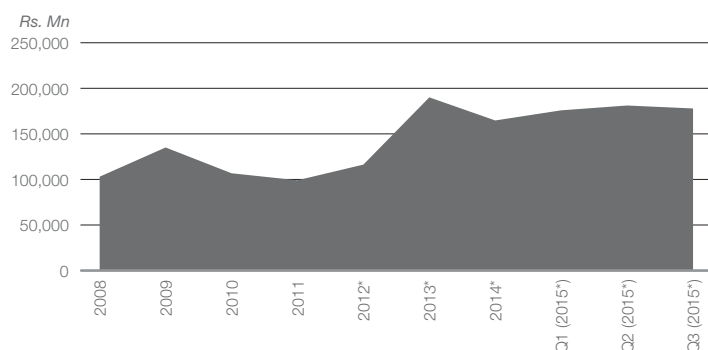
*Figure 1- Net Loans and Advances (in Rs. Million) [Source: CBSL]*

**NET LOANS AND ADVANCE IN RS. MILLION**



*Figure 2- Gross Non-performing Advances (in Rs. Million) [Source: CBSL]*

**GROSS NON-PERFORMING ADVANCES IN RS. MILLION**



\*provisional data

The banking sector added 46 branches for the first nine months of year, rapidly expanding during the first quarter. Meanwhile 60 new ATM machines were installed by August 2015.

Deposit growth which started off bleak at the start of the year picked up during the second quarter recording a growth rate of 9.4% for the first nine months, mobilizing a total of Rs. 439 billion. The growth in Savings deposits marginally outpaced fixed deposits, slightly improving industry CASA to 40% from 39%.

**ASSET QUALITY IMPROVED**

Asset quality weakened during the first half of 2015 with absolute Gross Non Performing Loans (NPL) increasing by Rs. 16.5 Billion. However, by September 2015 Gross NPL ratio improved to 4% from 4.2% in December 2014 and 4.3% in June 2015. The improvement in the matrix can be largely attributed to expanding base improvement in credit growth. Sectors such as tourism, agriculture and fishing experienced rising NPLs.

**THE PACE OF REGULARITY  
CHANGE SLOWS**

Another major development in the sector was the Financial Sector Consolidation plan which was put forth by the Central Bank in 2014. The plan required Non-Banking Financial Institutions (NBFI) to either merge or be acquired by banks or larger finance companies. A total of 41 NBFIs have confirmed their consolidation plans. However, the banking sector consolidation process carried out so far is currently being reviewed by a committee under the Banking and Finance Sector of the Ministry of Policy Planning and Economic Development.

With the implementation of the Basel III liquidity standards, the CBSL issued directions requiring banks to maintain Liquidity Coverage ratio above 60%. Further, CBSL issued a Consultation Paper on the Implementation of Basel III Minimum Capital Requirements and Leverage Ratio.

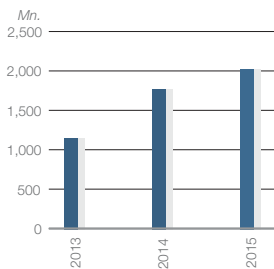
2015 was a challenging year for the Bank from an operational perspective, given the uncertainty that prevailed within local markets due to the political volatility experienced during the year. The year started with lower interest rates, low single digit inflation and stable currency position which were favourable for the banking sector. However, towards the latter half of the year, volatility in the currency and interest rates were experienced.

Despite challenging market conditions, the Bank performed exceptionally well in 2015, recording Rs. 193 Mn in post-tax profits reflecting a 238% YoY growth. 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.

FINANCIAL INDICATOR

PERFORMANCE

NET INTEREST INCOME (NII)



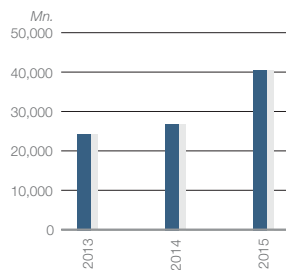
The principal source of income from the Bank's fund based operations reached Rs. 2,022 Mn in 2015. This is an increase of Rs. 259 Mn or 15% compared to Rs. 1,763 Mn recorded in the previous year.

This was a noteworthy achievement, given the substantial reduction in interest spreads experienced by the Bank during the year.

Net Interest margins too dropped due to decreasing spreads and increased investments made in Unit Trusts during the year. Return on these Unit Trust investments are reflected under Net Trading Income of the Bank.

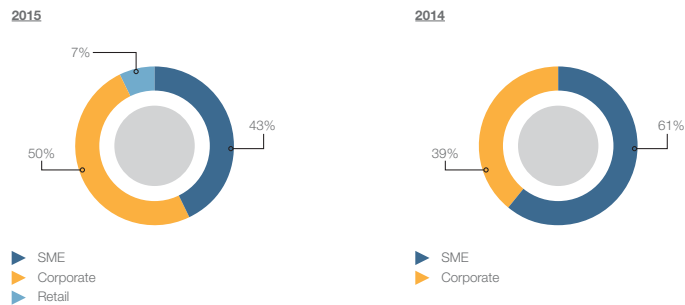
The capital infusion effectuated during the latter part of 2014 also helped to manage spreads amidst adverse market conditions.

GROSS LOANS & ADVANCES



The Bank's Gross Loans and Receivables stood at Rs. 40,664 Mn as at 2015 year-end. This is a Rs. 14,105 Mn (53%) growth in comparison to the previous year and is the highest absolute growth achieved by the Bank since its inception.

The composition of Loans and Advances of the Bank changed in line with the new strategic focus, with the Bank being positioned as a fully-fledged commercial Bank serving a wider clientele including Corporate, SME and Retail Banking segments.



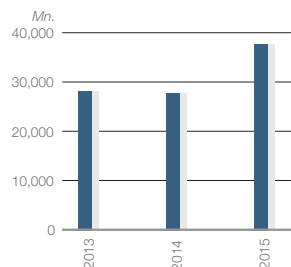
Corporate Banking contributed to the highest portion of the growth. The Bank has made focused efforts to strengthen its corporate loan book this year in an effort to grow fee and commission income.

The Bank revamped its Retail Banking proposition in 2015, with a broader product spectrum aided by aggressive network growth; while consciously narrowing the pawning portfolio to reduce the risk appetite.

**FINANCIAL INDICATOR**

**PERFORMANCE**

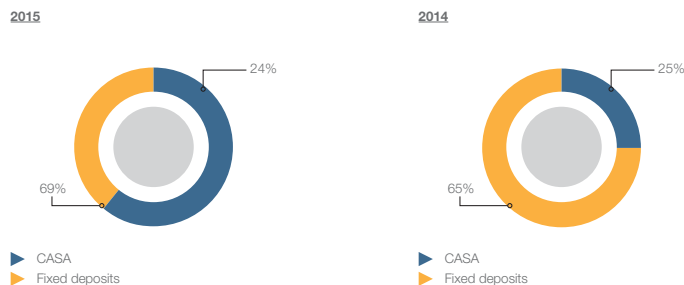
**DEPOSITS BASE**



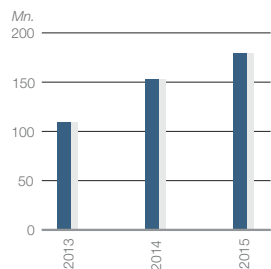
The Deposits base of the Bank stood at Rs. 37,652 Mn as at year-end. This is a Rs. 9,844 Mn (35%) growth in comparison to 2014. Growth in Fixed Deposits was Rs. 7,719 Mn.

The Bank focused on an aggressive CASA drive which was supported by several strategic initiatives such as the expansion of the Off-site ATM network, introduction of Debit Cards, setting up a dedicated sales force and re-branding the branch outlook. CASA recorded a growth of Rs. 2,125 Mn which translates to 31% in comparison to 2014.

CASA mix remained at 24% by the year end.



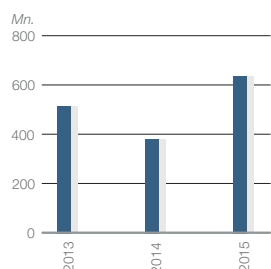
**FEE AND COMMISSION INCOME**



The Fee & Commission Income of the Bank was Rs. 226 Mn which translates to a YoY growth of 15%. This was mainly attributed to the increase in fees and commission income from Loans, Cards, Trade and Remittances.

The Bank made significant efforts to strengthen its fee and commission based business and plans to leverage the key enablers that were established during 2015.

**NET TRADING AND OTHER INCOME**



The Bank reported a Net Trading Income of Rs. 278 Mn, which is a significant growth of 189% YoY. This is due to an increase in investments made in the Unit Trusts.

In 2015 the Bank made a strategic decision to exit the equity trading portfolio and held no trading stocks as at the year end.

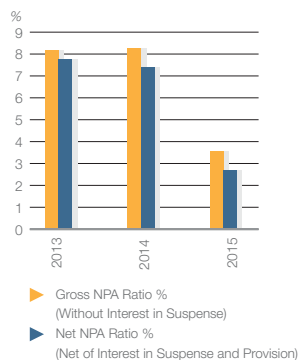
Other Operating Income of the Bank was Rs. 359 Mn, which reflects a growth of 28% YoY. This is mainly attributable to the 73% growth reported in Foreign Exchange gains.

FINANCIAL INDICATOR

PERFORMANCE

IMPAIRMENT AND CREDIT QUALITY

The Bank was afflicted with one of the highest NPL ratios in the industry in mid-2014. The Bank's NPL ratio improved significantly to 2.7% as at the reporting date. NPL ratios as at the end of 2014 was 7.4%.



Reflecting a significant improvement in portfolio quality, the Credit Loss Expense of the Bank reduced to Rs. 176 Mn from Rs. 541 Mn in 2014.

The Bank assesses approximately 75% of the portfolio under individual impairment. The individual threshold remained similar to last year. Loans meeting the criteria required were individually analysed to decide the recoverability of each facility.

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

OPERATING EXPENSES

Operating expenses of the Bank was Rs. 2,334 Mn which is 42% increase YoY. This is mainly due to the strategic investments which included the expansion of footfall and reach along with investments made in technology and human resources during the year. Consequently, cost to income which was at 73% in 2014 increased to 82% in 2015.

LIQUIDITY

The Bank maintained a healthy Liquid Assets Ratio throughout the year.

Liquid Asset Ratio	2015	2014	2013
Year End	21.9%	50.8%	22.1%
Maximum	51.9%	51.8%	23.5%
Minimum	21.4%	20.7%	20.6%
Average	31.9%	29.0%	21.9%

CAPITAL ADEQUACY RATIO

The Bank maintained a healthy Capital Adequacy Ratio throughout the year.

Capital Adequacy Ratio	2015	2014	2013
Core Capital (Tier 1) Ratio	24.4%	41.7%	17.9%
Total Capital Ratio	23.9%	40.9%	16.9%

GROUP PERFORMANCE

The Group, consisting of the Bank and its two subsidiaries - UB Finance Company Limited and National Asset Management Limited and the special purpose entity Serendib Capital (Pvt) Limited reported robust results in 2015. The operations of these companies are briefly described in the 'Subsidiary Update' found on page 58. The Group reported pre and post-tax profits of Rs. 292 Mn and Rs. 255 Mn respectively, compared to Rs. 161 Mn and Rs. 78 Mn reported in 2014. Annual growth rates for pre and post-tax profits were 82% and 226% respectively.

The Bank is the significant contributor towards the group NII, accounting for 83% of the total. The Group reported a NII of Rs. 2,440 Mn compared to Rs. 1,971 Mn reported in 2014. The annual growth rates for NII was 24%.

The Group recorded significant volume growth in terms of Gross loans and receivables growing its portfolio to Rs. 46,421 Mn in 2015, an increase of 51% YoY. This was a result of the Bank's intention to grow the book aggressively while maintaining a profitable mix. The Bank contributed to 88% of the Group's total loans and advances.

The Group also recorded a significant increase in customer deposits recording a portfolio of Rs. 41.6 Mn in 2015, a growth of 37% YoY. The Bank contributed to 90% of the Group's total customer deposits. Fixed deposits accounted for 78% of the total deposits base and grew by 39% YoY. The Group reported a 15% increase in fee based operations.

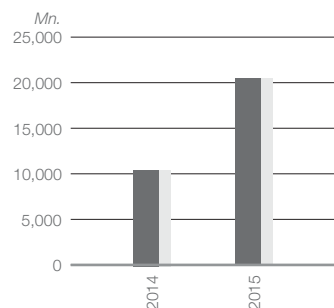
Trading and other income also reported a strong performance, reporting a growth of 36% YoY.

**Corporate Banking**

2015 was a year of transformation at UB. Despite political and economic volatility brought about by the Presidential and General Elections and the intense competition augured by a low interest rate regime resulting in narrowing margins; the Corporate Banking Department reaped the synergistic benefits brought about by the capital infusion and private sector credit growth.

The year recorded a growth of 97% in the advances book whilst the deposit book increased by 44% thus playing a pivotal role in its contribution towards the Bank's overall performance. The department contributed towards 51% of the Bank's total advances. Portfolio quality too improved with the Net NPL Ratio improving from 7.4% p.a. as at the FYE 2014 to 2.7% by the FYE 2015.

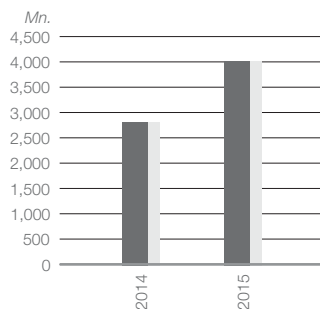
**LOANS GROWTH**



The Corporate Banking Department was further expanded with the addition of experienced staff, geared to deliver on the ambitious growth objectives of the Department. The Corporate Banking Department focused on penetrating and acquisition of top tier corporates during the year under review backed by superior relationship management services whilst deepening its relationship among the existing emerging corporates. A suite of products and services consisting of working capital finance, bonds and guarantees, factoring, leasing /

Hire Purchase, Project Financing and Treasury products continue to be offered to the corporate clientele; while value addition through expert advisory services offered by a skilled relationship management team continues to augment client experiences.

**DEPOSITS GROWTH**



Within the period under review credit underwriting process and approval processes were underpinned, with a view to expand and improve lending capabilities within the Department; while the expansion of the single borrower limit and the capital infusion further supported credit growth, focused efforts were deployed towards increasing trade and fee income, which resulted in a fee income growth of 14.91%.

Portfolio growth was generated mainly via selected companies within the manufacturing, financial, agriculture and traders sectors. UB's corporate client base spans across numerous industry segments thus broad basing the risk profile. The unit continued to focus on prudent management of laid down risk parameters and identification of early warning systems, thus maintaining the quality of portfolio at high levels.

**PROSPECTS FOR 2016**

The Corporate Banking Department with the changes made in 2015 is very well positioned to take on the opportunities in 2016. UB will keep abreast of the changing Corporate Banking landscape with the

development of new client solutions, building new credit capabilities and commitment towards value based pricing.

The Department will focus on enhancing fee income with greater focus on Treasury and Trade products. It is envisaged that the launch of the cash management services system will pave the way to capture greater market share, deepening of the wallet share on the Corporate Banking business, improved Current and Savings accounts growth and enhanced fee based income; while delivering unparalleled convenience to our clientele.

The team will continue to focus on the progressive sectors of the economy to capture emerging growth opportunities. Continued focus on upgrading of systems and up-skilling of the team will provide the unit with an enhanced competitive edge to be a recognised force in the market.

## SME Banking

The FYE 2015 was a successful year for the Small and Medium Enterprise (SME) banking unit of Union Bank. Despite the challenging macro environment characterised by low interest rates and tightening margins, the SME banking unit delivered a robust performance.

The SME banking unit of UB was guided by a comprehensive and effective business strategy, which embodied the Bank's Corporate Plan and Budget for the year under review.

Faced with a competitive market environment in which the Bank's conventional business approach would have not been sustainable, UB developed a strategy to grow SME banking volumes and manage the tight interest spread with a particular focus on identified segments; placing primary focus on upper and middle tiers of SMEs in the country while increasing emphasis on business through trade, and fee-based income.

The Bank instigated structural adjustments within the unit in order to optimise resources and improve operational efficiency. Appointment of a SME Head to lead and drive the SME banking unit was a progressive step towards the focused growth of the unit while the appointment of SME Banking Relationship Managers within identified zones around the country further strengthened the SME Banking operation.

Establishment of the SME Asset Centre with experienced Credit Analysts, headed by a Senior Manager and centralisation of the SME credit underwriting process were other important initiatives implemented by the Bank in 2015, to increase business focus and improve efficiency within the department. Empowering front line staff with a new delegated authority matrix and streamlining of the valuation procedure in order to speed up the credit approval process were other progressive initiatives taken towards increasing the productivity of the SME Banking unit. A comprehensive tracking system was also introduced

to monitor the processing status of credit facilities at the Processing Centre in order to meet demanding turnaround times while increasing the speed of loan disbursement. Setting up a fully-fledged trade services desk at selected branches contributed towards trade business income.

These initiatives rendered a significant improvement in the Bank's overall SME banking performance as SME lending portfolio grew appreciably in the latter part of the year. SME loan book crossed Rs. 17 Billion mark, a growth of 26% over the previous year whilst an impressive growth was recorded in import volumes.

Product and sector focus was primarily on trading, exports, leisure, tourism and manufacturing sectors in order to achieve anticipated revenue by structuring suitable credit packages to the SME clients, while widening the risk profile through portfolio diversification. In line with our focus on inclusive growth, the Bank's SME banking footprint was significantly widened in strategically selected regions, where UB managed to percolate into some of the key industries in the island (ex. Cinnamon exports) with the acquisition of new SME banking clientele within these regions. Such timely strategies and initiatives have also duly resulted in impressive improvement of asset quality of UB's SME banking portfolio.

Against a background of sharply declining interest margins, healthy expansion of SME business volumes boosted the Bank's overall performance objectives. This will be undeniably appreciated by our stakeholders.

The Bank continued to support the development of the SME sector in the country, providing entrepreneurs with opportune SME banking propositions, financing businesses at concessionary rates under special credit schemes initiated by CBSL and other donor agencies while sharing business acumen through advisory services to support the efficient management of their businesses. To enable UB create greater agility in catalysing growth for SMEs the Bank forged partnerships

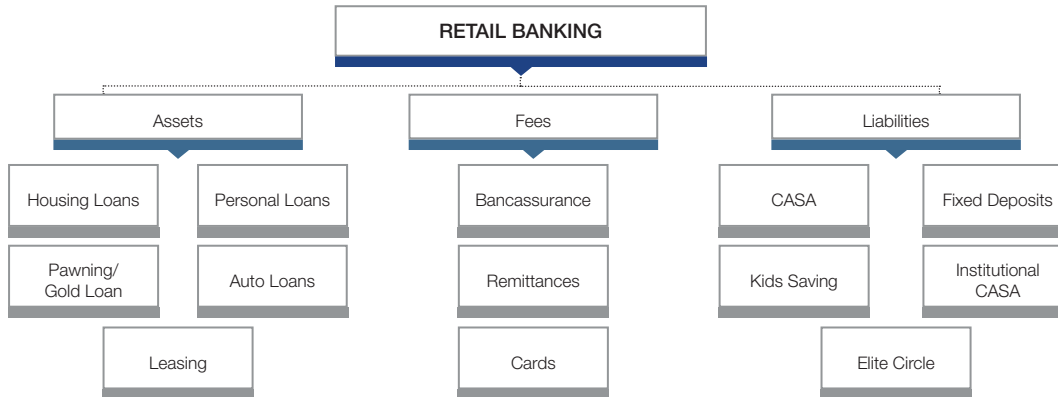
with several reputed organisations such as GIZ and SLCSMI. Further, the Bank pledged its support for the third consecutive year as the principal sponsor for the Industrial Excellence Awards 2015 organised by SLCSMI.

## PROSPECTS FOR 2016

In 2015 a strong foundation was built in terms of people, processes and credit underwriting which would give us the ability to build a stronger SME business in 2016. Looking towards the ensuing year, the SME banking unit has more achievements and progress firmly in its sight, as we believe that the journey ahead would be a challenging yet productive one.

The encouraging results originating from the SME banking unit have impelled higher SME business growth in the coming year while targeting to capture greater market share to consolidate our position in the market space. Managing the risk profile, tight interest spreads as well as fee based income remain as business priorities for the unit. The unit will operate with greater focus on process improvement and better use of technology to offer enhanced customer convenience and cost advantages. At the same time the SME Banking unit of UB will continue to build strong and close relationships with SMEs in the country and emphasise on leveraging rapidly evolving opportunities in the key industries of tourism, trading, services, agriculture, manufacturing, construction, telecommunication and energy. UB will continue to build and invest in building others skills and capabilities of SMEs in all the regions in 2016.

The SME Banking unit will continue to focus on skills development of the team and is confident that UB is equipped with the necessary attributes to become a challenging player in the market and emerge as the preferred banking partner for SMEs in the country.



### RETAIL LIABILITIES

The year experienced several challenges in the macro financial services sector including a slowdown in domestic savings with the decline in interest rates for term deposits compared to previous years.

The Retail Banking structure is one of the four key pillars of the Bank's new strategy. Expanding the focus from the SME orientation to cover the range of activities under a Retail Strategy required the Bank to restructure its organisational structure functionally and administratively. The Retail Liabilities structure consists of full suite of Retail Liability Products with a focus on customer deposits and fee based services. The Retail Liabilities structure now boasts of a full suite of Retail Liability products and services with a particular emphasis on customer deposits and fee based services. The Retail & Institutional CASA are the key focused segments which are complimented by Remittance and Bancassurance Businesses whilst Remote ATMs and Digital services add service convenience. The Elite Banking Services targeting the high net-worth customers is also a key enabler that was re-launched with a host of value added services under the Retail Liabilities.

Re-organising the Retail Structure had an underlying key strategy to reduce the overall cost of funding for the Bank. The focus for mobilising and

driving an aggressive CASA strategy to infuse low cost funds required the rethinking of strategies to cater to the market providing a win-win solution for the Customer and the Bank. The revamping of existing products and the launch of new CASA products were the main key enablers to target the retail individual customers. During the year, the Bank revamped its savings products focusing on 2 key products for the Market. The Ultra Saver was targeted for the interest conscious savers offering a competitive rate of interest with the additional benefit and flexibility of unlimited withdrawals and calculation of daily interest. The product was also tiered to encourage increased savings rewarded with higher interest rates. In addition, creating a first in the market for a mass product, the Bank also included a free personal accident cover for the Ultra Saver which becomes effective on the use of the Debit Card. The Regular Saver was targeted for the low scale savers offering flexibility.

The Bank launched a new savings product for the salaried segment. The product focuses on both the mass market and the higher income earners and offers the convenience of savings, access to ancillary financial services and personal and housing loans. As an additional benefit for the employer, the product also includes a free personal accident insurance cover which comes into effect with the use of the Debit Card by the customers.



These enablers were further strengthened with the expansion of a off-site ATM network. By end of the year, the Bank had expanded its off-site ATM network from zero to 37 covering even locations such as Moneragala and Hikkaduwa. These offer the convenience for customers to access their accounts closer to their residences. All customers are provided free SMS alerts and the Bank offers the option of Internet Banking facilities.

The current accounts of the Bank are unique in terms of offering all customers the convenience and benefit of faster clearing and extended cheque deposit time limits. The Bank operates its chequing counters till 4pm irrespective of the district and offers T+1 clearing times allowing customers to realise their proceeds the following day before 4pm. This has been a key factor in the Bank's overall customer acquisition strategy for high net-worth clients, salaried individuals, proprietors and business clients.

## MANAGEMENT DISCUSSION & ANALYSIS

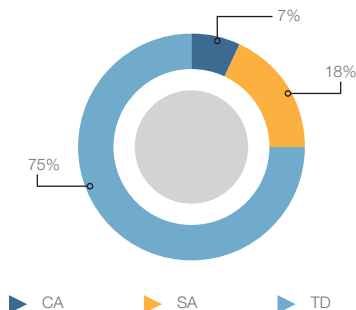
The Bank focused on two main campaign initiatives for CASA growth during the year. In keeping with the traditional Sinhala and Tamil new year celebrations Union Bank announced the launch of “Isuru Pirunu Suba Ganu Denu” an attractive Avurudu promotion. The promotion was applicable on all savings account deposits up to 30th of April 2015 and offered gifts and rewards for all deposits above Rs. 2,500/- with the intention of creating brand awareness and addressing the masses.

The second type of campaign focused on the re-launches of branches in key locations, where emphasis was placed on awareness creation for the savings propositions of the Bank. Both promotional activities focused on increasing new customer acquisitions and acquisition of new CASA deposits.

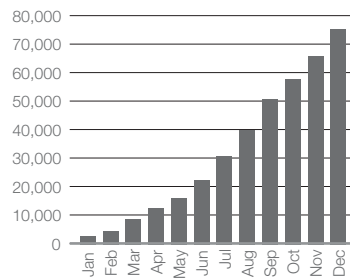
The increase in interest rates within mid-year 2015 helped the Bank in its short term deposit campaigns focusing primarily on 12 months and 6 months fixed deposits. Competitive rates were on offer while staying mindful of the costs and margins that were required to be maintained in making such acquisitions profitable.

A net growth of Rs. 8 Billion was recorded for the retail deposits which contributes 83% of the overall Bank's Deposit base growth. These key enablers helped maintain the CASA mix ratio at 25% despite the increase in the rate structures towards the end of the year.

### DEPOSIT MIX



### NEW ACCOUNTS



### INSTITUTIONAL CASA

Institutional CASA was a new channel that commenced during the year. The unit focuses on the institutions that requires collections/receivable solutions with a personalised and speedy service. The service focuses on multi-national companies, franchises and local companies. The Bank offers a service proposition that helps these companies manage their funds economically and reach increased operational efficiencies as well.

### ELITE BANKING

In July 2015, Union Bank unveiled its newly transformed Elite Circle centre located at Greenpath, Colombo 03, exclusively for Elite Banking clients. The exclusive 'Elite Circle' centre, offers a redefined experience in personalised banking with an elegant and welcoming ambience, spacious meeting facilities and dedicated relationship managers who will support and advise clients on all their financial needs. Union Bank's Elite Circle, exclusive banking service is designed to understand the unique needs of customers and offer tailor-made financial solutions to meet individual requirements. Supreme professionalism, dedicated customer service, a comprehensive product portfolio, high degree of confidentiality and speedy service are the hallmarks of the service that Union Bank Elite Circle customers can expect at this dedicated banking facility.

In addition to a preferential tariff structured on the volume of business, the Bank offers a concierge service through a facilitated service provider and an array of insurance products under one roof. The Bank commenced offering financial advisory services for the clients to help them manage their funds efficiently with the best

investment options in the market. Elite Centre Relationship Managers were deployed in key markets outside the Western Province to serve the entirety of the market which is a 1st in the market.

### CARDS

The Union Bank Visa International Shopping Debit Card launched in 2015 was yet another pragmatic addition to the Bank's rapidly growing Retail Banking portfolio. Introduced in both Platinum and Classic variants, the Union Bank VISA Debit card incorporates an extensive range of features, enabling cardholders to access not only unique and attractive offers and discounts, but also makes online shopping and bill payments absolutely convenient. Applying for a Union Bank VISA International debit card is simple and requires a Union Bank current or savings account. The card offers a host of value additions including free SMS on transactions. The fast tracked launch of the Union Bank Visa Debit Card was even recognised with the 'Speed to Market' award at the Visa Client Forum in India and South Asia in September 2015.



### PERSONAL LOANS

Further enhancing the Retail Banking portfolio within 2015, Union Bank re-launched its Personal Loans propositions to provide customers added benefits and the opportunity to upgrade their lifestyles. Union Bank's Personal Loans are fast, flexible and convenient financial solutions which help customers to fulfil their personal financial needs. So whether it is to own a car or plan for an important life event such as a wedding, Union Bank offers a customisable range of personal loans to suit the client's individual requirement. The re-launched Union

Bank Personal Loans, lets customers enjoy attractive interest rates with a maximum repayment period of up to 5 years. Union Bank Personal Loans is unique as it does not require personal guarantors, and individuals can apply jointly with their spouse to obtain a higher loan value.

**BANCASSURANCE**

With renewed focus on the Retail Banking front for multiple product delivery based channels and evolving customer dynamics, the Bank entered into a strategic partnership with Union Assurance PLC and Union Assurance General Limited for offering Life and General related insurance products under the Bank's Bancassurance arm. The new relationship provides the bank's customers the added advantage of managing the universal insurance needs under one roof. With this fresh initiative customers have the capability to avail both Life and General insurance products under specialist advice of Bancassurance staff of Union assurance via Union Bank branches.

The product array caters to the life insurance market and our personal loans and housing loan customers. In addition, specialised services for Marine Insurance is also supported. Insurance agents for life are placed in over 30 key branches to help customers directly obtain advice and to expedite the service.

From a business perspective, the Bancassurance channel is seen as a new revenue line for the Bank and the aggressive focus on new customer acquisition is expected to complement the growth of Bancassurance business volumes.

The unique service is offered with enhanced technology. With this initiative the Bank will create new revenue lines which were not available to the Bank previously while providing the customers an enhanced range of financial services.

The Bank has agreed to a near zero cost process with the Bancassurance partners while optimising the revenue which is in line with the current strategy of rationalising current resource

allocations for revenue generation. The Bank will strive to develop the Bancassurance channel with continuous product improvement and focused sales strategy coupled with latest technological enhancements in 2016.

Internally, training and awareness programmes were conducted in all four zones to build the product knowledge. These investments are expected to improve the lead generation and the overall conversion rates for the Bancassurance business.

**REMITTANCES**

Worker remittances play a significant role in the Sri Lankan economy and keeps growing year on year at a rate of over 18%, with 2015 indicating an estimated inflow of about USD 7 billion. Top 20 Corridors, accounts for 94% of the Western Union business of Union Bank. 48% of the business volumes are directed from the countries of the Gulf Cooperation Council. Saudi Arabia and United Arab Emirates together contribute 30% in transactions.

Union Bank offers Western Union money transfers through its branch network and network of sub-agents. The Bank focuses on the reliability and speed of service to cater to the customers. CASA products and free accessibility through a growing ATM network have been complimentary in creating awareness among the clients to inculcate the savings habit especially for the regular remitters' beneficiaries. The revamping of the Western Union brand in selected locations and the conducting of customer promotions targeting the festive seasons helped the Bank to remain competitive amidst growing competition.

The Bank explored the strategic options to further pursue the remittance business lines as opportunities are available for Banks on Direct-to-Bank channels. With this intention, Union Bank is exploring the possibility of tying up with exchange houses in the GCC region and other potential remittances corridors. To cater to the more internet savvy migrant workers and Diasporas, the Bank invested in having it's own remittance platform to reach the migrant workers in key global locations for the purpose of inward remittances.

**MANAGEMENT DISCUSSION & ANALYSIS**



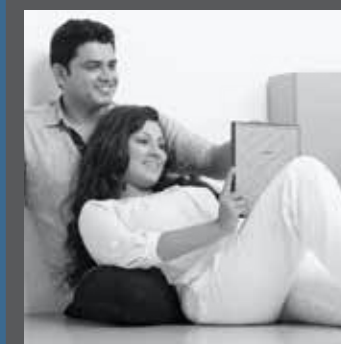
**MINOR SAVINGS**

SAVE BIG FOR YOUR CHILD'S FUTURE



**HOME LOANS**

PERFECT LINK TO YOUR DREAM HOME



**LEASING**

OFFERING YOU SPEED & FLEXIBILITY



**ELITE CIRCLE**

WELCOME TO A NEW ERA OF ELITE BANKING



# SALARY POWER

START SMALL  
SAVE BIG



# DEBIT CARD

MORE THAN JUST  
AN ATM CARD



# PERSONAL LOANS

LIVING YOUR  
DREAM IS NOW  
EASIER THAN  
EVER



# SME BANKING

YOUR DREAMS  
ARE NEVER AS  
FAR AS THE SEEM



## MANAGEMENT DISCUSSION & ANALYSIS

The platform is expected to be launched by early 2016 and will focus on offering reliability and convenience for all Sri Lankan migrants to remit their hard earned money back to their loved ones.

The Bank is focusing on having more remittance products and channels for its customers in 2016 and expects to make a significant contribution to the economy in terms of offering speedy, reliable and efficient channels for inward remittances.

### PROSPECTS FOR 2016

Going forward to 2016, the Bank is keen on improving its focus on CASA further with the intent of deepening its strategic shift to all key segments of the market. It will continue to expand its offsite ATM network for convenience and visibility and increased access at lower costs for its customers. In addition the existing internet banking facility would be re-aligned with world class standards to offer a superior experience to its customers especially the employed category and the professionals.

Strides have already been put in place to improve the investments in research and analytics to revamp other key CASA products. The emphasis on remittances is also expected to help the Bank improve its non resident account balances and offer a value added service for the diaspora and their beneficiaries. The Bank has taken steps to improve the service quality that will gear the branch network to offer a memorable and pleasant retail experience for its customers.

The training programmes and staff incentive schemes and promotions are also streamlined to provide the Bank the option of economising on the cost of acquisitions whilst providing the benefit for customers to access a host of superior financial services.

### Delivery Channels

Union Bank unveiled a new look and feel at its head office and branches in 2015, to provide a redefined banking experience to our clients. The new layout portrays UB's vibrant personality as a rapidly progressive Bank offering greater customer value. The change of

the branch layout is pivotal and timely for the Bank and is aligned with Union Bank's new aspirations of being a key player in the industry with a wider focus on retail, corporate and SME segments. Within the period under review 22 branches were redesigned according to the new layout. The refurbishment is part of UB's ongoing expansion and development plans to provide an enhanced customer experience.

UB's delivery channels accounted for 64 branches and 102 ATMs covering all provinces in Sri Lanka by the end of 2015. Alternate channels include internet banking, mobile banking and Elite banking.

### Branch network growth

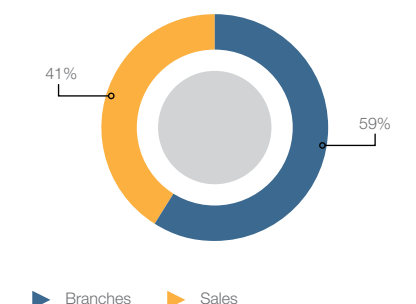
Channels	2012	2013	2014	2015
Branches	36	51	61	64
ATMs	35	51	62	102

Ensuring increased reach and accessibility, our branch network expanded to sixty four (64) branches. While the focus on inclusive growth was continued, the Bank also focused on strengthening its presence within the Western Province during this year.

### Dedicated Sales Teams

Union Bank strengthened its footprint around the island in 2015, with the establishment of two dedicated sales teams for acquisition of Assets and Liability products. The skilled sales teams will focus on new business growth and will support the branches in achieving the aggressive acquisition of CASA and personal credit facilities.

### SOURCING



## ALTERNATE CHANNELS

### Remote ATMs

ATMs are critical to the success of any financial institution as they provide customer convenience and brand visibility. Consumers continue to list the location of ATMs as one of their most important criteria in choosing a financial institution especially with the change in social lifestyles and when emphasising on convenience. ATMs have become a competitive weapon in the banking industry and plays a key role in capturing the attention and patronage of customers and potential customers.

Union Bank was the first domestic commercial bank to go live with the National ATM switch, "LankaPay" and is connected through VISA, CIRRUS and other domestic ATM switches. 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 contribution from the Remote ATM network helped the Bank almost triple the ATM transaction volumes.

The remote ATM network is seen to benefit non-customers as well with the usage from non-customers exceeding the usage of customers. The launching of the VISA Debit Card is also a key enabler for the increased usage overall.

The selection of strategic locations provides visibility and branding as well. Union Bank established 37 remote ATMs during the year extending its network to districts outside the Western Province as well and to places like Moneragala and Hikkaduwa, where ATM density is seen to be low. The Bank initiates local campaigns to create awareness for people to use the ATMs which indirectly helps the customers to manage their funds more economically by utilising only the amount required during withdrawals.

Union Bank took steps to introduce dipped card readers in a majority of its remote ATM locations to ensure that customers are not inconvenienced in having their cards retained in the machine.

Going forward the Bank expects to use the ATM network to provide an array of services for its customers.

### Internet Banking

The Bank offers an Internet Banking proposition for its clients and in 2015, the Bank explored the possibility of revamping its existing Internet Banking solution to a world class solution and invested in building the platform.

The new platform is expected to be available for customers by mid-2016 and offers a host of value added services that combines a range of services that would revolve around mobile applications and tab banking propositions to cater to the new generation of clients who are more tech savvy.

### Retail Sales Force

The Bank launched its sales arm in the second quarter of 2015. The Sales arm focuses on the acquisition of CASA clients under liabilities and Personal Loans and Home Loans under Assets while improving the reach in each region. The sales channel identified as one of the most difficult channels in terms of revamping was built on a unique employee proposition that enables a career in the field of sales.

The Bank's sales force stood at 126 by end of 2015 and contributed to about 41% of the overall new customer acquisitions. The Sales channels were supported by the various local campaigns conducted in each locality and the referrals provided by the Branch Managers and staff. Retention rates are maintained at about 70% for the sales force and the Bank has put in place a strict code of conduct to mitigate issues on mis-selling and frauds.

### PROSPECTS FOR 2016

Having analysed market and industry trends, 2016 will see UB strategically focusing on developing multiple channels to drive business growth, which will include continuing to expand our branch network in a bid to expand the Bank's footprint across various demographics and geographic locations. Existing branches will be revamped with greater customer centricity and aligned to the new

transformational era, while alternate channels will be implemented island-wide further entrenching our bid for expanded presence. Technology will continue to play an integral role in our distribution options, which will see UB enhancing the digital banking experience offered to our customers.

**MANAGEMENT  
DISCUSSION  
& ANALYSIS**

**Branch Network**

● Branches with ATMs

**North Province**

1. Atchchuveli
2. Chunnakam
3. Jaffna
4. Mannar
5. Vavuniya

**North Western Province**

6. Chilaw
7. Ibbagamuwa
8. Kuliypitiya
9. Kurunegala
10. Marawila
11. Narammala
12. Wennappuwa

**Western Province**

13. Attidiya
14. Colpetty
15. Gampaha
16. Ganemulla
17. Head Office
18. Horana
19. Ja-Ela
20. Kadawatha
21. Kohuwala
22. Kotahena
23. Maharagama
24. Matugama
25. Minuwangoda
26. Moratuwa
27. Nawala
28. Negombo
29. Nugegoda
30. Old Moor Street
31. Panadura
32. Pellowatta
33. Pettah
34. Pillyandala
35. Rajagiriya
36. Ratmalana
37. Wattala
38. Wellawatte

**Southern Province**

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

**North Central Province**

46. Anuradhapura
47. Horowpathana
48. Kebithigollewa
49. Kekirawa
50. Medawachchiya

**Central Province**

51. Dambulla
52. Gampola
53. Kandy
54. Nawalapitiya
55. Pilimathalawa

**Eastern Province**

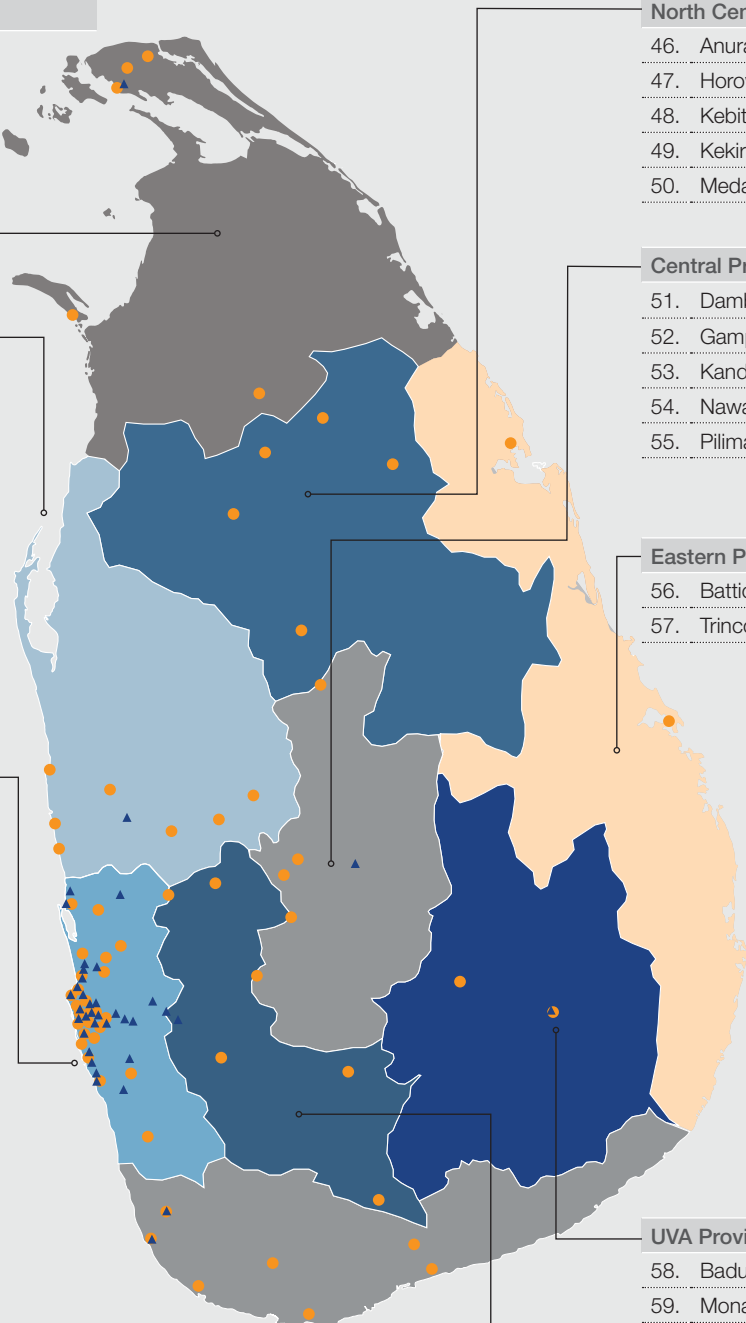
56. Batticaloa
57. Trincomalee

**UVA Province**

58. Badulla
59. Monaragala

**Sabaragamuwa Province**

60. Balangoda
61. Embilipitiya
62. Kegalle
63. Ratnapura
64. Warakapola



## ATM Network

### ▲ Off-Site ATMs

- ▶ Mahabuthgamuwa, Angoda.
- ▶ Thalangama North, Battaramulla.
- ▶ Divulapitiya, Boralesgamuwa.
- ▶ Egaloya, Bulathsinhala.
- ▶ Cotta Road, Colombo 08.
- ▶ Elvitigala Mawatha, Colombo 08.
- ▶ Prince of Wales Avenue, Colombo 14.
- ▶ Attiidiya, Dehiwala.
- ▶ Gangodawila, Delkanda.
- ▶ Kurundugahahethekma, Elpitiya
- ▶ Welipilewa, Ganemulla
- ▶ Galle Road, Hikkaduwa
- ▶ Thirunelvely, Jaffna
- ▶ Hospital Road, Kalubowila
- ▶ Kandy Road, Kelaniya
- ▶ Nandasena Mw, Kiribathgoda
- ▶ High Level Road, Kirulapone
- ▶ Marine Drive, Kollupitiya
- ▶ Bogahawila Road, Kottawa
- ▶ Sirigala, Monaragala
- ▶ Angulana, Moratuwa
- ▶ Gorakana, Moratuwa
- ▶ Colombo Road, Negombo
- ▶ Ethukala, Negombo
- ▶ Galagedara Junction, Padukka
- ▶ Modarawila Road, Panadura
- ▶ Walana, Panadura
- ▶ High Level Road, Pannipitiya
- ▶ Kottawa, Pannipitiya
- ▶ Makumbura, Pannipitiya
- ▶ Colombo Road, Pokunuwita
- ▶ Maradana Road, Punchi Borella
- ▶ Belekkade Junction, Ratmalana
- ▶ Madiwela Road, Thalawathugoda
- ▶ Karaliedha, Theldeniya
- ▶ Thalpitiya, Wadduwa
- ▶ Hendala, Wattala
- ▶ Mabola, Wattala

## Treasury

Despite the volatile macro environment, falling interest rates and intense industry competition Union Bank's Treasury department built further on the stable foundation set in the year 2014 to produce notable results for the year under review.

In 2015 the Bank's Treasury played a key role in supporting the business units to source funding for an aggressive assets growth; whilst managing the capital infusion for optimum returns through strategic investments, that generate higher returns.

Foreign Exchange Income reflected an impressive 73% increase over the previous year, benefitting largely from the increasing trade Volumes and the free float of the Sri Lanka Rupee. The Primary Dealer Unit also recorded positive results despite a lean 1st half, where the Bank continued to pursue new customer acquisitions to enhance growth in this business area.

Further, Treasury related income reflected a very impressive 74% increase over the previous year.

The Bank's Treasury department was restructured with a view to drive enhanced functionality and efficiencies directed towards achieving the true desired goals with the on boarding of industry professionals.

### PROSPECTS FOR 2016

The Treasury department of UB will continue to be a key player in the Bank's profitability drive in 2016. The well-capitalised status of the Bank will augur further growth opportunities for UB; with prospects to strengthen links with overseas counterparties for increased foreign exchange related business. Further, this position will also support the Bank to develop credit lines from local counterparties and afford the opportunity to offer attractive rates to customers. In line with the new focus of the Bank, the Treasury department of UB looks towards 2016 with renewed performance goals aligned with the Bank's new aspirations. As such, it is imperative that our team is geared to optimise on

the advantages that will ensue in the impending times.

## Operations

This year has been an eventful one for the Operations teams which undertook many an initiative to support the growth aspirations of the bank. The structure of the team was re-aligned, with the setting up of new units such as the Process Control Unit, Business Continuity Management and Service Excellence to better facilitate the changing focus of the Bank's business requirements.

A number of initiatives were also implemented this year to ensure that UB maintains its stringent culture of Compliance, where Governance, Principles, Ethics, Accountability, Integrity and Transparency remain in absolute focus. The year also saw the Bank pursuing opportunities to outsource certain non-core processes such as the archival and retention of documents. This was in addition to the continued focus on strengthening the Business Continuity Planning process.

The organisation structures of the operational teams were re-aligned using internal synergies, to be in line with the business goals. Service Level Agreements were set-up with the business lines to help monitor the turnaround times of the deliverables from the operational units. The operations management unit is continuing to work on automating processes in order to further strengthen controls and efficiency in operations of the Bank.

### RE-ALIGNING OF PROCESSES

UB continued its focus on centralisation of processes in order to drive operational efficiencies while strengthening controls. Operational work related to Remittances, Bank Guarantees and Credit Operations were some of the key processes which were removed from the branches to help branch staff focus more on the aspects relating to client servicing.

### PROCESS CONTROL

The Process Control Unit was set up during the year under review to relieve

the branches and other operational units of selected back-office operations such as communication on Legal matters, Balance Confirmations and certain aspects of Regulatory Reporting. This team now handles the Reconciliation work for all the operational units as well and has helped UB to have a more focused approach on these important ancillary activities of the Bank.

### CENTRAL OPERATIONS

In the year 2015, the Central Operations team was reorganised with Branch operations, Customer on-boarding Operations, Clearing Operations, Remittance Operations, Transaction Processing Operations and Credit Operations being brought under one umbrella. Process efficiencies were introduced by way of centralising operational functions of outward remittances, bulk fund transfers, standing orders processing, factoring, security documentation custody and certain lending functions as well as FD renewal advices.

### TRADE & TREASURY OPERATIONS

The process engineering drive to enhance operational efficiencies and improve customer service was a key strategic initiative implemented during the year. This included initiatives such as eliminating rework within the credit approval process, centralising the Bank Guarantee Issuance as well as setting up Trade desks at Pettah and Old Moor Street branches. Further, the operations unit has on-going process automation initiatives both at Trade and Treasury.

### OPERATIONAL EXCELLENCE

Customer service excellence being a continually evolving platform has seen UB concentrating substantially on analysing customer paradigms, mindsets and expectations. The establishment of a Customer Service Excellence Unit with a focus on managing the service quality across the Branches and Operational Units was a step in this direction. It is expected to work primarily on harnessing customer loyalty and ensure high level of customer service at all times.

### CARD OPERATIONS

With the Bank expecting to launch a wider gamut of Card products, a dedicated Operations team was established to support the initiative. The issuance of ATM/Debit cards were centralised under this unit in March. With the bank upgrading its card management system, and the subsequent launch of the Union Bank Shopping debit card in August, UB was conferred the 'Speed to Market Award' for the efficient launch of Union Bank Visa International Shopping Debit card at the Visa Client Forum for India and South Asia. With the introduction of the debit card, customers can now avail themselves of the cards on ATMs, POS and on the Internet. The card bears the state-of-the-art technology in terms of a Chip embedded to the card falling in line with international standards for card security.

### BUSINESS CONTINUITY MANAGEMENT

A fully equipped disaster recovery site was set-up close to Colombo to facilitate regular drills and exercises to test the Bank's preparedness and ability to continue its business in line with the Bank's strategic plan; in case of an emergency situation. This was further augmented with the implementation of an improved Risk system to the Bank this year.

### ADMINISTRATION & PREMISES

The Premises and Administration units merged to one Department and the role of Head of Security was created to provide an enhanced focus on this key aspect. With the on-going re-branding and refurbishments across the bank as well as network expansion via new branches and ATMs, the Premises and Administration team plays a pivotal role in supporting the growth momentum of the Bank. The premises team introduced its own floor plan and electrical and mechanical designs for the new and renovated branches which has contributed in significant cost savings in this initiative.

### PROSPECTS FOR 2016

UB will continue to pursue re-engineering opportunities to streamline and simplify processes in line with industry best practices as well as outsourcing opportunities which meet the business and operational needs.

With a focus on enhancing the client experience, the bank continues to explore technological solutions and is in the process of launching a Cash Management solution which will help Corporate clients to manage their transactions in a much more efficient manner.

Further, a customised Workflow Management System is being introduced to manage the information and document flow within the bank. This will cover the full range of processes from account opening down to document archiving. We expect this solution to greatly enhance the speed and flow of information as well as ensure it is managed in a comprehensive manner.

With the Bank going on an upward trajectory, we will consciously work on identifying human capital development needs and work on upskilling the Operational teams to meet the evolving needs of the organisation.

### Information Technology

UB's Information Technology (IT) strategy envisions continued support for business functions with efficient, secure, cost effective infrastructure. In furtherance of this objective, the IT department of UB proactively ensures implementation of business initiatives with robust technology.

The year 2015 saw UB moving on to Microsoft Office 365 (O 365) Cloud Technology, further enhancing the Bank's operational excellence while reaching a milestone in the industry as the first bank to implement this solution in Sri Lanka. Microsoft Cloud is an outsourced hosting platform that provides an array of features with greater security. The shift to Microsoft Cloud, provides UB uninterrupted availability of email and office applications enabling greater efficiencies in the Bank's operations. Further, it leverages on the shared infrastructure to support the innovation and introduction of new initiatives.

The launch of Union Bank Visa International Debit Shopping Card which was recognised with the 'Speed to Market' award by Visa International was ably supported

by the IT infrastructure department. Launch of the Customer complaints and suggestions system, remittance platform infrastructure, Asset and Liability Management system and a Safety Deposit Locker Management system were other progressive initiatives taken by the IT department of UB to support the efficiency of the growing retail operations of the Bank. Also in 2015, the IT department of UB took the initiative to implement a Lead Tracking system for the SME Asset Centre.

In the year 2015, the Bank upgraded its core banking system Hardware and upgraded the Disaster Recovery site to the same infrastructure. Within the 1st quarter of 2015, the Bank took measures to shift its Disaster Recovery (DR) centre to a Data centre conforming to contemporary international standards. The Bank also complied with Baseline security standards. In order to strengthen the security standards, the Bank upgraded its security infrastructure with highest standards.

### PROSPECTS FOR 2016

UB will continue to further strengthen the security features of the IT platform, and revamping of security infrastructure to meet highest standards. Revamping of the Leasing and Hire purchase systems is also mapped out for 2016, enabling swift, efficient management of these business functions to leverage on market opportunities.

Plans are currently underway, for the implementation of real-time replication to all critical surrounding systems, while consolidating servers for better management and will enable scalability through virtualisation in order to support the business growth of the ensuing year. The IT department also plans to introduce a digital signage platform for all branches with central content deployment to showcase greater brand visibility at branches through digitalisation. The IT department, of UB is aptly geared towards supporting the envisaged launch of Digital Banking initiatives in 2016.

Marketing has been playing the role of key communicator in preparing UB as a fully-fledged commercial bank in the minds of the public. The new position highlights the Bank's transformation with a wider focus on retail, corporate and SME banking. Several key initiatives were carried out throughout the year to build brand equity and awareness.

The branch network was given a new outlook, enabling to create greater brand awareness defining a more vibrant brand persona and a redefined customer experience. In addition expansion of the off-site ATM network paved the way for greater brand visibility.

To further enhance awareness an integrated corporate campaign was launched under the theme "make the rest of your life the best of your life". Several initiatives were also carried out for increased brand visibility and included a comprehensive below the line (BTL) advertising across the island. A cohesive Public Relations Strategy was mooted to strengthen the Bank's image, perception and status and in addition the re-launch of the Bank's corporate website further supported the Bank's brand building initiatives.

Being positioned as a fully-fledged commercial bank saw Union Bank make inroads to consumer markets with greater focus on Retail Banking. As such the Bank actively pursued the launch of several new products as well as added value to the existing products to further strengthen the Retail Banking sector. Several advertising campaigns were launched creating awareness for these products and included the launch of salary accounts, an international Visa Debit Card, Personal loans and the re-launch of Elite Banking to name some.

Union Bank continues to support the SME sector where the Bank has excelled for over two decades. Reaffirming its commitment to the SMEs Union Bank pledged its support for the 3rd consecutive year to the Chamber of Small and Medium Industries as the principal sponsor of

the 2015 Annual Industrial Excellence Awards.

The focused strategy employed in creating a strong and dynamic brand that maintains a sustainable presence in the financial services industry was evident once more, as UB was conferred the status of being listed among the LMD's Most Valuable listed companies for 2015. Union Bank was awarded the "Speed to market award for 2015 for the successful and fast track launch of the Visa Debit Card. Our culture of uncompromising compliance was well rewarded with the UB Annual Report was conferred the Compliance Award at the 51st CA Annual Report Awards, acknowledging our efforts in delivering excellence in reporting.

Expanding the scope of Marketing to support its subsidiaries, National Asset Management Limited (NAMAL) reiterated its successful track record even further this year, with astute marketing support, NAMAL continued to emerge as the leader in mutual funds in the retail sector.

Marketing will remain a key support driver in UB's plans next year. Union Bank intends to leverage on its strong financial standing, global expertise and experience garnered from the pathway the bank has inked, to reposition the Bank as an industry leader. This will mean transforming ourselves further and venturing into a broader sphere, where we strengthen our position as a competitive fully fledged commercial bank. This will also mean that marketing will be at the forefront in increasing awareness of this transformation.

NEW OUTLOOK



Redefining banking experience a new outlook was launched across Union Bank Head Office and branches.

BRANCH OPENINGS



- 62 RAJAGIRIYA
- 63 ATTIDIYA
- 64 KOHUWALA

New branches were opened in Rajagiriya, Attidiya and Kohuwala, taking the island-wide Union Bank branch network to 64 branches.

OFF-SITE ATMs



37 OFF-SITE ATMs

ATMs were opened in 37 new locations, enabling greater banking convenience to the public.

AN ALL NEW ELITE BANKING CENTRE



Dr. Jayendra Nayak, Chairman of Union Bank ceremonially opened the all new Elite Circle offering personalised Elite Banking services.

MAKE THE REST OF YOUR LIFE THE BEST OF YOUR LIFE



Reinforcing the Bank's position as a fully fledged commercial bank focusing on Retail, SME and Corporate sectors a corporate campaign was launched across all media.

UNION BANK VISA DEBIT CARD LAUNCH



The Union Bank Visa Debit Card launch took place at Cinnamon Grand Colombo amidst a large gathering of invitees and Visa officials

VISA SPEED TO MARKET AWARD



Union Bank was awarded “Speed to Market Award” for the launch of Union Bank Visa International Shopping Debit Cards at the VISA Client Forum for India & South Asia in September at the Park Hyatt Resort & Spa, Goa, India.

INDUSTRIAL EXCELLENCE AWARDS 2015



Union Bank was the principal sponsor of the annual Industrial Excellence Awards for the 3rd consecutive year, affirming the Bank's commitment to the development of SMEs. The award ceremony was held on 8th December with Hon. Kabir Hashim Minister of Public Enterprise Development as the Chief Guest.

FIRST BANK TO IMPLEMENT MICROSOFT CLOUD TECHNOLOGY



Union Bank moved to Microsoft's Office 365 (O 365) Cloud Technology, further enhancing the Bank's operational excellence.

ANNUAL REPORT COMMENDED



The Union Bank 2014 annual report received an award of compliance at the 51st Annual Report awards conducted by the Chartered Institute of Accountants.

STAR REWARDS FOR CASA PROMOTION



Branch and sales staff were rewarded for their exceptional achievements in a promotion held for the acquisition of new savings and current (CASA) accounts.

EDEX



Union Bank participated at the annual Edex exhibition showcasing the Bank as a preferred work place.

AVURUDU CELEBRATION



Sinhala and Tamil New Year celebrations were held with the participation of staff at an event held at the BRC ground.

ANNUAL TRIP



Staff enjoyed the fun and frolic at the annual staff get together held at Koggala Beach Hotel.

MERCANTILE BADMINTON CHAMPIONSHIP 2015



Union Bank emerged Runners Up in the Men's category at the 32nd Mercantile Badminton Inter-firm Championship 2015.

UB NIGHT



The annual dinner dance of Union Bank was held on 29th November at the Cinnamon Grand with an abundance of entertainment.

CHRISTMAS CAROLS



Union Bank's Christmas Carols was held at the Scots Kirk Church with the participation of staff and families.

LONG SERVICE AWARDS



The Bank acknowledged the long standing dedication and commitment of employees who have been part of the Bank's growth for over 20 years.

UNION Bank of Colombo PLC reopened its Kandy branch recently with a new look and layout for greater banking convenience.

The newly remodelled branch is located at No. 165, D. S. Senanayake Veediya, Kandy and offers an enhanced and redefined banking experience. The spacious layout of the newly redesigned branch enhances customer convenience and provides a welcoming ambience for customers to carry out banking transactions.

The Kandy branch was ceremonially re-opened by Indrajit Wickramasinghe, Director/Chief Executive Officer of Union Bank in the presence of a large gathering.

## Union Bank extends its new look to Kandy



## அத்தியுவவில் தனது 63வது கிளையினை அங்குராப்பணம் செய்த யூனியன் வங்கி

யூனியன் வங்கியின் புதிய கிளை கடந்த 2015 செப்டம்பர் 28-ல் திறப்பு பெற்றது. இது யூனியன் வங்கியின் புதிய வடிவில் பணியாற்றும் பிரதம நிறுவனமாக அறிவிக்கப்பட்டது. இதுவரை 63வது கிளையினை திறந்து வைக்கப்பட்டது. இடம்: D. S. Senanayake Veediya, Kandy.

இந்த புதிய கிளையானது, வாடிக்கையாளர்களுக்கு மிக அருகில் அங்குராப்பணம் செய்வதற்கு உதவிக்கிறது. இதுவரை வங்கி செயல்படுத்திய 63வது கிளையாக, வாடிக்கையாளர்களை அணுகும் வகையில் மேம்பட்ட அமைப்புடன் செயல்படுகிறது.

இந்த அங்குராப்பணம் திறப்பு விழாவில் கலந்துகொண்ட இடத்தில், "செவ்வக முகவரி" இயல்பாக செயல்படுகிறது.

வங்கியின் நுழைவாயில் மென்மையான வடிவத்தில் திறப்பு பெற்றது. இது புதிய கிளையானது திறப்பு விழாவில் முன்னிலையில் செயல்படுகிறது. இதுவரை வங்கியின் செயல்பாட்டை நிச்சயமாக உறுதிப்படுத்துகிறது. இதுவரை வங்கியின் செயல்பாட்டை நிச்சயமாக உறுதிப்படுத்துகிறது. இதுவரை வங்கியின் செயல்பாட்டை நிச்சயமாக உறுதிப்படுத்துகிறது.



Union Bank Chairman Dr. Jayendra Nayak opening the new Elite Circle centre

## Union Bank unveils new Elite Circle centre exclusively for Elite Banking services

The layout is designed a comfortable banking and provides ample space for customers as well. "Retail Banking at Union Bank is undergoing several changes in order to provide greater convenience to our customers. Opening of the new Union Bank Elite Circle centre provides a refined experience for our elite banking clients." The exclusive 'Elite Circle' centre, located in Colombo 03, is exclusively for Elite Banking clients on 10 July. The all new Elite Circle centre was ceremonially opened by Union Bank Chairman Dr. Jayendra Nayak, in the presence of distinguished invitees.

## Union Bank re-launches its corporate website for greater customer convenience

To offer customers an improved and user friendly online experience, Union Bank recently re-launched its corporate website ([www.unionb.com](http://www.unionb.com)) offering a seamless digital experience to all users. The redesigned website features a range of new services and features.



services as well as it enables easy access to obtaining and applying for the same. It ensures quick and fast responses enabling greater customer convenience," stated Indrajit Wickramasinghe, Director / CEO of Union Bank. The redesigning of the Union

new persona of the Bank and provides a rich digital experience to visitors. Its clean design, highly improved functionality and enhanced content features keeps customers continuously engaged and informed. The website allows customers to carry out a range of

ADVERTORIAL 13

## Union Bank signals transformative growth with outstanding 9 months' performance

Union Bank's third quarter financial results of 2015, highlights the bank's continuing progress in its swift transition to a fully-fledged Commercial Bank with wider focus on retail, corporate and SME sectors. The impressive 3rd quarter results reflect the success of the rapid expansion initiatives implemented by the bank following the landmark investment from TPG, one of the largest global private investment firms, the bank said in a media announcement. Commenting on the performance of the Bank,

Director/CEO of Union Bank Indrajit Wickramasinghe stated "We have continued to strengthen our growth impetus within the 3rd quarter of 2015, while reaping benefits of investments made in strategic restructuring, operational efficiency and the implementation of strategic development initiatives. The impressive results of the bank are an affirmation of the rapid growth momentum the bank has gathered within this year, and signal continued



CEO - Indrajit Wickramasinghe

progress along this growth trajectory towards becoming one of the leading private sector banking institutions in Sri Lanka. We will continue to invest in expanding customer reach, both through brick and mortar branches and alternate channels, bringing greater convenience and access. The bank will enhance its investment in building brand equity with a strong national presence, and a value added product range serving the diverse sectors of this economy.

Union Bank is now poised for accelerated growth with which we hope to deliver continuous value propositions and benefits to our customers with novel products while continuing to deliver on our premise for greater convenience." The bank recorded a significant increase in revenues for the period in comparison to the corresponding period in 2014. Total operating income grew by 35% year-on-year to Rs 2,072 million. The primary reason being the focused growth in loans and advances, along with the better management of yields and the quality of the

loan book. The Group also recorded a significant increase in revenues for the period in comparison to the corresponding period in 2014. Total operating income of the group grew by 28% year-on-year to Rs 2,500 million. This is mainly due to the group's strong Net Interest Income growth of 40% reported during the period. The bank reported a profit before tax and financial services VAT of Rs 230 million for the period. The Group reported a profit after tax of Rs 167 million in comparison to Rs 116 million in 2014.

# Union Bank unveils new look in Nawala

Union Bank of Colombo PLC (UBC) recently introduced a redefined banking experience with a new outlook and ambience to its head office and new branches.

Cascading this initiative to its existing branches, the new outlook was unveiled at the bank's Nawala branch located at 232, Nawala Road, Nawala, offering even greater convenience in banking.

"The new layout portrays UBC's vibrant personality



# Union Bank further expands ATM network

Union Bank of Colombo PLC (UBC) is proud to announce the opening of five new ATMs in the Western Province, further enhancing its ATM network across the island.

The new ATMs are located at Pokunuwira, Gajalagaha, Rukmaligama, Kottawala, Bogahawala and Mahabuthamawala, bringing greater banking convenience to customers in these areas.

The strategic placements of the new ATMs will help Union Bank customers to carry out their day-to-day banking activities more conveniently.



# සුනියන් බැංකුවේ 63 වැනි ශාඛාව අත්තිකිය නගරයට

සුනියන් බැංකුවේ 63 වැනි ශාඛාව අත්තිකිය නගරයට විවූයේ 2015 වසරේ පළමු භාගයේදීය. එහි නම වන්නේ 'සුනියන් බැංකුවේ අත්තිකිය ශාඛාව' යයි වේ. එහි ප්‍රධාන අංශය වන්නේ මුදල් සේවාවන් සැපයීමයි. එහි සේවකයන් 10 ක් පමණක් වුවද, එහි සේවකයන්ගේ අතිමහත් ඉගැන්වීම හේතුවෙන් එහි සේවාවන් ඉතාමත් ඉහල මට්ටමකින් සැපයීමට හැකි වී ඇත.

අත්තිකිය නගරයේ පිහිටි මෙම ශාඛාවේ සේවකයන්ගේ අතිමහත් ඉගැන්වීම හේතුවෙන් එහි සේවාවන් ඉතාමත් ඉහල මට්ටමකින් සැපයීමට හැකි වී ඇත.

# Union Bank, principal sponsor for Industrial Excellence Awards 2015

Union Bank of Colombo will be present at the Industrial Excellence Awards for the first time in 2015. The award is organized by the Sri Lanka Export Development Board (SEDB) and the Ministry of Commerce. The award is given to the outstanding and business success stories in the industrial sector.

"We are pleased to partner the SEEDS sector. We are pleased to partner the SEEDS sector for the third consecutive year to sponsor the 2015 Industrial Excellence Awards," Union Bank Director and CEO Indrajit Wickramasinghe said.

"The event provides a platform for small and medium enterprises to demonstrate their business success and enables them to leverage on an opportunity that will support them to advance to even greater heights," SEEDS President Maheshan Corder said. "We are pleased to have Union Bank join us for another year as the Principal Sponsor of the 2015 Industrial Excellence Awards. We anticipate an overwhelming response from participants this year as well and will support of Union Bank's brand network, we will be able to see entrepreneurs across the island and other areas of the country participate in this national award."

The event has been held for eight consecutive years and its recognition has grown over the years. Applications for the 2015 Industrial Excellence Awards will be a significant one for the SEEDS sector in Colombo.

Applications can also be downloaded from the Union Bank site. Closing date for application will be September 30, 2015. The winners will be selected from a panel of representatives from Lanka Export Development Board (LEDB), National Enterprise Development Authority (NEDA), Ministry of Industry and Commerce, University Body and Union Bank of Colombo PLC.

Awards will be presented at the ceremony of Platinum, Silver and Bronze. There will be special promotional awards for the winners.

# සුනියන් බැංකුවෙන් නව ඩෙබ්ට් කාඩ්පතක්

සුනියන් බැංකුව, එහි කාමර වලට පවතින අංශයක් වශයෙන් සුනියන් බැංකුව විසින් අත්තිකිය නගරයේ 63 වැනි ශාඛාව විවූයේ 2015 වසරේ පළමු භාගයේදීය.



# Union Bank Launches Visa International Debit Card

Union Bank, one of Sri Lanka's top five private commercial banks in market capitalization terms and one of the fastest growing banks in Sri Lanka, recently added yet another pragmatic feature to its fast growing retail portfolio, with the launch of the Union Bank VISA International Debit Card.

Introduced in both Platinum and Classic, the Union Bank VISA Debit card incorporates an extensive range of features, enabling cardholders to access not



# Make the rest of your life the best of your life with Union Bank

Union Bank recently launched a corporate campaign under the theme "Make the rest of your life the best of your life". Launch of this fully integrated communication campaign is an integral part of the Bank's ongoing efforts to position itself as a fully developed commercial bank that is rapidly progressive.

Indrajit Wickramasinghe, Director/CEO of Union Bank stated that "the campaign will support to enhance brand awareness for the Bank amongst its present target audiences and transform its position as a key player in a highly competitive industry. He stated that the campaign will be the latest to be current, relevant and top of the mind amongst a large number of people".

The campaign will support to enhance awareness for the Bank amongst its present target audiences and transform its position as a key player in a highly competitive industry. He stated that the campaign will be the latest to be current, relevant and top of the mind amongst a large number of people".

The theme of the campaign is based on the platform that Union Bank motivates people to seize every opportunity. As such the key campaign line "Make the rest of your life the best of your life" is applicable to all its audience or an entrepreneur.

Union Bank has seen rapid progression in its development initiatives. The launch of a new outlook to its head office and branches has redefined the banking experience for customers. The 2015 has further enhanced banking convenience. Several new products will also be launched shortly enhancing the bank's product portfolio.

Coordinated by Amar Gunasekara, contact: 0773219780

Our social and environment report focuses on the key stakeholder groups of customers, employees, and the community; in a bid to provide our investor community clear and sufficient information on our engagement with these stakeholders and how they impact our operations.

### Our Customers

Our customer base comprises of individuals, SMEs and Corporates, spread across the island. With a determination to place the customer at the heart of the banking experience, we consistently strive to serve the emerging needs of our customers while enhancing their banking experience with us. We endeavour to consciously pay heed to customer needs, while providing them convenient access; which enables open communications with our clientele at all key touch points.

The Customer Charter mandated by the Central Bank of Sri Lanka is in full application at UB. 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

Products and services of the Bank are aligned to meet the needs of the diverse clients we serve and the Bank strives to adopt a social and environmentally friendly product development process. For instance, in 2015 the Bank introduced a new savings proposition named 'Salary Power' to cater to the growing financial needs of the employed/ professional individuals seeking maximum return on their monthly income. Similarly the Bank provides a range of products and services that are relevant and effective in meeting the needs of our clientele.

To enable our customers to make informed decisions, details of products offered at branches could be found on printed materials such as leaflets, posters/banners prominently displayed at branches for easy access. Details of the Bank's products are also available on the Bank's corporate website along with advice on means to contact the

Bank; providing customers with direct access to such details. Further details may also be obtained through the 24-hour contact centre hotline where trained customer service personnel will be available to assist customers with requested information and queries.

### COMMUNICATIONS

Communication of Bank's products and services have been maintained via above-the-line (TV, Radio and Press) as well as below-the-line media with prominence to products and the UB brand. Outdoor promotions in suburbs and several main cities outside Colombo have been conducted within the year under review in order to raise awareness of the Bank's products and services. The outdoor visibility of UB brand and its products have also been enhanced in 2015, with the addition of new branch locations and ATMs.

A mix of communication tools including advertising, corporate events, street promotions etc. have been employed to effectively communicate with the segments served. In addition to paid-for media, awareness of products and services has been created in the public domain via PR and publicity in the print, electronic and online media. Incidents of negative publicity were not experienced by the Bank during the year.

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 communications and usage of email, etc.
- ▶ Web and social media activity
- ▶ Confidentiality and protecting of confidential information

Therefore, the Bank's marketing communications which include advertising, outdoor branding for visibility, outdoor promotions as well

as sponsorship agreements etc. are executed according to the guidelines specified in the said policy in addition to compliance to laws and regulations governing the advertising industry as a whole.

### COMPLAINTS

UB maintains a comprehensive online complaint management system where the complaints are resolved within a stipulated frame of time based on the nature and complexity of the complaint. Customers could also contact the Bank Via email to info@unionb.com (displayed on the website) or via the 24-hour Contact Centre with feedback, queries or suggestions for improvement. 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.

### Human Resources

At Union Bank, we know that our employees drive the success of the Bank. Their commitment and dedication, to their roles and the Bank, have resulted in the Bank being able to make great progress on the strategic initiatives during 2015. In turn, the Bank encourages employees to pursue success in their professional and personal lives by providing equal opportunities, career advancement opportunities and an environment which recognises and rewards performance.

### REORGANISING FOR SUCCESS

2015 was an eventful year for the Bank. In order to deliver the strategic objectives of the Bank, the Human Resources function played a key role in designing and implementing a new organisation structure across all businesses and functions. The SME and Corporate Banking units were further strengthened with the addition of experienced professionals, a centralised SME Asset Centre was established to improve the credit approval processes and improve turnaround times. A new Retail Banking business was established and the Bank's branch network was designated in to four geographical zones with each zone headed by a

Zonal Head with extensive experience in Retail Banking. The Retail Banking team in the head office was resourced with key hires from the market as well as experienced staff from within the Bank. The Treasury function was strengthened with the recruitment of experienced professionals from the industry. The Risk function was reorganised under a Chief Risk Officer with several new roles being added to the Risk function in order to further strengthen and improve the role of the function. Support functions such as Operations, HR, Finance, IT and Marketing were further strengthened through the organisation redesign and appointment of experienced professionals in these areas.

A key highlight of the organisation restructure was that it was completed without any redundancies and, where required, by redeploying existing employees to roles that leverage their strengths. This was a win-win for employees and the Bank as it made better use of the employee skill set, improved their productivity and provided continued employability.

With the implementation of the new organisation design and appointment of employees based on their experience and skills, our workforce is now fully aligned and capable of delivering the Bank's strategic agenda.

**RECRUITMENT AND SELECTION**

The Bank is an equal opportunity employer and our recruitment and resourcing policies require that all candidates who meets the minimum criteria must be provided equal opportunity to be considered for roles in the Bank. Whilst our preference is to identify talent from within when resourcing mid level and senior level roles, in parallel we conduct market benchmarking exercises to ensure we appoint the best possible candidate for these critical roles.

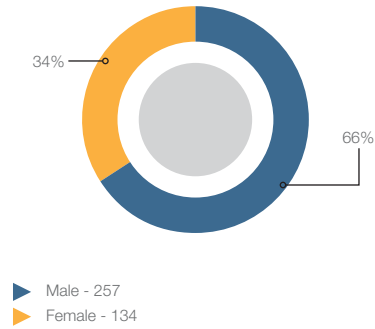
Union Bank employed a total of 984 employees as at 31st December 2015. This is a growth of 241 (32%) new employees during 2015. Of the 984 employees, 697 were permanent employees with 168 being trainees, 109 being business development

officers and 10 being specialist employees on fixed term contracts. The Bank does not currently employ any part time employees.

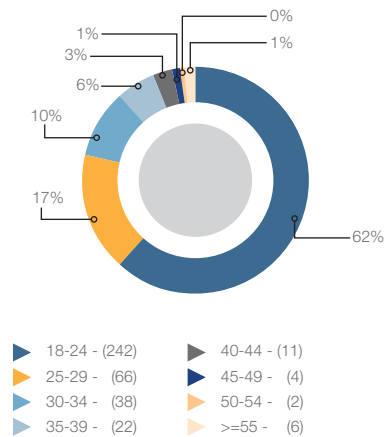
All our employees are resourced from Sri Lanka and our preference is to recruit entry level staff for Banking Trainee positions from the geographic areas and cities we operate in. We believe this provides a sense of belonging to our staff as they will be serving the communities they are part of as well as support the national cause by providing employment opportunities to youth from the rural areas.

Reflecting the Bank's positioning as a youthful, dynamic Bank, 33% of the staff composition, is made of employees within the ages 18 – 24 years and second highest composition of 28% is made up of employees within the age group of 25- 29 years. Certain non-core activities such as security, janitorial, office assistants and drivers are outsourced in order to improve operational efficiencies. The Bank ensures that the suppliers of these services are vetted thoroughly and meet the required minimum standards in terms of employee wages and statutory payments.

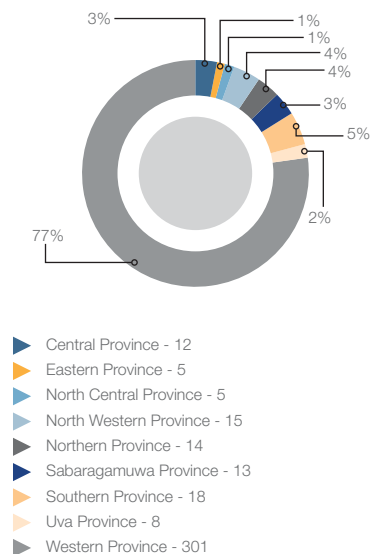
**RECRUITMENT BY GENDER**



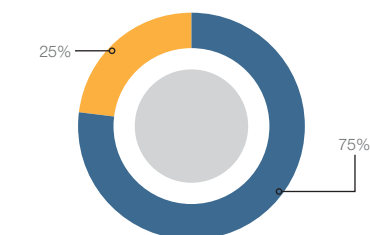
**RECRUITMENT BY AGE**



**RECRUITMENT BY PROVINCE**

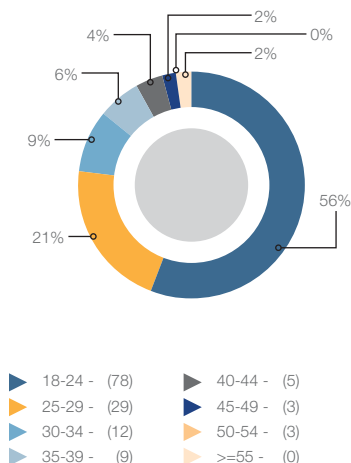


EMPLOYEE TURNOVER BY GENDER



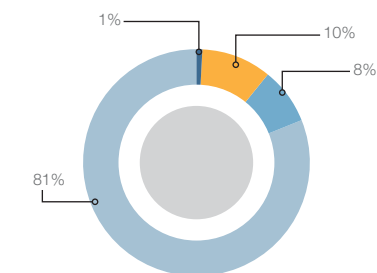
Male - 104  
Female - 35

EMPLOYEE TURNOVER BY AGE



18-24 - (78)  
25-29 - (29)  
30-34 - (12)  
35-39 - (9)  
40-44 - (5)  
45-49 - (3)  
50-54 - (3)  
>=55 - (0)

EMPLOYEE TURNOVER BY GRADE



Assistant Vice Presidents & Leadership Team - 2  
Senior Manager & Manager - 14  
Assistant Manager - 11  
Non Executive and Trainee - 112

EMPLOYEE PROFILE

Age Category	Assistant Vice Presidents & Leadership Team		Chief Manager		Senior Manager & Manager		Assistant Manager		Management Trainee		Non Executive & Trainee		Minor Staff & Fixed Term Contract		Total
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	
18-24	0	0	0	0	0	0	1	2	0	2	189	135	0	0	329
25-29	0	0	0	0	8	3	12	15	2	5	136	96	0	0	277
30-34	0	0	1	0	13	12	27	16	0	0	62	37	0	0	168
35-39	3	0	3	1	30	12	9	9	0	0	10	6	1	0	84
40-44	4	6	5	0	31	5	11	5	0	0	1	2	4	0	74
45-49	4	2	3	0	14	6	0	5	0	0	0	1	0	0	35
50-54	2	0	0	0	1	2	0	1	0	0	0	1	0	0	7
>=55	1	0	1	0	2	0	0	0	0	0	1	0	3	2	10
<b>Total</b>	<b>14</b>	<b>8</b>	<b>13</b>	<b>1</b>	<b>99</b>	<b>40</b>	<b>60</b>	<b>53</b>	<b>2</b>	<b>7</b>	<b>399</b>	<b>278</b>	<b>8</b>	<b>2</b>	<b>984</b>

PERFORMANCE AND REWARD

Union Bank is committed to ensuring employees are recognised and rewarded for their performance. No regulation was in force in 2015 on minimum wage levels for Banking sector employees. Given the significant restructure in 2015, the Bank undertook a benchmarking exercise on its own initiative to establish market pay levels through a compensation survey conducted by Ernst & Young.

Based on the findings of the survey, the Bank established the desired pay position for its employees and made significant market adjustments to basic salaries in 2015 where required. The Bank will continue to benchmark

internal pay levels to market and make necessary adjustments to ensure our employees are remunerated equitably and competitively.

Given the open management culture, Union Bank employees are non-unionised and do not have trade union representation. As such, salaries and benefits of all employees across all grades are reviewed in an equitable manner based on the grade, individual performance and market pay levels.

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. The Bank's

governance structure requires that any change to remuneration policies and practices must be approved via the Human Resources and Remuneration Committee. In addition, all proposals on the mechanisms for employee salary adjustments in 2015 were tabled at the committee for deliberation and approved prior to being implemented. Thereby strengthening the governance on employee remuneration in the Bank and ensuring an equitable approach to reward management.

Union Bank implemented the balanced score card method of performance assessment in 2015 and aligned individual objectives to the Bank's strategic objectives. Employees are

assessed on their performance vis a vis their scorecards and suitable remuneration adjustments determined based on their performance.

The remuneration of the CEO and Key Management Personnel (KMP) are linked to delivering the Bank's strategic objectives and are measured via the balanced 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 full Board.

**BENEFITS PROVIDED TO EMPLOYEES**

Union Bank does not currently employ part time employees. As such there is no differentiation between benefits applicable to full time and part time employees.

Permanent employees are eligible for the following benefits based on their grade

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

**EQUAL OPPORTUNITY AND EQUAL REMUNERATION**

Union Bank is committed to uphold principles of equal opportunity and equal remuneration without discrimination. Determination of suitability for employment, remuneration and career progression is purely based on relevant skills, competencies and performance. All HR processes and policies have been designed to provide equal opportunity without bias as can be seen from the key ratios below.

**RATIOS OF STANDARD ENTRY LEVEL SALARY BY GENDER**

Employee Category	Male	Female
AVP and above	1	1
Senior Managers & Chief Managers	1	1
Managers and Assistant Managers	1	1
Non-Executive	1	1

**RATIO OF BASIC SALARY BY GENDER**

	Male	Female
Overall Bank	1	1.1

**EMPLOYEE ENGAGEMENT**

We are committed to valuing, energising and improving engagement levels of our employees through various activities. This is a key pillar in our People Strategy and an essential component to deliver the Bank's strategy.

The Bank has partnered with the Great Place to Work Institute to measure and improve employee engagement levels. A survey done in 2015 across a sample population of employees revealed that 52% of respondents were highly engaged despite the significant amount of internal change employees faced in 2015.

The Union Bank sports club plays an active role in initiating sports and recreational activities for staff in order to further enhance team spirit within the Bank and improve engagement. The Bank supports these activities financially as well as by releasing staff to participate in various activities as we believe that such activities energise our employees by being able to pursue their interests outside the daily routine of office work.

**EMPLOYEE RELATIONSHIP MANAGEMENT**

Our People Strategy focuses on Selecting, Developing, Energising and Valuing our employees. We believe these four pillars are critical parts of the foundation we are laying to make Union Bank a Great Place to Work.

During 2015, we have taken significant steps to improve communications with employees including a quarterly meeting with CEO for all staff, extensive visits to branches by the CEO and leadership team members, branch manager conferences and 1:1 dialogue with employees. The success of our transformation efforts is due to the extensive dialogue we continue to maintain with our employees and fostering an open door culture where any employee is welcome to meet with the CEO or the leadership team without having to go through layers of management to do so. The Bank also has a formal grievance management policy which employees can use to raise grievances formally. There were no such grievances in 2015.

Changes that affect our employees are advised in advance and employees given sufficient notice. The Bank does these changes in line with existing policies, contractual agreements and business requirements. There are no collective agreements in place which govern timing of such changes. In some instances, such as branch transfers, the amount of notice may be reduced due to business exigencies, however management takes necessary steps to ensure these are limited as much as possible.

**CAREER GROWTH**

Union Bank prides itself in being able to provide our employees with accelerated career growth. We believe in developing our internal talent and promoting from within. In 2015, the Bank conducted a series of promotion assessment panels which resulted in 73 employees (10 % of the permanent staff population) being promoted to the next grade.

In order to provide lifelong learning and continued employment and growth, the Bank also provided 1:1 feedback to employees who were unsuccessful at the promotion process and initiated a Career Development Plan for them. The intention of this exercise is to change the mindset of the employee from feeling a sense of failure to a sense of a new beginning and motivating them to make the rest of their lives the best of their lives.

In addition, employees are given the opportunity to expand their experience and work in different areas of the Bank through a coordinated transfer process. Branch employees are assigned to a particular branch for a maximum of 5 years and are usually rotated before that in order to keep the employees engaged through varying assignments and also to improve operational controls.

Since Union Bank employees are not covered by collective bargaining agreements or represented by employee unions, the management directly engages employees in dialogue. Employees are recognised, rewarded and supported at all levels to pursue their career ambitions in an environment based on trust and professionalism.

**EMPLOYEE WELL-BEING AND OCCUPATIONAL HEALTH AND SAFETY**

The well-being of our employees is of paramount importance to us. The Bank supports employee well-being by providing a comprehensive medical insurance cover for hospitalisation and critical illnesses. We further provide 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.

Where required, the Bank also provides professional counselling facilities for staff coping with situations they are unable to manage on their own.

The Bank reviews its space allocations and facilities provided to employees periodically to ensure that required standards are maintained for our employees to work in a safe and healthy environment.

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

**TRAINING AND DEVELOPMENT**

Training and development activities for Union Bank was further strengthened in year 2015 with the vision of enhancing the competencies of the staff to create a competitive advantage. A training needs analysis was conducted to identify the training needs of each function in order to upskill staff to better cater to the business requirements.

Based on this analysis and critical business imperatives at a Bankwide level, training was heavily concentrated on Sales, Customer service, Operational Excellence and Credit whilst continuing with mandatory training and department specific training. The Bank also partnered with Institute of Bankers (IBSL) and the Central Bank Training Unit to conduct certification courses for SME, Credit Risk, Branch Banking and many other certifications.

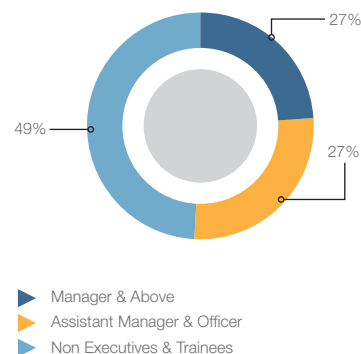
A total of 14,310 training hours were delivered across multiple categories this year through a total of 96 training programmes.

**AVERAGE HOURS OF TRAINING PER EMPLOYEE BY EMPLOYEE CATEGORY**

Training opportunities are provided to all employees on a need basis.

Category	Average Hours of Training per Employee
Manager & above	20
Assistant Manager & Officer	36
Non-Executives and Trainees	9

**AVERAGE HOURS OF TRAINING PER EMPLOYEE BY EMPLOYEE CATEGORY**



**Commitment to Conserve Energy and Natural Resources**

Energy and paper are the Bank's key use of natural resources and we remain committed to rationalising the use of these resources through proactive measures. We are also conscious of the negative environmental impacts of waste and have taken measures to encourage re-use and recycling of paper within the Organisation.

**ENERGY CONSERVATION**

The key energy-saving initiatives launched during the year were,

- ▶ Replacement of the fluorescent lights with energy efficient LED lighting
- ▶ Replaced normal ACs with Inverter type energy efficient AC's with Inverter type ACs being installed at all new branches
- ▶ CRT Monitors are being replaced with LED computer screens in all branches and Head Office
- ▶ Elevator functions have been controlled to optimise the usage

**WASTE MANAGEMENT**

The Bank wishes to encourage its customers to migrate to e-statements and will be initiating an awareness campaign in this regard. Within the organisation, staff is encouraged to rationalise the use of paper through double sided printing, re-use of envelopes and use of electronic media for communication with customers and among each other. Some other conscious initiatives taken in this regard were,

- ▶ Disposal of used paper through Neptune Waste Management, a registered recycler.
- ▶ Encouraging the use of e-cards for Greetings
- ▶ Proper segregation of Garbage for more effective disposal
- ▶ Implementation of an e-waste management process where we tied up with “Think Green” a Company with expertise in recycling e-waste

**The Community Engagement**

**SUPPLY CHAIN MANAGEMENT**

We work with a multitude of suppliers, from large blue chip companies to small enterprises, that have been contracted after a stringent selection process in keeping with the requirements of the Bank. A new Procurement Policy was introduced during the early part of the year to support this need and ensure that the Bank sources its requirements from the best possible suppliers. In our procurement practice we give preference to suppliers who meet our sustainability requirements in terms of environment criteria. During the year new significant suppliers were screened using environmental criteria. We consider our suppliers as important stakeholders and actively engage with them to ensure that a business relationship is maintained for mutual benefit. The Bank gives priority for local suppliers when sourcing a wide range of goods and services. During the period under review, over 95% of suppliers we worked with were from Sri Lanka.

We are also in the process of implementing an Inventory Management System to help manage our inventory and maintain our stock requirements at a minimal level at a given time.

**COMMUNITY**

Previously, as a Bank dedicated to serving the needs of the Small and Medium Enterprises (SMEs), UB engaged with this segment through relevant methods, which included capacity building seminars for SME entrepreneurs across the island.

Today with the new strategic direction as a fully fledged commercial bank, UB focuses on a more diversified clientele

including individuals, SMEs as well as Corporates. Hence, the Bank is currently in the process of redefining the parameters and criteria for its intended community engagement practices, in accordance with the future strategic direction of UB. Accordingly, the Bank is in the process of compiling a comprehensive Corporate Social Responsibility Policy, which outlines the Bank’s strategic direction on CSR, while identifying the key stakeholder groups for engagement along with the methods of engagement, envisioned ventures in this direction and budget allocations, parameters etc.

In 2016 and beyond, UB envisions to embark on a journey towards excellence, guided by a comprehensive policy on sustainability and effective community engagement; aligned with the new strategic direction of the Bank.

**OUR EXISTING AND PROPOSED COMMITMENT TO SUSTAINABLE BUSINESS PRACTICES**

Measurement	Achievement
Grievances about labour practices filed human rights impacts and discriminations filed, addressed, and resolved through formal grievance mechanisms	
Significant fines and total number of non-monetary sanctions for non-compliance with laws and regulation	
Substantiated complaints regarding breaches of customer privacy and losses of customer data	
Incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship	No significant incidents recorded during the year under review
Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	
Operations with significant actual and potential negative impacts on local communities	
Incidents of non-compliance with regulations and voluntary codes concerning products and service information and labelling	


**MEMBERSHIP IN ASSOCIATION**

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

- ▶ Sri Lanka Banks’ Association
- ▶ Institute of Bankers of Sri Lanka
- ▶ Ceylon Chamber of Commerce, Sri Lanka



**WE ARE GEARED FOR  
CONVENIENT ACCESS**

The background features a complex geometric pattern of triangles in various shades of blue (dark, medium, and light) and orange. The pattern is symmetrical along a vertical axis. The text is positioned on the left side of the image, set against a white background.

Our rapidly expanding customer reach is further amplified by our island-wide branch and ATM network, complemented by our online banking facility which enables banking convenience at your fingertips.



#### KEY HIGHLIGHTS

- ▶ AUM for FY15 stood at Rs. 15.8 Bn, growth of 6% YoY
- ▶ Increased market share to 10% of unit trust industry
- ▶ Institutional sales volume of Rs. 5.6 Bn and retail sales volumes of Rs. 1.3 Bn during CY15
- ▶ Strong performance by NAMAL fixed income funds
- ▶ National Equity Fund maintained long-term performance track record with annualised return benchmark of 14.5% for the last 24 years for Sri Lanka unit trust industry
- ▶ Asset management fees grew 5% YoY to Rs. 108.9 Mn while PAT dipped 24% YoY to Rs. 40.1 Mn
- ▶ Launch of NAMAL fixed income MIP's

#### OPERATING UNDER CHALLENGING MARKET CONDITIONS

The unit trust business operated under challenging business environment with bearish equity market conditions with the ASPI falling by 5.5% in CY15 while interest rates remained below 7% throughout the year, resulting in unattractive investment opportunities for most retail investors. Mutual fund industry reported a negative growth of 0.3% to remain flat at Rs. 129.7 Bn for CY 15. Notwithstanding the tough conditions, NAMAL increased market share to 10% in CY15 (9% in CY14) to Rs. 13.6 Bn, making NAMAL the 4th largest in the unit trust industry. NAMAL's equity unit trusts assets under management stood at Rs. 4.5 Bn in CY15, growth of 1.9% YoY despite tough market conditions while fixed income unit trusts assets under management grew 14.3% YoY, helped by the launch of NAMAL Gilt Fund. The overall unit trust business continues to be very competitive with a total of 14 managing companies and its noteworthy that NAMAL is one of the few operators among the top managers to post growth in net fund collection and improvement in market share. Private portfolio business saw a

14% drop YoY to Rs. 2.4 Bn in AUM. Assets under management for CY15 stood at Rs. 15.8 Bn, growth of 6% YoY.

Our retail sales team, one of the largest in the industry continue to push boundaries with increased sales volumes both in direct and MIP sales. Retail sales volumes crossed Rs. 1300 Mn sales target and 1900 new account acquisition during FY15. NAMAL's retail sales team now operates in 20 Union Bank branches with sole intention of broad basing the unit trust business with the masses of Sri Lanka. NAMAL also took an initiative to set up its corporate sales team in its head office while launching two new fixed income MIPs during the year to cater to increased demand for fixed income investment products.

Our Institutional sales team that launched NAMAL Gilt Fund in FY14 accumulated Rs. 1.7 Bn while NAMAL Money Market Fund raised Rs. 1.2 Bn during the year.

#### MAINTAINING LONG TERM PERFORMANCE

Superior fund performance is our priority and has underpinned the increase in AUM to sustain long term profitability of our asset management business. As a result, we make significant effort to differentiate, both in terms of investments strategy and style to give sustainable long term returns to our investors. Despite bearish market conditions during CY15, it is noteworthy that National Equity Fund has delivered 14.46% compounded annualised return to investors in its 24 years of existence, which is a benchmark set by NAMAL for the unit trust industry. NAMAL Growth Fund has delivered 16.15% annualised returns for the last 17 years, which is the highest in the entire unit trust industry in Sri Lanka. NAMAL fixed income funds provided attractive tax adjusted returns, despite the challenging low interest rate environment during the year. Fixed income funds, namely NAMAL High Yield Fund and NAMAL Gilt Fund delivered annualised returns of 6.7% and 5.7% in CY15, respectively to be within the top 3 of their respective categories in the industry.

#### STRONG INCOME GROWTH FROM UNIT TRUST BUSINESS

Despite tough market conditions, income from asset management business showed growth of 5% YoY to Rs. 108.9 Mn in CY15. Income from equity unit trusts showed growth of 22.4% growth while income from fixed income unit trusts showed growth of 42% growth YoY due to the launch of NAMAL Gilt Fund. Income from private portfolio business declined 46.5%, which negated the growth in overall asset management fees. Income from its proprietary fund base (Asset Base income) declined 52.7% YoY to Rs. 12.9 Mn mainly due to poor equity market conditions. As a result, total income reported a negative growth of 6.6% YoY to Rs. 135.1 Mn in CY15. Total expenses were under check with a growth of 6.5% YoY to Rs. 91.4 Mn. PAT after mark to market adjustments came in at Rs. 40.1 Mn, a drop of 24% YoY in CY15. The decline in asset based income was the main reason for the overall negative earnings growth in the company.

#### SIGNIFICANT ROOM TO EXPAND IN THE INDUSTRY

NAMAL as company sees huge untapped potential in unit trust industry, both in retail and institutional business as Sri Lanka moves towards middle income status. The industry, even after rapid growth in the last few years, only accounts for 1.3% of GDP and 1.6% of the banking industry. This highlights the untapped potential as an alternative investment vehicle and tax efficient investment in the hand of retail investors. To capture this opportunity, NAMAL launched its first ever monthly investment plans (MIP's), namely, NAMAL Retirement Savings Plan and the NAMAL Parents Savings Plan in CY 14 which gives flexibility to retail investors to save a small investment in regular intervals to benefit from medium to long term capital appreciation. The product has been a great success which has encouraged us to launch fixed income based MIP's, namely NAMAL Regular Income Plan and NAMAL Monthly Investment Plan in CY15 to encourage investors to save in fixed income products for their life specific needs. NAMAL will now focus on delivering this product island-wide

through the Union Bank channel and other alternative banking channels in CY16. We also see opportunities in private wealth management for high net worth individuals and small to mid-scale enterprises. While the market is challenging and very competitive both in terms of fees and client serviceability, we see tremendous potential in this market segment. NAMAL is very optimistic of the future growth potential of the economy and the capital markets of Sri Lanka and remains committed to delivering long term capital appreciation and income to all our investors.



A desire to explore new horizons and pursue ambitious goals, form the essence of the Union Bank Group. These same characteristics embedded within UB Finance have augured well for the Company, which has now emerged as one of the preferred financial solutions providers in the country.

#### KEY PERFORMANCE HIGHLIGHTS

Amidst volatile market conditions and downhill trends that prevailed in 2015, UB Finance reported an overall performance which is well above satisfactory. Interest income for 2015 increased by 71% while the Company continued to invest in brand and capacity building which is envisaged to lead to substantial returns in the future. UB Finance recorded a profit before tax of Rs. 30.3 Million and a profit after tax of Rs. 36.4 Million. Looking ahead, the Company's projected returns for the coming years are seen to be lucrative.

Amidst the innumerable challenges that befell the industry, UB Finance remained resilient and the Company's asset base grew phenomenally during the year far exceeding the growth rate of the financial services sector. The deposit base grew by 55%, once again reflecting the confidence placed by our depositors in UB Finance. Salient efforts to build strategic alliances with vehicle dealers, insurance companies

and brokers substantially paid off as accommodations grew by an impressive 75% despite the market slowing down. Net NPL on the post acquisition portfolios was 4% which is significantly lower than the industry standard. The core capital ratio was 10%. The total assets increased by 60% with our asset base standing at approx. Rs. 7.1 Billion as at 31st December 2015.

#### BUSINESS REVIEW

Whilst strengthening its frontlines, UB Finance has successfully reinforced its foundations, whereby the crux of the Company's three pronged strategy is adjusted to leverage on its core competencies and strengths to fuel growth. Firstly, by focusing on introducing penetrative systems and processes to ensure that operational facets of business are smooth, efficient and speedy; decision making has been made easier due to information gathering and accessibility being comprehensive. Secondly, controls and monitoring have been made stringent and constructed on a well-managed uncompromising top-down approach beginning from the Chairman and Board of Directors of the Company; permeating transparency, accountability and sincerity of action at every level. This has naturally led to the third facet of the strategy, which deals with the overall governance structure designed to resonate across every tenet of the newly founded vision.

UB Finance currently offers an enhanced range of products and services including 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.

With the recent launch of its start-of-the art fully functional UB Finance Premier Factoring Service Centre in Colombo 4, the Company intends to significantly grow its factoring business. This product is seen to hold favourable market potential with ability to become profitable while the product presents significantly lower risk to UBF; given its specialised, industry savvy

staff who have pioneered Factoring solutions in the industry.

UBF's growing focus on the SME sector continued to gain momentum for a fourth year in relation to both the conventional and novel products, which have been well received by this segment. Several initiatives were carried out across the country to enhance our value proposition to the small and medium enterprise customers; offering faster turnaround and wider product and services range to meet the evolving needs of the sector. UB Finance remains emphatic on extending financial assistance to entrepreneurs who contribute towards the development of the nation.

Due to limitations adopted by the Central Bank of Sri Lanka with regard to the consolidation of the financial services sector and with the persistently dull credit demand, in 2015 UB Finance assumed a cautious approach towards expanding its footprint across the country. The Company opened 4 branches in key locations at Panadura, Mawanella, NuwaraEliya and Polonnaruwa further extending and strengthening its presence along the established routes while growing our total network to 13 branches. Branches in Gampaha, Kalmunai and Ratnapura are expected to be launched by January 2016.

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. The Company takes pride in its team that has been courageous, spirited and fearless in their endeavours to navigate the Company towards a positive trajectory. UB Finance emphasises on productivity and efficiency and strongly believes that high achievement and performance excellence should be rewarded. With an island-wide cadre of over 234, UB Finance remains steadfast with regard to developing our employees and encouraging them towards becoming true professionals in their chosen fields.

## SUBSIDIARY UPDATE

UB Finance continued to fine tune the re-engineering of its business operations, documentation, procedures, processes and systems which commenced in 2013. The Company is now geared to offer all its customers a superior level of service due to the overall efficiency and effectiveness of business operations. In 2015 the Company upgraded its hardware and implemented a state-of-the-art software system. With the required base technology in place a number of new IT initiatives were launched during the period under review enabling complete automation of a number of processes while imbuing speed and efficiency throughout the Company's operations.

Whilst the Company has reiterated constantly on the versatility of a finance company backed by a Bank, it has always been cognizant and well focused on risk management and internal controls. Compliance, transparency and corporate governance continued to be key areas focused on by the Board Committees who have met regularly throughout the year to review such matters. Over the past few years the Company has worked diligently to integrate good governance, transparency, corporate responsibility and sustainability into every aspect of business. This has now assured UB Finance the spotlight of being recognised as one of the best finance companies in the country, a feat we achieved in just four years.

### LOOKING AHEAD

UB Finance stands at the onset of a new era in our journey. With increasing competition and deteriorating margins across the board, Finance and Leasing Companies are moving from a margin driven approach to a volume driven approach to expand their presence and market share while sustaining the industry as a whole. Accordingly UB Finance expects to introduce a range of innovative investment, financial and working capital solutions that are attuned to the Sri Lankan customers' diversified needs and rapidly developing financial sophistication while intensifying our market presence.

optimistic that the country will move forward creating a growth conducive environment that encompasses all key aspects of the economy. Leveraging on this along with the anticipated listing on the Colombo Stock Exchange; we expect the coming year to be one of phenomenal growth elevating the Company to a higher platform as a whole.

The key to UB Finance's continued success is its "Commitment and Passion". Whether it is servicing customers, delivering value to shareholders or working for the betterment of society at large UB Finance will remain determined in delivering business excellence and sustainable value to all its stakeholders.

With the country now lying in the cusp of the next biggest growth phase of the post-conflict era, we remain

Dear Shareholder,

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

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

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

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

#### MOVEMENT IN ORDINARY VOTING SHARES OF THE BANK DURING THE YEAR 2015

##### INDEX/PRICE MOVEMENT



#### COMPLIANCE REPORT AS PER RULE NO.7.6 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE:

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

Rule No.	Disclosure Requirement	Section references	Pages
7.6 (i)	Names of persons who were the Directors of the Bank during the financial year.	Annual Report of the Board of Directors on the State of Affairs of the Bank.	112-117, 131-132
7.6 (ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein.	Notes of the Financial Statements and Annual Report of the Board of Directors on the State of Affairs of the Bank.	128-130, 144
7.6 (iii)	The names and the number of voting shares held by the 20 largest shareholders and the percentage of such shares held.	Item 2 of the Investor Relations.	63-64
7.6 (iv)	The Public Holding percentage.	Item 7 of the Investor Relations.	64
7.6 (v)	Statement of each Director's and Chief Executive Officer's holding in shares of the Bank at the beginning and the end of the financial year.	Item 6 of the Investor Relations.	64

## INVESTOR RELATIONS

Rule No.	Disclosure Requirement	Section references	Pages
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Bank.	Item 9 of the Investor Relations.	65
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Bank.	Item 10 of the Investor Relations.	65
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Bank's land holdings and investment properties.	Note 27 to the Financial Statements on "Property, Plant and Equipment".	173
7.6 (ix)	Number of shares representing the Bank's Stated Capital.	Note 35 to the Financial Statements on "Stated Capital" and Annual Report of the Board of Directors on the State of Affairs of the Bank.	177
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings.	Item 8 of the Investor Relations.	65
7.6 (xi)	Ratios and market price information.	Items 3 and 4 of the Investor Relations.	64
	Dividend per share, Dividend payout, Net Asset Value per share, Market Value per share (highest and lowest values recorded during the year 2015 and value as at the end of the year 2015).	Item 4 of the Investor Relations.	64, 131, 141
	Any changes in credit rating	Item 5 of the Investor Relations.	64
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.	Note 27 to the Financial Statements on "Property, Plant and Equipment".	173
7.6 (xiii)	Details of funds raised through a Public Issue, Rights Issue and Private Placement during the year.	Not Applicable.	N/A
7.6 (xiv)	Information in respect of Employee Share Option Schemes.	Note 35.3 to the Financial Statements.	177
	The number of options granted each category of Employees during the financial year.	Note 35.3 to the Financial Statements.	178
	Total number of options vested but not exercised by each category of Employees during the financial year.	Note 35.3 to the Financial Statements.	178
	Total number of options exercised by each category of Employees and total number of shares arising therefrom during the financial year.	Note 35.3 to the Financial Statements.	178
	Options cancelled during the financial year and the reasons for such cancellation.	Note 35.3 to the Financial Statements.	178
	The exercise price.	Note 35.3 to the Financial Statements.	178
	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 ESOS.	Annual Report of the Board of Directors on the State of Affairs of the Bank.	131

Rule No.	Disclosure Requirement	Section references	Pages
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5c and 7.10.6c of Section 7 of the Listing Rules.	Annual Report of the Board of Directors on the State of Affairs of the Bank and Corporate Governance, Profiles of the Board of Directors, Notes to the Financial Statement, Audit Report, Human Resources and Remuneration Committee Report.	79-98, 112-117, 128-137, 146-208, 99-100, 106
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Bank's as per Audited Financial Statements, whichever is lower.	The Bank did not have any related party transaction exceeding this shareholding as at end 2015.	N/A

## 1. STOCK EXCHANGE LISTING

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

The unaudited interim Financial Statements of the first three quarters of 2015 were submitted to the CSE within 45 days from the respective quarter end as required by the Rule No. 7.4(a) (i) of the Listing Rules of the CSE.

The Audited Income Statement for the year ended December 31, 2015 and the Audited Balance Sheet as at December 31, 2015 will be submitted to the CSE within two months from the Balance Sheet Date as required by the Rule 7.4(a) (i) of the Listing Rules of the CSE.

The Stock Exchange symbol for Union Bank is "UBC".

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

## 2. TWENTY MAJOR SHAREHOLDERS AS AT 31.12.2015

Sequence	Name of the Shareholder	Total No. of Shares issued as at 31/12/2015	Percentage (%)	Total No. of Shares issued as at 31/12/2014	Percentage (%)
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	25,970,146	2.38
4.	Mr. A.I. Lovell	22,743,780	2.08	22,743,780	2.08
5.	Mr. C.P.A. Wijeyesekera	18,508,468	1.70	18,508,468	1.70
6.	Mr. D.A.J. Warnakulasuriya	14,842,730	1.36	14,842,730	1.36
7.	Exsab International Holding Co for Trading Development	8,902,139	0.82	8,902,139	0.82
8.	Ashyaki Holdings (Pvt) Ltd	7,792,506	0.71	7,792,506	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	-	-
12.	Dr. T. Senthilverl	6,365,767	0.58	4,010,281	0.37
13.	Asian Alliance Insurance PLC – A/C 02 (Life Fund)	6,067,256	0.56	5,827,256	0.53
14.	Rosewood (Pvt) Limited- Account No. 1	5,500,698	0.50	8,443,698	0.77

Sequence	Name of the Shareholder	Total No. of Shares issued as at 31/12/2015	Percentage (%)	Total No. of Shares issued as at 31/12/2014	Percentage (%)
15.	Commercial Agencies (Ceylon) Ltd	4,050,833	0.37	4,050,833	0.37
16.	Ajita De Zoysa & Company Limited	4,050,832	0.37	4,050,832	0.37
17.	Anverally and Sons (Pvt) Ltd A/C No.01	2,932,600	0.27	1,522,600	0.14
18.	Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	2,875,149	0.26	2,875,149	0.26
19.	Rubber Investment Trust Limited A/C No. 01	2,078,975	0.19	778,975	0.07
20.	Ceylon Biscuits Limited	2,000,000	0.18	2,000,000	0.18
	Sub Total	988,822,971	90.60	975,985,687	89.42
	Other Shareholders	102,583,278	9.40	115,420,562	10.58
	<b>Total</b>	<b>1,091,406,249</b>	<b>100.00</b>	<b>1,091,406,249</b>	<b>100.00</b>

### 3. INFORMATION ON SHARE TRADING

	Year 2015
Number of Shares Traded	96,210,375
Value of Shares Traded (Rs.)	2,452,646,913

### 4. INFORMATION ON MARKET PRICES

	Market Price (Rs.)	Date
Highest Price	30.30	12.01.2015
Lowest Price	20.00	15.12.2015
Year end Price	20.20	31.12.2015

### 5. CREDIT RATING

Fitch Rating – BB+ (lka)

### 6. DIRECTORS' SHAREHOLDINGS INCLUDING CHIEF EXECUTIVE OFFICER

The Directors' shareholdings as at 31st December 2015 were as follows;

Name of the Director	No. of Ordinary Shares	
	Beginning of Year 2015	End of Year 2015
Mr. Alexis Lovell	22,743,780	22,743,780
Mr. Asoka de Silva	8,900	8,900

### 7. PUBLIC SHAREHOLDING

As per the Rule No. 7.13.1(a)j of the Colombo Stock Exchange, the Public Holding as at 31st December 2015 is 21.91%.

**8. SHAREHOLDER BASE**
**Ordinary Voting Shares**

SHARE RANGE	NO OF SHAREHOLDERS	PERCENTAGE %	NO OF SHARES	SHARE HOLDING %
1-1,000	29,208	87.05	4,328,837	0.40
1,001-10,000	3,205	9.55	11,245,570	1.02
10,001-100,000	957	2.85	28,218,580	2.59
100,001-1,000,000	146	0.44	40,105,743	3.68
1,000,001-10,000,000	31	0.09	102,738,099	9.41
10,000,001-& ABOVE	6	0.02	904,769,420	82.90
TOTAL	33,553	100.00	1,091,406,249	100.00

9. Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6 (vi) of the Listing Rules of the CSE are discussed in the section on “Managing Risk at Union Bank” on pages 66-78.
10. There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rule of the CSE.

*Public Holding shall mean shares of a Listed Entity held by any person other than those directly or indirectly held by;*

- a) *Its parent, subsidiary or associate Entities or any subsidiaries or associates of its parent Entity;*
- b) *Its directors who are holding office as directors of the entity and their close family members*
- c) *Chief Executive Officer, his/her close family members;*
- d) *Key Management Personnel and their Close Family Members; and;*
- e) *any party acting in concert with the parties set out in (a), (b), (c) and (d) above;*
- f) *Shares that are in a locked account with the Central Depository Systems (CDS) due to a statutory or regulatory requirement other than those shareholders exempted under (h) below and those which have been subject to a voluntary lock-in at the option of the shareholder.*
- g) *shares that have been allotted to employees whereby the shares of a Listed Entity are, directly or indirectly controlled by the management or the majority shareholder of the Entity;*
- h) *any Entity or an individual or individuals jointly or severally holding 5% or more of the shares of the Listed Entity if the Entity is a DiriSavi Board Entity and 10% or more of the shares if the Listed Entity is a Main Board Entity except where such shareholder is;*
  - i. *a statutory institution managing funds belonging to contributors or investors who are members of the public; or*
  - ii. *an entity established as a unit trust or any other investment fund approved by the SEC; or*
  - iii. *not a related party declared in terms of Sri Lanka Accounting Standards or a party acting in concert declared in terms of the Takeovers and Mergers Code.*

**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, integrated with the business lines and 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, Operations, Market, and Liquidity. The Bank takes conscious and calculated risk decisions in its overall operations keeping in mind the related risks. 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, yet which could hinder the optimisation of the Banks performance.

**RISK RELATED KEY MANAGEMENT BODIES**

Committee	Key Objectives	Represented By
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 102 (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 CSE, external financial reporting and internal audit function itself.	Please refer Pages 99-100 (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.
Executive Risk Management Committee (ERMC)	Review, monitor and evaluate the policies & 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.

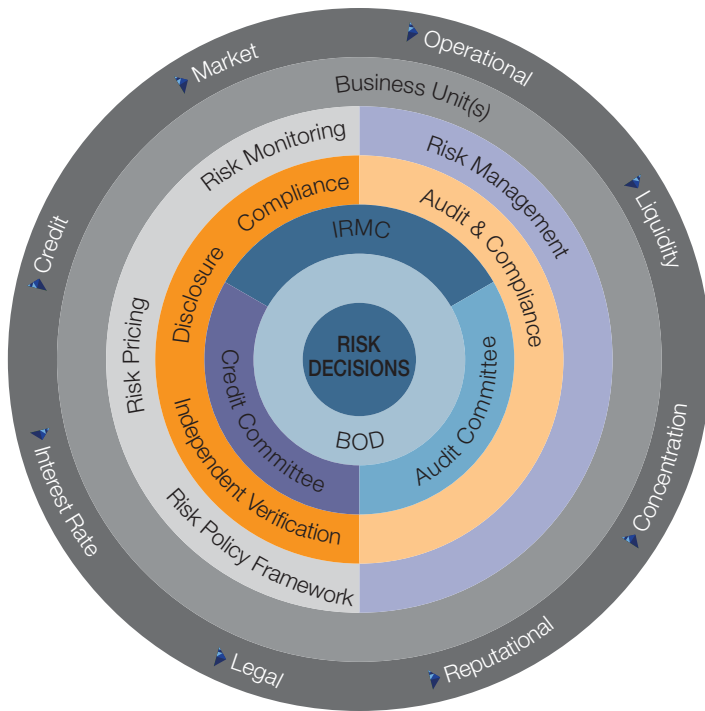
**THREE LINES OF DEFENCE PRINCIPLE**

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 function to act as the second line of defence. The Audit and Compliance functions with their independent review mechanisms act as the third line of defence in managing risks.

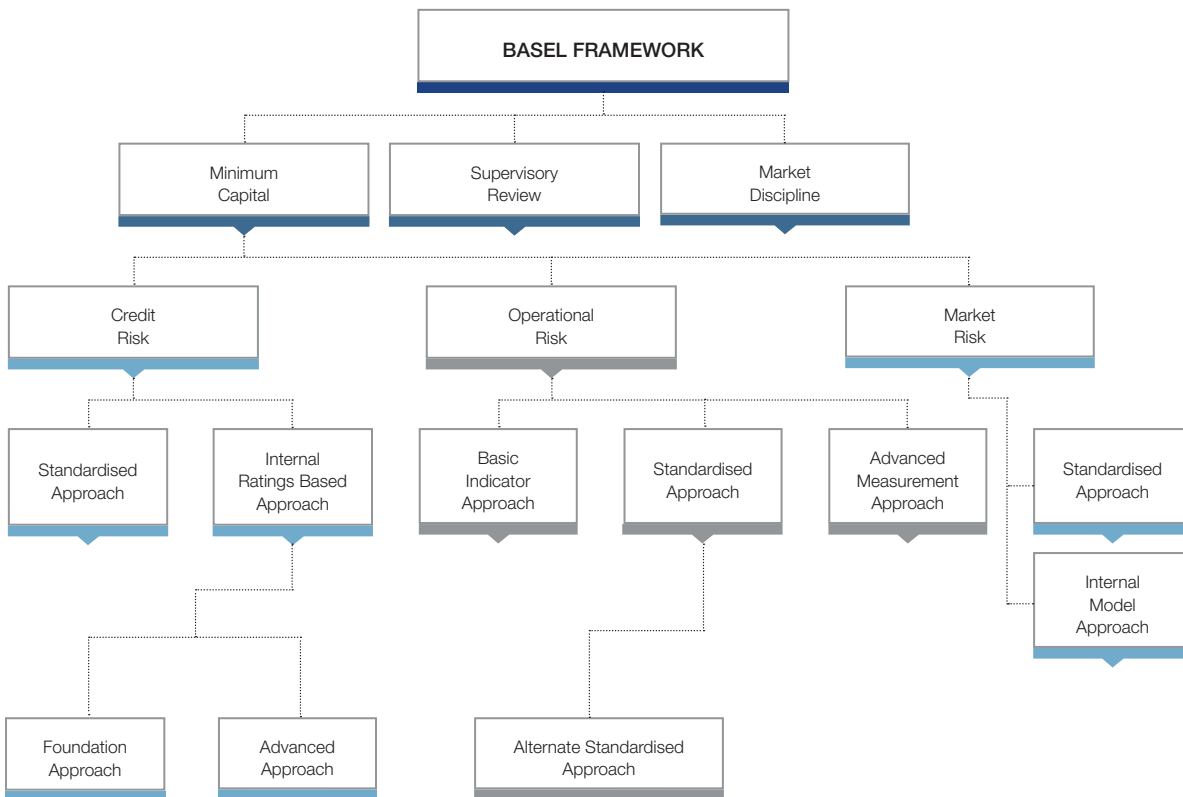
**RISK APPETITE AND TOLERANCE**

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 enhance 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.



Three Lines of Defense



BASEL II FRAMEWORK & IMPLEMENTATION

Bank's Approach	Credit Risk	Market Risk	Operational Risk
Pillar I – The minimum capital requirements	For regulatory capital computation purposes, the Bank / Group uses Standardised Approach under credit risk.	The Bank / Group have adopted the Standardised Approach for calculation of the Market Risk capital charge	Capital Charge for Operational Risk is computed using the Basic Indicator Approach (BIA) for the Bank and Group.
Pillar II – The supervisory review	It is a prerequisite that Banks conduct a comprehensive assessment of its risks periodically, and retain adequate capital funds to ensure any unexpected losses which are not assessed under Pillar I. As such, in order to assist Banks to assess its risk profile accurately, the Monetary Board of the Central Bank of Sri Lanka (CBSL) has issued the Banking Act direction No. 5 of 2013 titled 'Supervisory Review Process (Pillar II of Basel II) and Bank complies with the same by assessing its additional capital requirements for the risks such as interest rate, liquidity risk, concentration risk, reputational risk etc. The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) for the assessment and documentation of additional capital requirements under pillar II.		
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 annual reports and with periodic financial statements published.		

BASEL III AND FUTURE

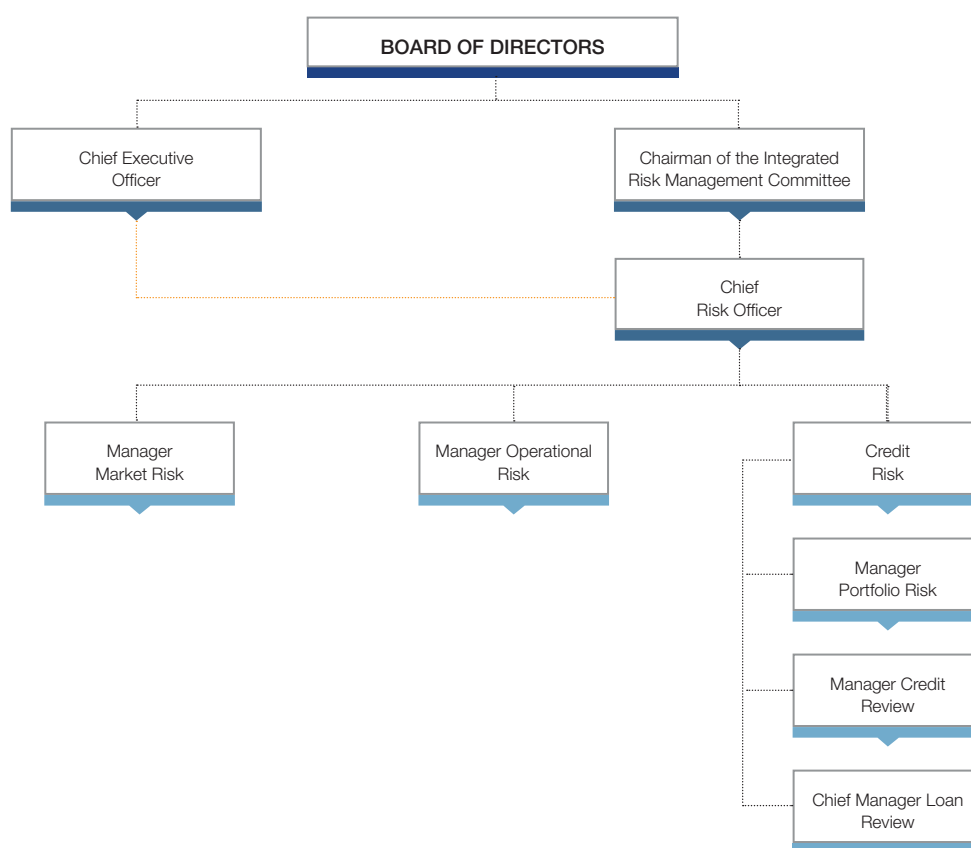
As directed by the regulator the Bank has fallen in line with the requirement of sharing the Liquidity Coverage Ratio (LCR) with the Central Bank of Sri Lanka (CBSL). The Bank has confidently met the set limits and is comfortable in embracing the phased developments of the future requirements of the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

CAPITAL ADEQUACY POSITION

As at December 31	2015 Rs.'000	2014 RS.'000
<b>1. Capital Adequacy Ratios</b>		
<b>1.1 Core Capital Ratio</b>		
Eligible Core Capital (Eligible Tier 1)	15,458,060	15,485,556
Total risk-weighted Amount	63,335,071	37,136,361
Core Capital (Tier 1) Ratio, %	24.4	41.7
<b>1.2 Total Capital Ratio</b>		
Capital Base	15,177,627	15,199,541
Total risk-weighted Amount	63,335,071	37,136,361
Total Capital Ratio, %	24.1	40.9
<b>2. Computation of Risk Weighted Assets - RWA</b>		
<b>Credit Risk</b>		
RWA of On balance sheet assets	38,403,741	26,571,653
RWA of Off balance sheet assets	3,771,702	3,982,317
Total RWA for Credit Risk	42,175,443	30,553,970
<b>Market Risk</b>		
Capital Charge for Interest Rate Risk	104,363	760
Capital Charge for Equity	1,596,906	378,190
Capital Charge for Foreign Exchange & Gold	21,508	3,323
Total Capital Charge for Market Risk	1,722,777	382,272
Total RWA for Market Risk (Total Capital Charge for Market Risk x 10)	17,227,771	3,822,725

As at December 31	2015 Rs.'000	2014 RS.'000
<i>Operational Risk</i>		
Gross Income		
Year 1	1,678,663	1,678,663
Year 2	1,605,651	1,605,651
Year 3	2,621,238	2,235,019
Average Gross Income	1,968,517	1,839,778
Total Capital Charge for Operational Risk (Average Gross Income x15%)	275,967	275,967
Total RWA for Operational Risk (Total Capital Charge for Operational Risk x10)	3,931,856	2,759,666
Total Risk Weighted Assets	63,335,071	37,136,361

**RISK GOVERNANCE STRUCTURE**



**CREDIT RISK MANAGEMENT**

Credit risk is the risk of potential loss arising due to the borrower or counterparty failing to meet its contractual obligations when they fall due.

The Bank strives to achieve / maintain a high 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 and the Credit Manual and circular instructions give more details on how to perform the 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.

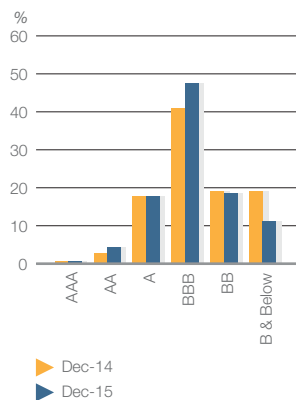
## RISK MANAGEMENT

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 Centres. Retail assets refer to housing loans, personal loans, vehicle loans, credit cards and also the products known as schematised loans.

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 has 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.

### CORPORATE & SME RATING COMPARISON

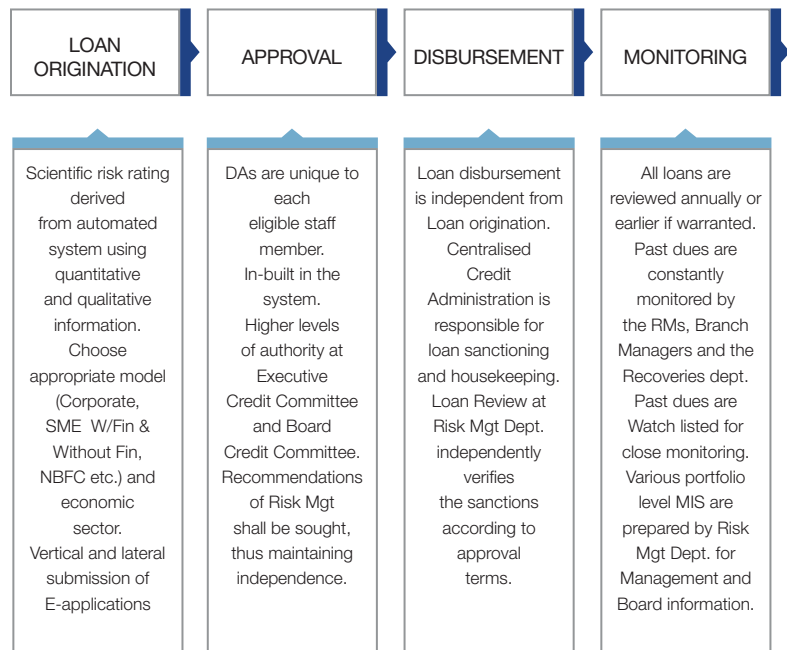


### MANAGING COUNTERPARTY RISK

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.



### MANAGING CONCENTRATION RISK

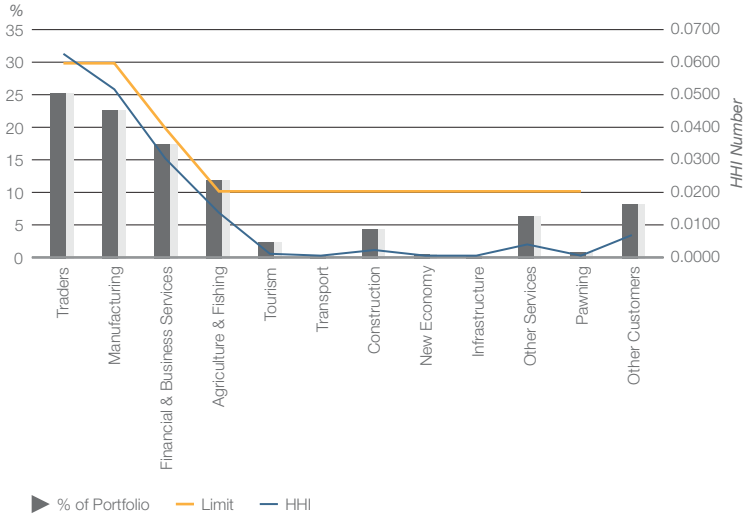
Disproportionate concentration to one area or segment creates a potentially high risk since there are borrowers with similar characteristics within such groups.

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

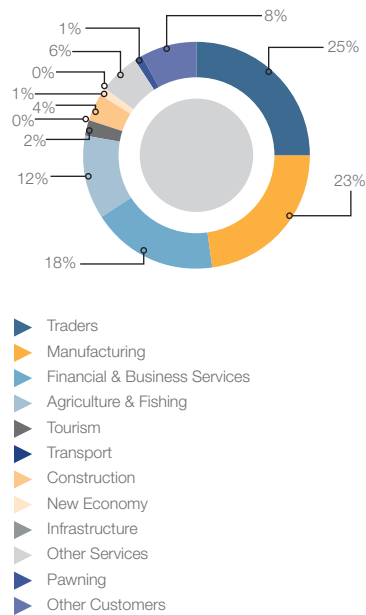
To manage the credit concentration of the book bank has devised the credit model to define various limits on the maximum exposure for different industry segments. Depending on the performance of the specific industries and micro economic conditions that affects the performance of such industries, interim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

**ECONOMIC SECTOR CONCENTRATION/ DECEMBER 2015**

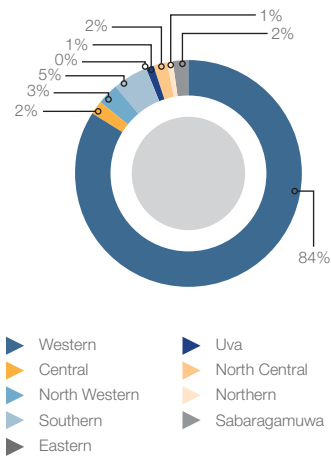


**SECTOR WISE/ DECEMBER 2015**

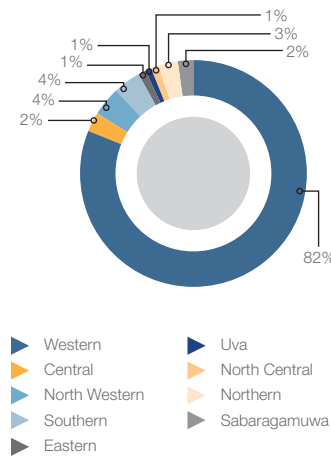


Effective discussions take place at various forums to mitigate risks of the credit portfolio. Apart from the economic sector and name concentration mentioned above, the Bank reviews Borrower rating distributions, Age analysis, Geographical distribution, country risk etc for portfolio level monitoring.

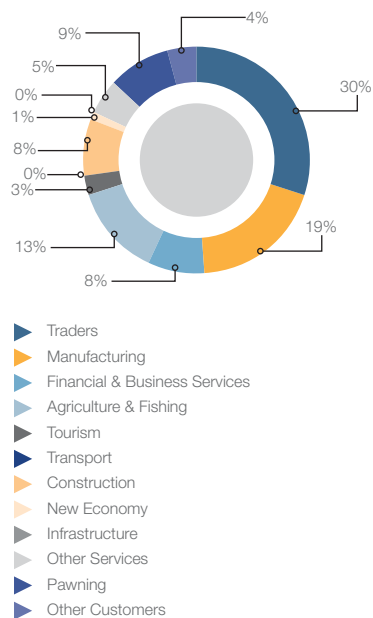
**GEOGRAPHICAL DISTRIBUTION/ DECEMBER 2015**



**GEOGRAPHICAL DISTRIBUTION/ DECEMBER 2014**



**SECTOR WISE/ DECEMBER 2014**

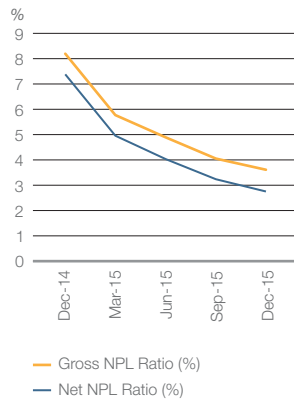


**MANAGING DELINQUENT LOANS**

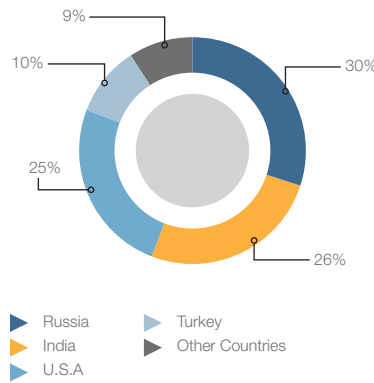
Bank's non-performing portfolio is monitored on a proactive basis through regular follow up with clients and restructuring of facilities on a need basis. Risk Management Department monitors the watch listing of accounts by recommending action plans and close monitoring to prevent such borrowers becoming non-performing.

# RISK MANAGEMENT

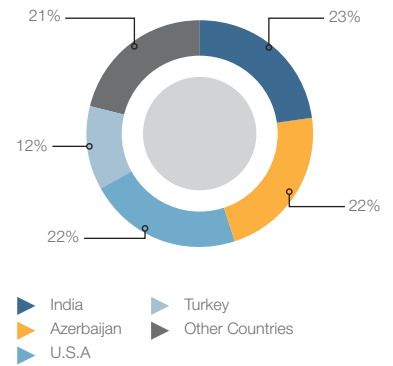
## NPL MOVEMENT



## COUNTRY WISE EXPOSURE/ DECEMBER 2015



## COUNTRY WISE EXPOSURE/ DECEMBER 2014



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.

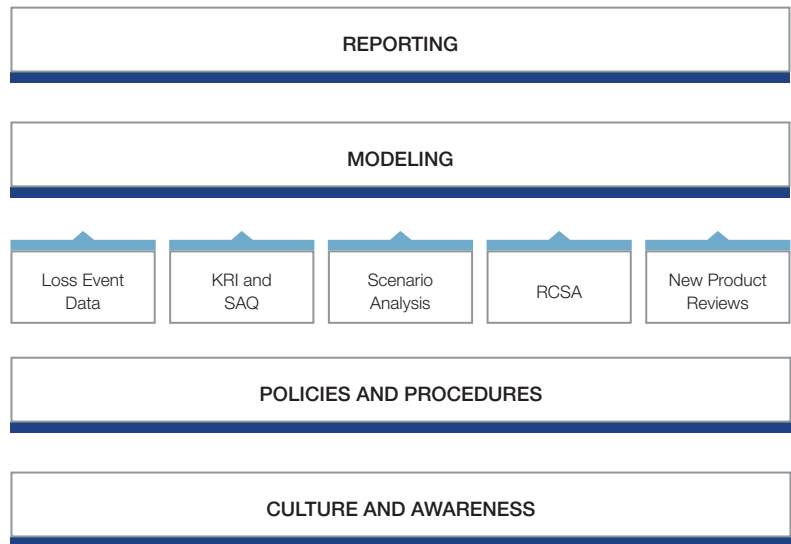
The loans will be reviewed keeping in mind the approval processes, accuracy and timeliness of credit ratings, adherence to internal policies and procedures, applicable laws/regulations, compliance to loan covenants, post sanction follow ups and sufficiency of documentation.

## MANAGING CROSS BORDER EXPOSURES

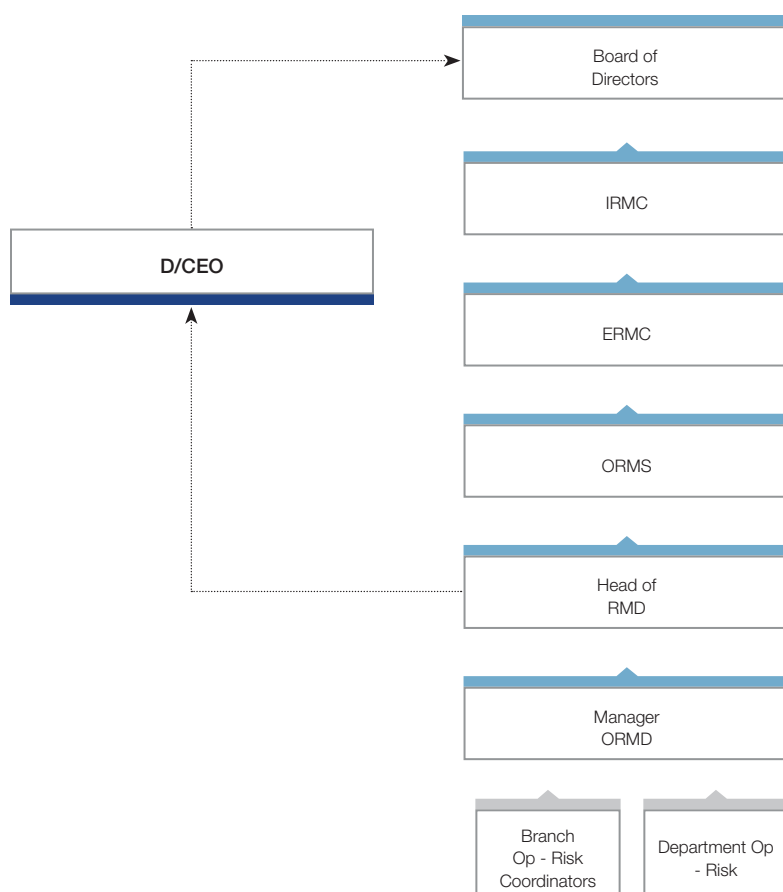
Bank is also exposed to cross border risks, where in the instances that the Bank is unable to receive or recover the dues overseas. Convertibility, transferability, government specific rules and regulation affects the cross boarder exposure risk.

## 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.



Operational Risk Management Model



ORMD Governance Structure

**METHODS OF OPERATIONAL RISK MANAGEMENT:**

**a. Loss Events**

Loss event data are historic and backward looking which provides valuable insights into current operational risk exposures. Data gathered are segregated into seven 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 input, it is verified by an Independent department, and submitted to Operational risk management department for causal and impact analysis, recovery, provisioning and closure, if applicable. Follow ups or reports from Audit department or 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, mitigate by improving/ implementing control/s. The losses incurred during the year amounts to Rs. 36.52 Mn which is 1.99% of the three year average gross profit of the Bank. Also 30% of these losses are related to Credit Risk.

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

Detailed KRI and SAQ programs are scheduled every month to record the changing environment. Answers to KRIs will be number driven whilst for SAQs, users will chose 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.

**C. Scenario Analysis**

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

**d. Risk & Control Self-Assessment (RCSA)**

In a RCSA program, branches and departments take the ownership of its own risks & controls and assess the risks that may exist in its area. RCSA programs are done annually or more frequently to assess the 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 is in the process of formulating RCSA templates for each business units / service units as the first phase of rolling out this program.

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

**e. Ad-hoc Incident Reporting**

Bank encourages staff to report any operational lapses or potential frauds directly to designated senior management officials as described in the Bank's Whistleblower policy, if the staff member is fearful 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.

**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.

**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 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 function. The Bank's market risk management function is governed by the Market Risk Policy, Liquidity Risk Management Policy, Asset Liability Risk Management Policy and Investment Policy.

TMO is primarily responsible for the setting up of suitable policy/procedures for the treasury operations and Setting up of various limits to monitor business operations. TMO also maintains its independent MIS reports and dashboard reports which are reported to 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).

Bank is also looking at the additional avenues to expand the market risk management platforms with the deployment of the automated Asset & Liability Management system.

**MANAGING FOREIGN EXCHANGE RISK**

The foreign exchange(FX) risk arises due to the volatility of exchange rates on open foreign exchange positions. Foreign exchange risk is managed through approved limits by the Board of directors & in line with the CBSL requirements. Limits include Net Open Position, 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.

**FOREIGN EXCHANGE OPEN POSITION**

*As at end of the day 31 December 2015*

CURRENCY	On Balance Sheet +	On Balance Sheet -	Off Balance Sheet +	Off Balance Sheet -	Net Position in Original Currency	FX Rate	Net Position in LCY	FX Position %
CAD	-	(2,846.59)	-	-	(2,846.59)	103.7776	(295,412.28)	0.00%
CHF	200.00	-	-	-	200.00	145.1851	29,037.02	0.00%
EUR	-	(8,633.60)	49,000.00	(25,000.00)	15,366.40	157.2536	2,416,421.72	0.02%
GBP	-	(953,260.63)	970,000.00	-	16,739.37	213.759	3,578,190.99	0.02%
JPY	397,715.18	-	-	-	397,715.18	1.1976	476,303.70	0.00%
USD	-	(2,985,522.92)	12,403,121.35	(8,147,756.15)	1,269,842.28	144.1834	183,090,177.39	1.25%
AUD	-	(1,334,284.23)	2,055,000.00	(720,000.00)	715.77	105.4488	75,477.09	0.00%
KWD	47.50	-	-	-	47.50	474.912	22,558.32	0.00%
NZD	4,486.07	-	-	-	4,486.07	98.8016	443,230.89	0.00%
SAR	1,500.00	-	-	-	1,500.00	38.4166	57,624.90	0.00%
SGD	6,678.61	-	-	-	6,678.61	102.037	681,465.33	0.00%
AED	52,465.70	-	-	-	52,465.70	39.2555	2,059,567.29	0.01%
<b>Total</b>							192,634,642.36	1.31%

**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 whereas 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.

As per CBSL requirements TMO Monitors a comprehensive list of stock parameters. And deviations, exceptions to the approved ratios are dealt in accordance with the overall risk governance framework. 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.

**MATURITIES OF ASSETS AND LIABILITIES**

Item 000'	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	1,256,027	-	-	-	-	-	-	-	1,256,027
Nostro	-	248,486	-	-	-	-	-	-	248,486
Placements	284,074	-	-	-	-	-	-	-	284,074
Deposits with CBSL	113,319	241,953	158,396	82,623	54,602	22,168	19,113	614,638	1,306,812
Treasury Bills/ Bonds	3,120,001	1,696,696	2,371,212	16,424	-	2,531,981	491,194	50,064	10,277,573
Investments (net of provisions)	-	1,011,580	288,367	-	-	103,270	1,387,858	893,894	3,684,969
Dealing Securities	7,984,991	-	-	-	-	-	-	-	7,984,991
Bond - Serendib Capital	-	-	-	-	-	-	-	2,569,046	2,569,046
Bills of Exchange	667,879	494,302	164,079	8,882	-	-	-	-	1,335,142
Overdrafts	727,496	697,184	697,184	697,184	697,184	1,273,118	1,273,118	1,193,628	7,256,095
Loans & Advances	7,516,583	6,931,524	3,344,823	1,240,679	1,079,001	6,619,106	2,849,742	932,547	30,514,005
NPL	-	-	-	-	223,288	-	-	669,865	893,153
Accrued Interest	182,320	33,230	54,648	2,405	881	74,496	12,558	1,257	361,794
Other Assets	61,071	156,752	47,110	29,819	16,545	51,329	6,974	659	370,260
Fixed Assets	-	-	-	-	-	-	-	2,032,014	2,032,014
Taxation	-	-	306,981	-	-	-	-	-	306,981
	<b>21,913,761</b>	<b>11,511,707</b>	<b>7,432,799</b>	<b>2,078,016</b>	<b>2,071,502</b>	<b>10,675,468</b>	<b>6,040,557</b>	<b>8,957,613</b>	<b>70,681,422</b>
Letters of Credit ---Sight 60%	-	138,313	263,296	69,117	5,171	-	-	-	475,897
Letters of Credit ---Usance 20%	-	60,178	143,607	55,924	-	-	-	-	259,709
Performance/Bid/Cutoms & other G'tees	-	11,650	23,301	34,951	34,951	34,951	-	-	139,803
Overdraft undrawn	64,743	257,023	237,596	241,767	270,444	387,983	387,983	363,759	2,211,299
	64,743	467,165	667,800	401,758	310,565	422,934	387,983	363,759	3,086,708
<b>Total (a)</b>	<b>21,978,504</b>	<b>11,978,872</b>	<b>8,100,599</b>	<b>2,479,774</b>	<b>2,382,067</b>	<b>11,098,402</b>	<b>6,428,540</b>	<b>9,321,371</b>	<b>73,768,130</b>

Item 000'	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
<b>Outflows</b>									
Demand deposits	579,655	579,655	463,724	347,793	347,793	-	-	618,573	2,937,193
Savings deposits	183,900	183,900	183,900	183,900	183,900	459,751	459,751	4,265,235	6,104,237
Time Deposits	2,337,913	5,903,150	3,041,904	1,312,709	946,306	176,400	100,482	11,750,150	25,569,015
Certificates of Deposits	39,466	177,445	559,567	428,211	81,040	7,676	-	1,066,824	2,360,230
Nostro	-	55,763	-	-	-	-	-	-	55,763
Borrowings from Banks / Repo's	8,464,953	3,144,303	2,175,629	33,056	205,794	1,043,893	5,944	-	15,073,571
Deferred Taxation	-	-	-	-	68,958	-	-	-	68,958
Interest payable	126,015	198,304	237,882	85,041	20,971	87,847	4,881	288	761,229
Other liabilities	507,593	433,994	134,738	24,335	13,870	31,811	14,724	22,134	1,183,198
Shareholders Funds	-	-	-	-	-	-	-	16,568,028	16,568,028
	12,239,495	10,676,514	6,797,345	2,415,046	1,868,632	1,807,378	585,783	34,291,231	70,681,422
Letters of Credit ---Sight 60%	138,313	263,296	69,117	5,171	-	-	-	-	475,897
Letters of Credit ---Usance 20%	60,178	143,607	55,924	-	-	-	-	-	259,709
Performance/Bid/Cutoms & other G'ees	12,945	25,889	38,834	38,834	38,834	-	-	-	155,337
Guarantee Commission payable	-	-	-	21,225	-	-	-	-	21,225
Overdraft undrawn	645,753	993,049	274,038	149,229	149,229	-	-	-	2,211,299
	857,189	1,425,843	437,913	214,459	188,063	-	-	-	3,123,467
<b>Total (b)</b>	<b>13,096,684</b>	<b>12,102,356</b>	<b>7,235,258</b>	<b>2,629,505</b>	<b>2,056,695</b>	<b>1,807,378</b>	<b>585,783</b>	<b>34,291,231</b>	<b>73,804,889</b>
Gap=(a)-(b)	8,881,821	(123,484)	865,341	(149,731)	325,372	9,291,024	5,842,757	(8,401,831)	(36,759)
Cumulative Gap	8,881,821	8,758,336	9,623,677	9,473,946	9,799,319	19,090,343	24,933,100	16,531,269	
Cumulative Liabilities	13,096,684	25,199,040	32,434,298	35,063,803	37,120,497	38,927,875	39,513,658	73,804,889	
Cumulative Gap as a % Cumulative liabilities	67.82%	34.76%	29.67%	27.02%	26.40%	49.04%	63.10%	22.40%	

#### 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 REPORT ON INTEREST SENSITIVE ASSETS AND LIABILITIES**

Item 000'	Sensitivity of Assets and Liabilities									
	Non Sensitive	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
<b>Inflows</b>										
Cash on Hand	1,256,027	-	-	-	-	-	-	-	-	1,256,027
Nostro	248,486	-	-	-	-	-	-	-	-	248,486
Placements	-	284,074	-	-	-	-	-	-	-	284,074
Deposits with CBSL	1,306,812	-	-	-	-	-	-	-	-	1,306,812
Treasury Bills/ Bonds	-	3,120,001	1,696,696	2,371,212	16,424	-	2,531,981	491,194	50,064	10,277,573
Investments (net of provisions)	-	-	1,011,580	288,367	-	-	103,270	1,387,858	893,894	3,684,969
Dealing Securities	7,984,991	-	-	-	-	-	-	-	-	7,984,991
Bond - Serendib Capital	-	-	-	-	-	-	-	-	2,569,046	2,569,046
Bills of Exchange	-	672,055	494,302	164,079	8,882	-	-	-	-	1,339,317
Overdrafts	-	7,858,439	-	-	-	-	-	-	-	7,858,439
Loans & Advances	-	7,872,995	6,910,451	3,243,425	1,124,100	956,211	6,062,942	2,545,560	755,798	29,471,483
Loans & Advances - fixed rate	-	363,335	101,399	150,256	160,456	161,072	704,242	333,897	198,744	2,173,401
NPL	(1,085,827)	-	-	-	-	-	-	-	-	(1,085,827)
Accrued Interest	603,376	-	-	-	-	-	-	-	-	603,376
Other Assets	370,260	-	-	-	-	-	-	-	-	370,260
Fixed Assets	2,032,014	-	-	-	-	-	-	-	-	2,032,014
Taxation	306,981	-	-	-	-	-	-	-	-	306,981
	13,023,120	20,170,900	10,214,428	6,217,339	1,309,862	1,117,283	9,402,435	4,758,509	4,467,547	70,681,422
<b>Total (a)</b>	<b>13,023,120</b>	<b>20,170,900</b>	<b>10,214,428</b>	<b>6,217,339</b>	<b>1,309,862</b>	<b>1,117,283</b>	<b>9,402,435</b>	<b>4,758,509</b>	<b>4,467,547</b>	<b>70,681,422</b>
<b>Outflows</b>										
Demand deposits	2,937,193	-	-	-	-	-	-	-	-	2,937,193
Savings deposits	-	6,104,237	-	-	-	-	-	-	-	6,104,237
Time Deposits	-	4,320,292	10,976,447	5,573,228	2,425,467	1,766,749	323,470	183,362	-	25,569,015
Certificates of Deposits	-	72,018	323,805	1,021,108	781,407	147,884	14,008	-	-	2,360,230
Notros	55,763	-	-	-	-	-	-	-	-	55,763
Borrowings from Banks / Repo's	-	8,464,953	3,144,303	2,175,629	33,056	205,794	1,043,893	5,944	-	15,073,571
Deffered Taxation	68,958	-	-	-	-	-	-	-	-	68,958
Interest payable	761,229	-	-	-	-	-	-	-	-	761,229
Other liabilities	1,183,198	-	-	-	-	-	-	-	-	1,183,198
Shareholders Funds	16,568,028	-	-	-	-	-	-	-	-	16,568,028
	21,574,369	18,961,500	14,444,554	8,769,965	3,239,930	2,120,427	1,381,371	189,307	-	70,681,422
<b>Total (b)</b>	<b>21,574,369</b>	<b>18,961,500</b>	<b>14,444,554</b>	<b>8,769,965</b>	<b>3,239,930</b>	<b>2,120,427</b>	<b>1,381,371</b>	<b>189,307</b>	<b>-</b>	<b>70,681,422</b>
Gap=(a)-(b)	(8,551,249)	1,209,400	(4,230,126)	(2,552,626)	(1,930,068)	(1,003,144)	8,021,064	4,569,202	4,467,547	-

**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 fulfillment 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.

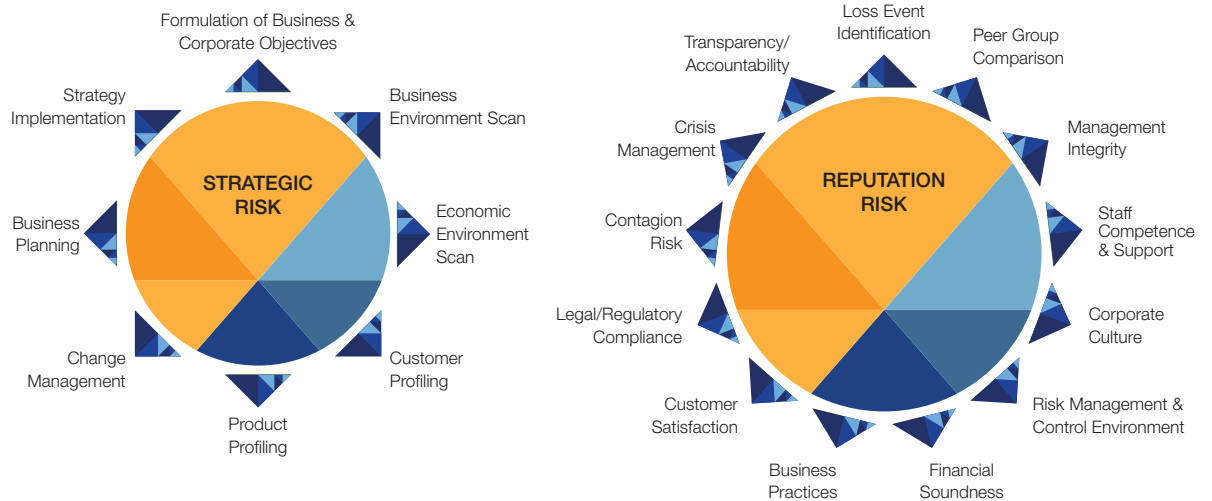
**COMPLIANCE RISK**

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 mechanism 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 is committed to upholding the highest standards of corporate governance, which necessitates a continual upgrading of practices to be consistent with regulatory requirements, as also their qualitative strengthening to conform to international best practices. The Board of the Bank necessarily sets the lead in this, in order that good practices are adopted throughout the organisation and result in a superior corporate governance culture. Financial stability, the protection of depositor interests, the creation of shareholder value, and compliance with laws and regulations are critical components of the corporate governance framework. For this purpose the Board has reviewed the Bank's Code of Corporate Governance, as also policies having a bearing on corporate governance.

The Basel Principles on Corporate Governance set the framework which determines the allocation of authority and responsibilities by which the business affairs of a Bank are carried out by its board of directors and senior management. These principles encompass the manner in which they:

- ▶ Set the Bank's strategy and objectives;
- ▶ Select and oversee key management personnel;
- ▶ Operate the Bank's business on a daily basis;
- ▶ Protect the interest of depositors, meet shareholder obligations and take into account the interests of other stakeholders of the organisation;
- ▶ Align corporate culture, corporate activities and behavior towards ensuring that the Bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- ▶ Establish control functions.

In order that these principles provide continual resonance within the Bank, it has become necessary for the Board of Directors to substantially enhance its oversight process. Further, the instrumentality of adopting the "three lines of defence" for addressing and managing risks as part of the governance framework is proving

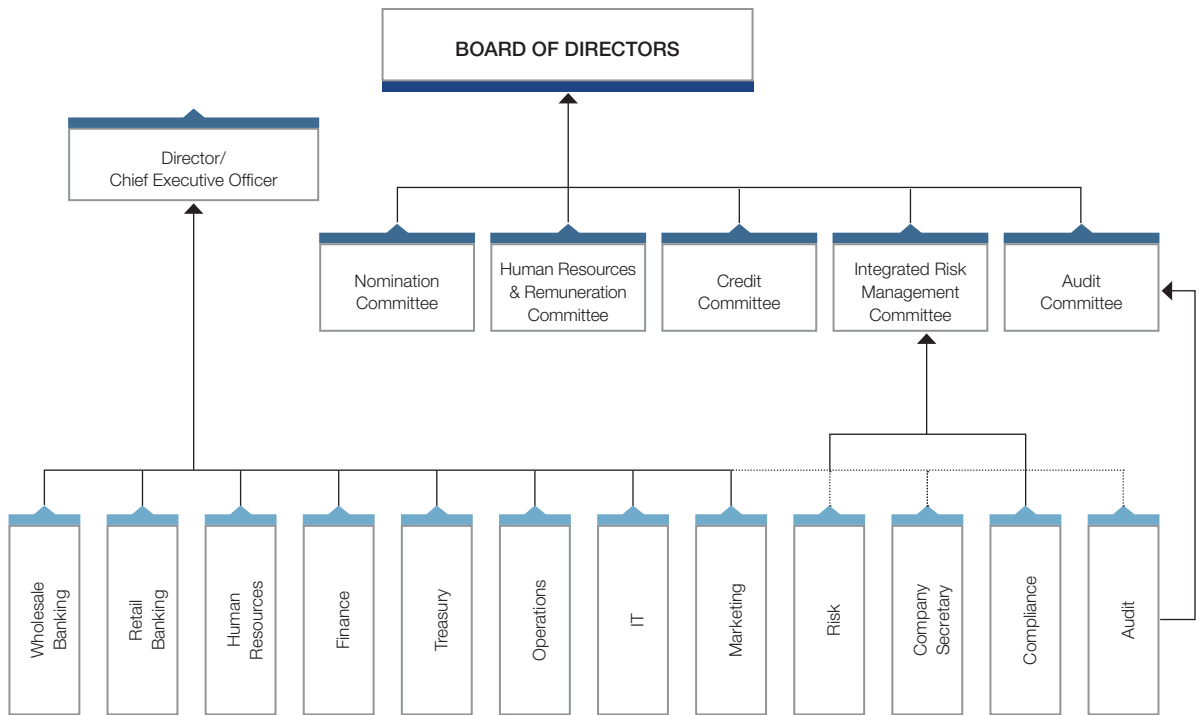
beneficial: the first line of defence is provided by each business; the second line emanates from independent risk management and compliance monitoring within the Bank; and the third line is provided by internal audit. The Board of Directors is continually vigilant that these three lines of defence work actively in the interests of corporate governance.

The creation of a high quality corporate governance culture within the Bank is a process of osmosis wherein large numbers of employees continually search for and adopt superior practices. Continuity in management, the adoption of medium-term goals and success in raising profitability contribute positively towards this aspiration. In this context the Board has put in place a three-year strategic plan with measurable goals.

During the year, the Board of Directors has empowered its sub-committees to be increasingly independent. The Board has also constituted a new Related Party Transactions Review Committee, to ensure compliance with its Related Party Transactions Policy, including compliance with Colombo Stock Exchange Listing Rules. Among existing sub-committees, the Internal Audit Committee has made recommendations on the appointment of the external auditor and has each quarter reviewed the reported financial results of the Bank to ensure their integrity. The Integrated Risk Management Committee has defined the Bank's risk appetite for each of its businesses through a risk management framework encompassing also the internal assessment of capital adequacy, and has extended the framework to cover the subsidiaries of the Bank. The Human Resources and Remuneration Committee has approved the organisation structure of the Bank and has put in place the succession plan for Key Management Personnel. The Nomination Committee has been active, with a large number of employees joining the Bank over the year, and has ensured that the Bank's senior management has been continually upgraded through the induction of the right skills encompassing experience, competence and integrity.

During the year, the Board of Directors has provided support to its sub-committees by encouraging various management committees to work closely with the Board sub-committees. These management committees include, besides the senior leadership team, the Asset and Liability Committee, the Executive Risk Management Committee, the Executive Credit Committee, the IT Steering Committee, the Outsourcing Committee and the Procurement Committee.

Under the direction and oversight of the Board of Directors, the senior management has conducted and managed the Bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the Board.



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

Union Bank of Colombo endorses a performance-based culture, tightly bound within a discipline of compliance, and in conformity with and commitment to operating in an ethical and transparent manner. The Bank has in place a governance structure which fully meets with, and possibly exceeds, regulatory requirements. This governance structure is an integral part of Bank policy, guiding the Board, its sub-committees and the management in the development of its businesses and their relationship with the Bank's customers. International best governance practices are also increasingly guiding the decision-making ethic of the Bank.

The composition of the Board also reflects international experience of running financial services businesses in several jurisdictions, thereby enhancing professional standards

within the Board. The induction of senior management personnel combining experience and domain expertise, to supplement the existing management team, has also raised professional standards within the senior management team. The Board aims to provide a supple organisational structure which assists in implementing the long-term business strategy and vision of the Bank, with a more nimble service delivery which responds faster to the needs of customers. The Board and its sub-committees periodically meet with the senior management, reviews policies, assesses the adequacy and integrity of the Bank's internal control systems, continually seeks to enrich the management information systems, identifies the principal risks confronting the Bank and methods of mitigating them, and strives to comprehend clearly the regulatory environment.

The Board of Directors will aspire to build medium-term shareholder value, whilst redesigning and further

developing the Bank's earlier culture and core values. As its Chairman I confirm that the Bank has been compliant with Direction No 11 of 2007 on Corporate Governance in the manner discussed in this report. The observations in the 'Factual Findings Report' of the External Auditors in respect of compliance with the corporate governance directions issued by the Central Bank of Sri Lanka (CBSL) reveals that it is in line with this report and to the best of my knowledge there are no material violations of the directions.

**P. Jayendra Nayak**  
*Chairman*  
Union Bank of Colombo PLC

## 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 2015 is given below:-

Section	Rule	Level of Compliance
<b>3 (1)</b>	<b><i>The Responsibilities of the Board</i></b>	
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 has developed the 3-year strategic plan for 2016 – 2018. Strategic plan includes measurable goals for the period of 2016-2018
(c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied Board has discussed the risks arising out of new strategies and the ways and means to mitigate them. Further identifying principal risks and implementation of appropriate risk management techniques are performed via the Board appointed Integrated Risk Management Committee (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.
(d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers ,creditors, share-holders and borrowers	Complied Board approved Communication policy is in place which has been reviewed for 2015.
(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 Board Audit Committee (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 Board of Directors has identified and designated the CEO, VPs, AVP Compliance, AVP Internal Audit, Company Secretary and AVP Branch Network as Key Management personnel of the Bank.

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 Articles of the Bank stipulates the authority of Directors and matters specifically reserved for 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 Key Management Personnel 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 Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in by the Board and to Board Sub committees to explain matters relating to their concerns.
	(i) Periodically assess the effectiveness of the Board Directors' own governance practices, including:  (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied Directors' assessments are conducted annually and complied for 2015 Board has a procedure for selection & appointment of Director, CEO and Key Management Personnel.  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 of Directors' own governance practices. Summary of self-evaluations obtained have submitted to the Board for their review and action if deem necessary
	(j) Ensure that the Bank has an appropriate succession plan for key management personnel;	Complied The HRRC and the Board has approved a succession plan for key management personnel.
	(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 Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in by the Board and to Board Sub committees to explain matters relating to their concerns.
	(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 Board Audit Committee (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 2015. Pursuant to recommendations, Messrs Ernst & Young was re-appointed as the Auditors for the financial year 2015 by the shareholders at the Annual General Meeting held on 31 March 2015.

Section	Rule	Level of Compliance
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied Positions of the Chairman and the Director/Chief Executive Officer (CEO) are separated. Further, function and responsibilities of the Chairman and the CEO are properly defined and approved in line with the Direction 3(5) of these 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 four (4) 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 Procedure to include matters is stated in the Code of Corporate Governance and 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.
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 As per Board Attendance schedule all Directors have attended the required number of meetings for 2015
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 who's 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.
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> <ul style="list-style-type: none"> <li>▶ a summary of data and information used by the board in its deliberations;</li> <li>▶ the matters considered by the board;</li> <li>▶ the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</li> <li>▶ the testimonies and confirmations of relevant executives which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</li> <li>▶ the board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and</li> <li>▶ the decisions and board resolutions.</li> </ul>	<p>Complied</p> <p>The Minutes of the meetings include:</p> <p>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 organizations or related parties. If a Director has a conflicts of interest in a matter to be consider by the board, which the board has determined to be material the matter should be dealt with at a board meeting, where independent non executive Directors who have no material interest in the transaction are present. Further, a Director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting</p>	<p>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 not has been counted in the quorum.</p> <p>During the year Board of Directors has complied with 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>

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 2015.
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 Bank has set Internal Capital Adequacy Arrangements with the approval of the Board and the CBSL. These are being implemented to ensure the Bank is capitalised at all times adequately. Reports of such are submitted to the Integrated Risk Management Committee and to the Board.
3 (1) (xvi)	The board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessment	Complied Bank has published the corporate governance report in Annual Report 2015.
3 (1) (xvii)	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 a scheme of self-evaluation of Directors in place and the Company secretary has obtained self-assessment of Directors for the year 2015.
<b>3 (2)</b>	<b><i>Boards 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 13 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 of Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependent child;</p> <p>(e) represents a specific stakeholder of the Bank;</p> <p>(f) If an employee or a Director or a material shareholder in a company organization:</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 112-117.</p>
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied Independent Directors had not appointed alternates during the year 2015.
3 (2) (vi)	Non-executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied Nominations committee has a procedure in place to appoint Non-Executive Directors, who possess skills and experience and new appointments during 2015 done in accordance with the Policy.
3 (2) (vii)	A meeting of the board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are non-executive Directors.	Complied During 2015 all the quorum of meetings had been in line with the Direction.
3 (2) (viii)	The independent non-executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non – Executive Directors, and Independent Non-Executive Directors in the Annual Corporate Governance Report	Complied Please refer pages 131-132.

Section	Rule	Level of Compliance
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 has 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 2015 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 page 132.
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 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.
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 Key management personnel without hindering their ability to discharge functions. Please refer 3.1.(i) g

Section	Rule	Level of Compliance
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 and subcommittee meetings when reviewing policies.
<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 page 114.
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 Ref Pages 114-115. Directors' interests in Contracts with the Bank have been separately disclosed in the Annual report of 2015. Please ref pages 132-133. 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 & 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.
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.

Section	Rule	Level of Compliance
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 key management personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board	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 Ref Pages 99-102, 106.
3 (6) (ii)	<b>The following rules shall apply in relation to the Audit Committee:</b>	
	The chairman of the committee shall be an independent non-executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied The Chairman of Audit Committee Mr. Imtiaz Muhseen is an Independent, Non-Executive, Director who possesses qualifications and related experience.
	(b) All members of the committee shall be non-executive Directors.	Complied All members of the Committee are Non-Executive Directors

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, 2015 at a meeting held with the Auditors in the last quarter of 2015. Representation submitted by the External Auditors stating their independence and the objectivity and effectiveness of the audit processes in accordance with SLAus, applicable 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 from 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 Board Audit Committee 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 SLAuS. The letters of engagement of the External Auditors in respect of the audits for the year 2015 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 Board Audit Committee 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 by the Board Audit Committee.
	(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 a negative impact 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 Board Audit Committee 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 Board Audit Committee for approval. The plan covers the scope and resources requirement relating to the Audit Plan.</p> <p>(ii) The Head of Audit updates the Board Audit Committee 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 Internal Audit is undertaken by the Board Audit Committee and performance appraisal of the Senior Staff are carried out by the Head of Audit and reviewed by the Board Audit Committee.</p> <p>(iv) Senior staff appointments to the Internal Audit Department is done with the prior approval of BAC, however no senior staff appointments were done during 2015.</p> <p>(v) The BAC terms of Reference covers the stipulated requirement. There were no resignations at Senior level during the year.</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 and the BAC has ensured that the internal audit function was independent of the activities it audits and that it was performed with impartiality, proficiency and due professional care.</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, Chief Financial Officer, D/CEO and other corporate heads attended meetings by invitation. Committee has met the external auditors without the executive Directors being present.</p>

Section	Rule	Level of Compliance
	(m) The committee shall have: <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	Complied 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.
	(n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied The BAC met 08 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 confirmed by the BAC at the next regular meeting.
	(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.	Complied Please Refer the Board Audit Committee Report on pages 99-100 and Attendance on page 137.
	(p) The secretary of the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied The Head of Audit, who is secretary of the Committee, records and maintains all minutes of the meetings.
	(q) The committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the external auditor.	Complied 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.
<b>3 (6) (iii)</b>	<b>The following rules shall apply in relation to the Human Resources and Remuneration Committee:</b>	
	(a) The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and key management personnel of the Bank.	Complied A Board approved Remuneration Policy is in place to determine remuneration in relation to Directors, Chief Executive Officer (CEO) and key management personnel of the Bank.
	(b) The committee shall set goals and targets for the Directors, CEO and the key management personnel.	Complied Goals and Targets for Key Management Personnel had been set for the year 2015.
	(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 Key Management personnel in 2015. Their performance will be assessed in January 2016 against the set targets. Revision of remuneration in 2016 will be linked to the 2015 performance of the respective KMP.

Section	Rule	Level of Compliance
	(d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	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 Key Management Personnel.
	(b) The committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities	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 Key Management Personnel' which includes the required criteria and appointments and promotions. All Key management personnel 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 Key Management Personnel' which includes the required criteria and appointments and promotions. All Key management personnel have been appointed with the approval of the committee.  A fit and proper certificate from Central Bank has been obtained for all appointments of Key Management Personnel.
	(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 2015.
	(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.
<b>3 (6) (v)</b>	<b>The following rules shall apply in relation to the Integrated Risk Management Committee:</b>	
	(a) The committee shall consist of at least three non-executive Directors, chief executive officer and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel very closely and make decision on behalf of the Board within the framework of the authority and responsibility assigned to the Committee	Complied A Board approved Terms of Reference for the IRMC is in place.  Committee consists of five non-executive Directors, CEO and Chief Risk Officer. Other key management personnel supervising broad risk categories i. e. Chief Financial Officer, VP – whole sale Banking, VP – Retail VP –IT, VP – Operations, AVP – Audit and Compliance Officer are called by invitation to discuss respective risk areas.

Section	Rule	Level of Compliance
	(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	Complied 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. Bank has also formed a Group Risk Governance structure covering its connected entities.
	(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	Complied The committee reviews the adequacy and effectiveness of all management level committees.
	(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	Complied Committee identifies specific risks through periodical reports submitted to them and gives advice on a need basis to mitigate such risks.
	(e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied Committee meets at least quarterly and at regular frequencies if need arises.
	(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.	Complied The Board approved Disciplinary policy includes provisions and criteria for such situations.
	(g) The committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Complied Risk assessment reports are circulated to Board members within one week from the date of IRMC.
	(h) The committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Complied 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 direct to the Board Risk Management Committee. Compliance function assess the bank's internal controls and approved policies on all areas of business operations.

Section	Rule	Level of Compliance
<b>3 (7)</b>	<b><i>Related Party Transactions</i></b>	
3 (7) (i)	<p>The board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as “ related parties” for the purpose of this direction</p> <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 2015 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 concerned are informed through operational circulars to refrain from granting accommodations with more favorable treatment as defined in the Banking Act Direction no.11 of 2007. Monitoring process has been strengthened by the implementation of on line preventive monitoring system which will have to be strengthened during the year 2016 to ensure that there is no favorable 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 130-131.
	(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 103-104.
	(c) The external auditor's certification on the effectiveness of the internal control mechanism reported by the board of Directors	Please refer page 105.
	(d) Details of Directors, (i) including names, fitness and propriety, (ii) transactions with the Bank and (iii) the total of fees/remuneration paid by the Bank.	Details of the accommodations outstanding are disclosed in pages 114-117, 129, 132-133.
	(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 page 129.
	(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 129.
	(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 certification on this Corporate Governance Report and it does not contain any significant deviations.
	(h) A report setting out details of the compliance with (i) prudential requirements, regulations, laws and (ii) internal controls and (iii) Measures taken to rectify any material non-compliance.	Please refer page 133.
	(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.

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

The members of the Board appointed Audit Committee are:

Mr. Imtiaz Muhseen – Chairman  
Mr. Asoka De Silva  
Mr. Priyantha Fernando  
Mr. Ranvir Dewan  
Mr. Michael J O’Hanlon

Brief Profiles of the members are given in pages 114-116.

The Head of Internal Audit functioned as the Secretary to the Committee for the year ended 31 December 2015. The Director/Chief Executive Officer, Chief Financial Officer, Chief Operating Officer attended the meetings by invitation. Members of Senior Management also attended meetings by invitation, in order to brief the Audit Committee on specific matters. The External Auditors were also met independently to the Management to discuss progress and conclusion of the audit during the year. The Board Audit Committee met eight times during the period under review and attendance of Committee members at each of these meetings is given below.

**ATTENDANCE AT BAC MEETING**

Name	Eligibility	Attendance	Excused
Mr. Imtiaz Muhseen – Chairman	8	8	0
Mr. Asoka De Silva	8	8	0
Mr. Sabry Ghouse*	4	3	1
Mr. Priyantha Fernando*	4	2	2
Mr. Ranvir Dewan	8	8	0
Mr. Michael O’Hanlon	8	8	0

*\*Mr. Priyantha Fernando was appointed to the committee with the resignation of Mr. Sabry Ghouse.*

**TERMS OF REFERENCE**

The Charter of the Audit Committee, which is subject to review and revision periodically by the Board of Directors, clearly defines the Terms of Reference of the Committee. The Committee is responsible to the Board of Directors and reports on its activities regularly. It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit. The committee ensures that its role, composition and responsibilities comply with Best Practices and Corporate Governance Rules as laid down in Section 3 (6) (ii) of the Banking Act Direction No. 11 of 2007.

**FINANCIAL REPORTING**

The BAC reviews the effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.

The BAC supports the Board of Directors in its oversight on the preparation of Financial Statements that evidence a true and fair view on financial position and performance, based on the Bank’s accounting records and in accordance with the stipulated requirements of the Sri Lanka Accounting Standards. In accordance with the mandate, 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.

In relation with finalisation of the Bank and Group financial statements, at its separate meeting with the external auditors the Committee shall ascertain whether there have been any improprieties, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditors wished to discuss with the Committee.

The Committee also discussed the operations and future prospects of the Bank with management regularly and satisfies itself that all relevant matters have been taken into account in the preparation of the financial statements and that the 2015 financial statements are reliable and present a true and fair view of the state of affairs of the Bank.

**INTERNAL CONTROLS**

The Bank is required to comply with section 3(8) (ii) (b) of the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka and assessed the effectiveness of internal control over financial reporting as of 31st December 2015. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The BAC reviews the effectiveness of the Bank’s internal controls through review of the Bank’s internal audit reports. The Committee ensures that appropriate action is taken by the management on the recommendations of the internal auditors to improve the effectiveness of the internal control system of the Bank. The board of directors performs its responsibilities on the basis of the internal control framework, which enables the board to pursue its functions and take necessary measures. The board statement on

the effectiveness of the Bank's internal control mechanism as reviewed by the Committee is published on the pages 103-104.

#### **INTERNAL AUDIT**

The BAC ensures that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality proficiency and due professional care. The Audit Charter authorises and guides the Head of Internal Audit (HIA) in carrying out independent Audit function. The HIA is responsible to the Board Audit Committees' of the Bank and its subsidiaries. The HIA enjoys operational independence in the conduct duties and has the authority to initiate, carry out and report on any action, which she considers necessary. For the performance of her duties, the HIA and audit staff has had unrestricted, unlimited, direct and prompt access to all records of the Bank and subsidiaries, officials or personnel holding any contractual status of the Bank and subsidiaries, and to all the premises of the Bank and subsidiaries. The BAC monitored and reviewed the scope, extent and effectiveness of the activities of the Bank's Internal Audit Department.

During the year, the Committee reviewed the progress of the risk based audits carried out in accordance with the internal audit plan approved by the Committee for the year 2015 and as amended from time to time. During the year the internal audit department has reviewed critical operational processes of the Bank and subsidiaries using the process auditing technique. The process audit focuses on results or business objectives and it determines whether the activities, resources and behaviour that cause them are being managed efficiently and effectively. The Internal Audit Department suggested simplified and efficient business processes where it deemed necessary. In 2015, the Board Audit Committee reviewed audit reports of branches, departments, Information System audits and special investigations of the Bank. Special attention has been focused on preventing fraud, validity information security measures, and assuring compliance with Group policies & procedures and regulatory

and accounting requirements. BAC oversees the internal audit function of the Group through respective Audit Committees. The Bank's Audit Committee will be informed of any significant violation of processes within the subsidiaries which will have an impact to the overall risk of the Group. The Committee shall meet subsidiary Audit Committees when it deemed necessary.

The BAC had necessary interactions with the Head of Internal Audit throughout the year. The BAC advised the corporate management to take precautionary measures on significant audit findings. The Committee reviewed the structure, resources and performance of the Bank's internal audit department at year end.

#### **EXTERNAL AUDIT**

The Committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. A BAC approved policy is in place on Non Audit Services provided by the External Auditors.

The BAC discussed with the Auditors their audit plan, scope and the methodology proposed to be adopted in conducting the audit prior to commencement of the Annual Audit. The Auditors were also provided with the opportunities of meeting the BAC separately, without the presence of Executive Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter, there was no limitation of scope and the Management has fully-provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review management letter with the management's responses.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2016 subject to the approval of shareholders at the next Annual General Meeting.

#### **WHISTLE BLOWING POLICY**

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

The effectiveness of the Committee self-evaluated annually by the Committee members. 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.



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

24th February 2016

## 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.

The present Committee is constituted with Ayomi Aluwihare Gunawardene as Chairperson and P. Jayendra Nayak, Sabry Ghouse, Priyantha Fernando and Gaurav Tehran. The Director/Chief Executive Officer (CEO) who is responsible for the overall management of the Bank, attends and participates in meetings of the Committee 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 approved by the Board of Directors in 2011 (reviewed and amended this year), 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 2015

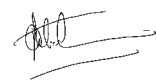
The Committee reviewed and changed several policies relating to human resources and remuneration of the Bank including the remuneration policy. A primary responsibility of the Committee is to assist in establishing a performance and market oriented remuneration policy in relation to directors, and key management personnel. The remuneration policy aims at enabling the Bank to attract, motivate and retain management with required expertise in a competitive environment.

The Committee considered and made recommendations to the Board with regard to the Bank’s revised organisational structure, the remuneration of Key Management Personnel including annual increment and bonuses based on performance and a market adjustment proposal on basic salary. The Committee also established performance objectives and set targets of the Key Management Personnel of the Bank, taking in to consideration the Bank’s strategy.

## MEETINGS

The Committee held 11 meetings during the year 2015.

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.



**Ayomi Aluwihare-Gunawardene**  
Chairperson – Human Resources and Remuneration Committee

24th February 2016

## INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

For the year ended December 2015, the Integrated Risk Management Committee (IRMC) comprised of six members of which five members were Non – Executive Directors.

- ▶ Mr.P D J Fernando – Chairman/ IRMC
- ▶ (Independent Non-Executive Director)
- ▶ Mr.Asoka de Silva
- ▶ (Independent Non-Executive Director)
- ▶ Mr.Ranvir Dewan
- ▶ (Non Independent Non-Executive Director)
- ▶ Mr.Puneet Bhatia
- ▶ (Non Independent Non-Executive Director)
- ▶ Mr.Michael J O'Hanlon
- ▶ (Non Independent Non-Executive Director) Appointed to the IRMC with effect from 22/04/2015
- ▶ Mr.Indrajit Wickramasinghe
- ▶ (Executive Director/CEO)

### CHARTER OF THE COMMITTEE

The Committee as established by the Board of Directors functions within the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks of Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under powers vested in the Monetary Board, in terms of the Banking Act no.30 of 1988. The role and the composition of the committee is in compliance with the provisions of the section 3 (6) (v) of the aforesaid direction.

The charter of the Integrated Risk Management Committee was reviewed by the board of directors in May 2015. The charter details the composition, duties, responsibilities and authority. The detailed functionalities, supportive structures and framework are discussed in detail under "Risk Management" in page 102 of this annual report.

### MEETINGS OF THE COMMITTEE

The committee held six meetings on a need/quarterly basis in the year 2015 and the participation of the committee members are detailed on page 137.

The IRMC assists and supports the Board of Directors in assuring the Risk Management framework is adequate

and complete to perform the oversight function in relation to the broad risk categories of credit, market, liquidity and operational risks. The committee assesses such key risks on a monthly basis by way of a comprehensive set of risk indicators. The committee shares the information pertaining to the statutory, regulatory and fiduciary developments and requirements, with the key management personals while attaining the responsibilities set out by the Board of Directors.

A risk assessment report of the Bank and the Group is submitted to the Board of Directors within a period of one week of each meeting, thereby maintaining sufficient communication with the Board.

### UNDERTAKINGS OF THE COMMITTEE

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

- ▶ Achieving progress in reduction of Non-Performing Assets (NPA) through dedicated and continued monitoring with prioritised attention to the recovery efforts and strengthening the loan origination process to reduce credit risk.
- ▶ Review of the risk indicators presented in Bank's risk matrix to arrive at 'Early Warning Signals' of risks, with emphasis on continuously strengthening and updating the indicators.
- ▶ Taking initiatives to comply with many aspects of Basel II and Basel III while complying with the Liquidity Coverage Ratio (LCR) requirement.
- ▶ Refining the Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate a comprehensive adequacy status as a group, including the Bank's related entities. Moreover, the IRMC ensures that ICAAP is effectively communicated to the Board and that there is internal audit oversight of ICAAP.
- ▶ Introduction of the comprehensive risk appetite statement with measurable parameters and a monitoring mechanism.

- ▶ Refinement of the Internal risk ratings of Bank's clients and expanding the rating modules. This was further supported by the implementation of the new, refined credit evaluation templates in the online Loan Origination System (LOS).
- ▶ Review of the effectiveness of the compliance function, ensuring the status of compliance with the regulations, guidelines, laws and internal controls.
- ▶ Review of Bank's business continuity and disaster recovery plan.
- ▶ Review of the terms of references of Management Committees such as Executive Risk Management Committee, Operational Risk Management Committee, Asset and Liability Management Committee .
- ▶ Review and update the policy documents pertaining to integrated risk management activities of the Bank.

During the year the committee extended its support for the execution of Bank's overall strategy keeping in line with the prudential risk parameters set through an effective framework of Integrated Risk Management.

P.D.J

Mr. P D J Fernando  
*Chairman - Board Integrated Risk Management Committee*

23rd February 2016  
Colombo

**RESPONSIBILITY**

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Union Bank of Colombo PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

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

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

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

**KEY FEATURES OF THE PROCESS  
ADOPTED IN APPLYING IN  
REVIEWING THE DESIGN  
AND EFFECTIVENESS OF THE  
INTERNAL CONTROL SYSTEM  
OVER FINANCIAL REPORTING**

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

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

and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 99-100.

- ▶ In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the period based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee. The Bank is in the process of further strengthening the 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 is also in the process of further strengthening the processes of impairment of Loans and Advances, identification of related parties and financial statement disclosures.

**DIRECTOR'S  
STATEMENT  
ON INTERNAL  
CONTROL OVER  
FINANCIAL  
REPORTING**

- ▶ 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 2015 in connection with the internal control system over financial reporting will be dealt with in the future.

**CONFIRMATION**

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide 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 2015 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 105 of this Annual Report.

By order of the Board,



Imtiaz Muhseen  
*Chairman - Board Audit Committee*



P. Jayendra Nayak  
*Chairman*



Alexis Lovell, MBE  
*Deputy Chairman*



Indrajit Wickramasinghe  
*Chief Executive Officer*



Nirosha Kannangara  
*Company Secretary*

Colombo, Sri Lanka  
24th February 2016



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HMAJ/WDRT/TW

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

### INTRODUCTION

We were engaged by the Board of Directors of Union Bank of Colombo PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2015.

### 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 company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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

### OUR CONCLUSION

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

24th February 2016  
Colombo

## NOMINATION COMMITTEE REPORT

The Nomination Committee (“the Committee”) is comprised of five directors appointed by the board of directors of the Bank. The majority of such directors are Independent Non Executive Directors.

The directors serving on the present Committee during the year are listed below.

- ▶ Ayomi Aluwihare Gunawardene, Chairperson (Independent Non Executive Director)
- ▶ Priyantha Fernando, (Independent Non Executive Director)
- ▶ Sabry Ghouse (Independent Non Executive Director)
- ▶ P. Jayendra Nayak (Non Independent Non Executive Director)
- ▶ Gaurav Trehan (Non Independent Non Executive Director)

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.

### TERMS OF REFERENCE

The Terms of Reference of the Committee, are as set out below:

- (1) To implement a procedure to select/appoint new directors, CEO and Key Management Personnel according to the regulations and directions imposed by the Monetary Board.
- (2) To consider and recommend or not recommend the re-election of current directors, taking into account the performance and contribution made by the directors concerned towards the overall discharge of the Board’s responsibilities.

- (3) To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.
- (4) To ensure that Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and set out in the Statutes.
- (5) To consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

The Nomination Committee Charter was adopted by the Board of Directors on 30th July 2010.

### MEETINGS

The Committee met 4 times during the year 2015.

The main matters deliberated on at such meetings were :

### *With regard to board composition*


- (a) considered and recommended the re-election of four directors who retired in terms of Article 88(i) read together with Article 89 of the Article of Association of the Bank for appointment at the Annual General Meeting.
- (b) evaluated and recommended the appointment of a director to fill a vacancy created by resignation and of two alternate directors and assessed the fitness and propriety of these person to hold the position of director.
- (c) amended the “Procedure for the Selection and Appointment of Directors, CEO and Key Management Personnel”.

### *With regard to the appointment of key management personal*

- (e) recommended the appointment of several key management personnel in accordance with the structure for the management of the affairs of the bank determined by the board including Vice President – Retail Banking and Head of Branch Network, Assistant Vice President and Chief Risk Officer.
- (f) evaluated and recommended the promotions of several existing staff members to key management positions of the Bank.

### *With regard to succession*

- (h) recommended and evaluated the successors to the Board and the key management positions as per the guidelines issued by the Central Bank and the internal policies of the Bank and a succession plan prepared accordingly.



**Ayomi Aluwihare Gunawardene**  
*Chairperson - Nomination Committee*

24th February 2016

<b>GENERAL STANDARD DISCLOSURES</b>			
<b>GRI Indicator</b>	<b>Disclosure Item</b>	<b>Page Number</b>	<b>External Assurance</b>
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Statement from the chairman	16-17	Yes
<b>ORGANIZATIONAL PROFILE</b>			
G4-3	Name of the organisation	Inner Back Cover	Yes
G4-4	Primary Brands, Products and services	24-37	Yes
G4-5	Location of organisation's head quarters	Inner Back Cover	Yes
G4-6	Countries where organisation operates	38	Yes
G4-7	Nature of Ownership and Legal form	Inner Back Cover	Yes
G4-8	Markets served	24-37	Yes
G4-9	Scale of the organisation	26, 51, 139	Yes
G4-10	Employee Profile	50-54	Yes
G4-11	Percentage of employees covered by collective branding agreements	50-54	Yes
G4-12	Organisation's supply chain	54-55	Yes
G4-13	Significant changes during the year	128	Yes
G4-14	Precautionary approach or principle	50	Yes
G4-15	Externally developed charters, principles, or other initiatives to which the organisation subscribe or endorses	9	Yes
G4-16	Membership of associations	55	Yes
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
G4-17	Entities included in the organisation's consolidated financial statement or equivalent documents	128	Yes
G4-18	Process for defining report content	9-11	Yes
G4-19	Material Aspects	9-11	Yes
G4-20	Aspect Boundary within the organisation	9-11	Yes
G4-21	Aspect Boundary outside the organisation	9-11	Yes
G4-22	Effect of any restatements of information provided in previous reports	9-11	Yes
G4-23	Significant changes from previous reporting periods in the scope, aspect boundaries in the report	9-11	Yes
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	List of stakeholder groups engaged by the organisation	12-14	Yes
G4-25	Basis for identification and selection of stakeholders	12-14	Yes
G4-26	Organisation's approach to stakeholder engagement	12-14	Yes
G4-27	Key topics and concerns raised through stakeholder engagement	12-14	Yes
<b>REPORT PROFILE</b>			
G4-28	Reporting period	9-11	Yes
G4-29	Date of most recent previous report	9-11	Yes
G4-30	Reporting cycle	9-11	Yes
G4-31	Contact point for questions regarding the report or its contents	9-11	Yes
G4-32	Compliance with GRI G4 Guidelines, GRI Content index and the external assurance report	9, 107-109	Yes
G4-33	Policy and current practice with regard to seeking External assurance	9-11, 110, 111	Yes
<b>GOVERNANCE</b>			
G4-34	Governance structure of the organisation	80	Yes
<b>ETHICS AND INTEGRITY</b>			
G4-56	Organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	5	Yes

<b>SPECIFIC STANDARD DISCLOSURES</b>			
<b>DMA and Indicators</b>	<b>Disclosure Item</b>	<b>Page Number</b>	<b>External Assurance</b>
<b>CATEGORY : ECONOMIC</b>			
<b>ASPECT</b>	<b>ECONOMIC PERFORMANCE</b>		
G4-EC1	Direct economic value generated and distributed	224	Yes
<b>ASPECT</b>	<b>MARKET PRESENCE</b>		
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	50-54	Yes
<b>ASPECT</b>	<b>PROCUREMENT PRACTICES</b>		
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	55	Yes
<b>CATEGORY : ENVIRONMENT</b>			
<b>ASPECT</b>	<b>ENERGY</b>		
G4-EN6	Reduction of energy consumption	14	Yes
<b>ASPECT</b>	<b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>		
G4-EN32	Percentage of new suppliers that were screened using using environmental criteria.	55	Yes
<b>CATEGORY : SOCIAL - LABOUR PRACTICES</b>			
<b>ASPECT</b>	<b>EMPLOYMENT</b>		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	50-54	Yes
G4-LA2	Benefit provided to full time employees that are not provided to temporary or part time employees, by significant locations of operations.	50-54	Yes
<b>ASPECT</b>	<b>LABOUR /MANAGEMENT RELATIONS</b>		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	50-54	Yes
<b>ASPECT</b>	<b>TRAINING AND EDUCATION</b>		
G4-LA9	Average hours of training per year per employee by gender, and any employee category	54	Yes
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	50-54	Yes
<b>ASPECT</b>	<b>DIVERSITY AND EQUAL OPPORTUNITY</b>		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	50-54	Yes
<b>ASPECT</b>	<b>EQUAL REMUNERATION FOR WOMEN AND MEN</b>		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category , by significant locations of operation	50-54	Yes
<b>ASPECT</b>	<b>LABOUR PRACTICES GOVERNANCE MECHANISMS</b>		
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	55	Yes

<b>SPECIFIC STANDARD DISCLOSURES</b>			
<b>DMA and Indicators</b>	<b>Disclosure Item</b>	<b>Page Number</b>	<b>External Assurance</b>
<b>CATEGORY : SOCIAL - HUMAN RIGHTS</b>			
<b>ASPECT</b>	<b>NON-DISCRIMINATION</b>		
G4-HR3	Total number of incidents of discrimination and corrective actions taken	55	Yes
<b>ASPECT</b>	<b>HUMAN RIGHTS GRIEVANCE MECHANISMS</b>		
G4-HR12	Number of grievances about human rights impact field, addressed and resolved through formal grievance mechanisms	55	Yes
<b>CATEGORY : SOCIAL - SOCIETY</b>			
<b>ASPECT</b>	<b>LOCAL COMMUNITIES</b>		
G4-SO2	Operations with significant actual and potential negative impacts on local communities	55	Yes
<b>ASPECT</b>	<b>COMPLIANCE</b>		
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	55	Yes
<b>CATEGORY : SOCIAL - PRODUCT RESPONSIBILITY</b>			
<b>ASPECT</b>	<b>PRODUCT AND SERVICE LABELLING</b>		
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	55	Yes
G4-PR4	Total number of incidents off non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	55	Yes
<b>ASPECT</b>	<b>MARKETING AND COMMUNICATIONS</b>		
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	55	Yes
<b>ASPECT</b>	<b>CUSTOMER PRIVACY</b>		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	55	Yes
<b>ASPECT</b>	<b>COMPLIANCE</b>		
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	55	Yes



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## INDEPENDENT ASSURANCE REPORT TO UNION BANK OF COLOMBO PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED UNDER THE INTEGRATED ANNUAL REPORT- 2015

### 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 indicators under the annual report- 2015 (“the Report”).

- ▶ Reasonable assurance on the information on financial performance as specified on page 224 of the Report.
- ▶ Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 ‘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 G4

‘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 G4 ‘In accordance’ - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 29th October 2015. 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.
- ▶ 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 2015.
- ▶ Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.
- ▶ 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 GRI-G4- 'In accordance' Core Sustainability Reporting Guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

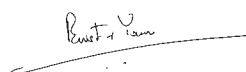
#### LIMITATIONS AND CONSIDERATIONS

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 224 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2015.



Chartered Accountants

24th February 2016  
Colombo

## BOARD OF DIRECTORS



- ▶ 1. P. Jayendra Nayak  
*Chairman / Non Independent Non Executive Director*
- ▶ 2. Alexis Lovell, MBE  
*Deputy Chairman / Non Independent Non Executive Director*
- ▶ 3. Asoka de Silva  
*Senior Director/ Independent Non Executive Director*
- ▶ 4. Indrajit Wickramasinghe  
*Executive Director/ Chief Executive Officer*
- ▶ 5. Sow Lin Chiew  
*Non Independent Non Executive Director*
- ▶ 6. Priyantha Fernando  
*Independent Non Executive Director*
- ▶ 7. Sabry Ghouse  
*Independent Non Executive Director*





- ▶ 8. Imtiaz Muhseen  
*Independent Non Executive Director*
- ▶ 9. Ranvir Dewan  
*Non Independent Non Executive Director*
- ▶ 10. Gaurav Trehan  
*Non Independent Non Executive Director*
- ▶ 11. Puneet Bhatia  
*Non Independent Non Executive Director*
- ▶ 12. Michael J O'Hanlon  
*Non Independent Non Executive Director*
- ▶ 13. Ayomi Aluwihare Gunawardene  
*Independent Non Executive Director*
- ▶ 14. Nirosha Kannangara  
*Company Secretary*



► **P. JAYENDRA NAYAK**

**Chairman/ Non Independent Non Executive Director**

P. Jayendra Nayak has had 25 years experience of working in India's financial sector, encompassing policy, banking and markets.

Between 2010 - 2013 he was the India Country Head for Morgan Stanley, the investment Bank. Earlier between 2000 - 2009 he was Chairman and CEO of Axis Bank, the commercial bank. During this period of close to a decade, Axis Bank grew to becoming India's fourth largest bank by market capitalisation.

Earlier, between 1996 - 1999, he was the Executive Trustee of Unit Trust of India, the asset management institution.

Dr. Nayak's earlier career was as a civil servant, including in the Finance Ministry of the Government of India between 1990 - 1995. This was a period of liberalisation and reform of the Indian economy.

In 2014, Dr. Nayak chaired the Committee on Governance of Bank Boards, constituted by the Reserve Bank of India.

Dr. Nayak has an MA & PhD in Economics from Cambridge University, UK.

► **ALEXIS LOVELL, MBE**

**Deputy Chairman/ Non Independent Non Executive Director**

Alexis Lovell was appointed to the Board in 2007 as a Non-Executive Director and was appointed as the Deputy Chairman in December 2010. He was appointed as the Chairman in May 2012 until November 2014. Subsequent to the strategic investment by TPG (investment held via Culture Financial Holdings Ltd), one of the leading global investment firms, with US \$65 Bn in assets under management, he was appointed

as Deputy Chairman effective from November 2014. He counts over thirty years of experience in Finance and Investment Banking. Mr. Lovell is a Chartered Management Accountant, UK and holds a Post Graduate Degree in Business Administration. He was awarded the MBE (Most Distinguished Order of the British Empire) by Her Majesty the Queen of England for services to Investment Banking.

► **ASOKA DE SILVA**

**Senior Director/ Independent Non Executive Director**

Asoka de Silva was appointed to the Board as an Independent Non Executive Director in 2008. He served as the Deputy Chairman of the Board during the period of December 2008 to December 2010 and again during May 2012 to November 2014 and serves as the Senior Director since January 2009. He has worked in the banking industry for over 35 years and was the Chief Executive Officer and General Manager of People's Bank, Sri Lanka. He holds a Bachelor's Degree with Honors from the University of Ceylon, and is a Fellow of the Certified Institute of Professional Management (FCPM), Sri Lanka. Mr. de Silva, who was awarded a prestigious Honorary Fellowship from the Institute of Bankers, Sri Lanka, in recognition of his contribution and leadership provided in restructuring and strengthening the People's Bank (2nd largest state-owned commercial bank), also holds a Management Development Certificate awarded by the Post Graduate Institute of Management, University of Sri Jayewardenepura, as well as, Project Analysis and Project Management Certificates awarded by the Arthur D. Little School of Management (Massachusetts-USA).

A former Director of CRIB (Credit Information Bureau of Sri Lanka), People's Leasing Company PLC,

Peoples Travels (Pvt) Ltd, People's Merchant Bank PLC and he was also a member of the Governing Board of Institute of Bankers of Sri Lanka. He was also a Director of Sarvodaya Economic Enterprise Development (Guarantee) Ltd. Formerly, a Vice Chairman of Sri Lanka Banks' Association (Guarantee) Ltd, as well as Deputy Chairman of Lanka Financial Services Bureau Ltd. Mr. de Silva was also a Committee Member of the Financial Sector Cluster of the National Council for Economic Development, National Payment Council and Steering Committee of the financial market program for private sector development during his tenure as CEO/GM in the People's Bank. Previously, a governing council member of the University of Peradeniya, and presently a member of the Faculty Board (Faculty of Management and Commerce) of the University of Sri Jayewardenepura and also a council member of the University of Ruhuna Matara. Mr. de Silva is an Alumni of the Harvard Business School (AMP 163), USA.

► **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 25 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 UB 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.

► **PRIYANTHA FERNANDO**

**Independent Non Executive Director**  
Priyantha Fernando has more than 35 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 in 2010-2011 in charge of the Financial System Stability and the Corporate Service clusters. Mr. Fernando has extensive experience and expertise in the fields of Banking and Financial Sector regulation, Information Technology, National Accounting and Statistics, Fund Management, Risk Management and Restructuring, Recovery and stabilisation of financially distressed companies. At the Central Bank he was the Chairman of the Financial Stability Committee, Member of the Monetary Policy Committee, Member of the Risk Management Committee and the Chairman of the National Payment Council.

He was an Ex-Officio Board Member in several regulatory 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 Employers Trust Fund,

Lanka Clear (Pvt) Ltd and Lanka Financial Services Bureau. During his career he has initiated and spearheaded several key projects of national importance, especially in the area of the advancement of the national payments and settlement system.

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

Presently, Mr. Fernando holds directorships in Commercial Leasing and Finance PLC, Taprobane Holdings PLC, Ceylon Leather Products PLC, Thomas Cook Travels Sri Lanka Pvt Ltd., Golden Key Credit Card Company Limited and Imperial Institute of Higher Education.

► **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 for his contribution to the community 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.

► **IMTIAZ MUHSEEN**

**Independent Non Executive Director**  
Imtiaz Muhseen was appointed to the Board as an Independent Non Executive Director in February 2013. He is a Chartered Management Accountant and has over 26 years of experience in Finance and Management, both locally and internationally, with specialised experience in General Management, Change Management, Banking and Finance. He was previously employed

## PROFILES OF THE BOARD OF DIRECTORS

at Ceylon Tobacco Company and British American Tobacco, UK.

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

### ► RANVIR DEWAN

#### Non Independent Non Executive Director

Ranvir Dewan joined TPG Capital in July 2006 and is based in Singapore. He is currently 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.

### ► GAURAV TREHAN

#### Non Independent Non Executive Director

Gaurav Trehan is a Managing Director of TPG. Mr. Trehan is 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. He serves on the Boards of Directors of Manipal Health Enterprises Pvt. Ltd, Shriram Properties, Shriram Automall India, Shriram General Insurance and Shriram Life Insurance. 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 Bachelor of Science in Mathematics & Applied Science and Economics from the University of California, Los Angeles.

### ► 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 on the boards of Roosevelt Management Company, LLC, an asset manager, and 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.

Mr. O' Hanlon holds an MBA in Finance and Accounting from the State University of New York at Albany, and a BS in Business

Administration from The College of St. Rose.

Accountant and an MBA from the Indian Institute of Management, Ahmedabad.

► **AYOMI ALUWIHARE  
GUNAWARDENE**

**Independent Non Executive Director**

Ayomi Aluwihare Gunawardene is a partner of the law firm F J & G De Saram. She has over twenty years of experience in advising on a number of aspects of Corporate/ Commercial Law. Banking and Finance is a focus practice area.

► **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.

► **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

LEADERSHIP  
TEAM



▶ 1. Indrajit Wickramasinghe  
Director/Chief Executive Officer

▶ 2. Wije Dambawinne  
Vice President/Head of Treasury

▶ 3. Hiranthi de Silva  
Vice President-Wholesale Banking

▶ 4. Ravi Divulwewa  
Vice President-Credit

▶ 5. S. Sri Ganendran  
Vice President-Operations



▶ 1. Ravi Jayasekera  
Vice President-Human Resources

▶ 2. Chaya Jayawardena  
Vice President-Retail Banking

▶ 3. Rajeev Munasinghe  
Vice President-Information Technology

▶ 4. Malinda Samaratinga  
Chief Financial Officer

▶ 5. Suhen Vanigasooriya  
Chief Risk Officer



ASSISTANT  
VICE  
PRESIDENTS



- ▶ 1. Tony Candappa  
Assistant Vice President - Treasury
- ▶ 2. Rushira de Silva  
Assistant Vice President/Corporate  
Banking Team Head
- ▶ 3. Thishani Dissanayake  
Assistant Vice President - Marketing

- ▶ 4. Manisha Fernando  
Assistant Vice President - Retail  
Liability Products & Alternate Channels
- ▶ 5. Chaya Gunarathne  
Compliance Officer
- ▶ 6. Mahendra Illangasinghe  
Assistant Vice President/Head of  
Branch Network



- ▶ 1. Charitha Jayawickrama  
Assistant Vice President -  
Group Internal Audit
- ▶ 2. Nirosha Kannangara  
Assistant Vice President /Company  
Secretary

- ▶ 3. Lasantha Mathupala  
Assistant Vice President - IT
- ▶ 4. Indika Mendis  
Assistant Vice President - Treasury
- ▶ 5. Kusal Perera  
Assistant Vice President - Recoveries

- ▶ 6. Thiroshani Ratnayake  
Assistant Vice President - Human  
Resources



**CHIEF  
MANAGERS**



Nalin Ahangama  
*Chief Manager - Trade & Treasury  
Operations*



Naveendran Anthonypillai  
*Chief Manager/ Zonal Head, Zone I*



Mahendra Dahanayake  
*Chief Manager - Corporate Banking*



Ashan De Silva  
*Chief Manager - Corporate Banking*



Pasindu Dharmasiri  
*Chief Manager/ Head of Cash  
Management*



Inoka Dias  
*Chief Manager - Organisational  
Development*



Chamara Gomis  
*Chief Manager - Retail Assets & Cards*



Halantha Hewasiliyange  
*Chief Manager - Operational  
Excellence & Business Continuity  
Management*



Jeevan Jayawardana  
*Chief Manager - Loan Review  
Management*



Malinda Perera  
*Chief Manager/ Head of  
Retail Liability Sales*



Isuru Pethiyagoda  
*Chief Manager - Primary Dealer Unit*



Shiran Punchihewa  
*Chief Manager - Business IT*

CHIEF  
MANAGERS



Asanga Tennakoon  
Chief Manager - Corporate Banking  
Team Head



Sameera Wijegunawardena  
Chief Manager - SME



Ranjan Asirvatham  
Senior Manager - Pawning



Deepal Edirisinghe  
Senior Manager - Administration &  
Premises



Minoli Fernando  
Senior Manager - Finance

SENIOR  
MANAGERS



Nipuna Ganegoda  
Senior Manager/Head of Elite Circle



Thangavelu Gobinath  
Senior Manager - Institutional Clients



Janaka Iroshan  
Senior Manager - Electronic Banking



Minesh Jayasekera  
Senior Manager - Remittances &  
Non Residents Products



Jayanthi Jayasuriya  
Senior Manager - Nugegoda Branch



Kumari Jayawardena  
Senior Manager - Horana Branch

**SENIOR  
MANAGERS**



Jayanath Kariyakarawana  
*Senior Manager - Credit Operations*



Irani Karunanayake  
*Senior Manager - Legal*



Kathirgamathamby  
Nishaaharan  
*Senior Manager/ Zonel Head, Zone IV*



Saman Kottawatta  
*Senior Manager/ Zonel Head, Zone III*



Deepal Liyanage  
*Senior Manager - SME*



Sandamali Munasinghe  
*Senior Manager - Legal*



Sailajah Nadarajah  
*Senior Manager - Treasury*



Ayesha Naotunna  
*Senior Manager - Finance*



Sanjeewa Pandithratne  
*Senior Manager - Factoring*



Rohan Peiris  
*Senior Manager - Branch Operations*



Chandani Perera  
*Senior Manager - Process Control*



Mangala Perera  
*Senior Manager - IT Core Banking*

SENIOR  
MANAGERS



Nirosha Perera  
Senior Manager - Internal Audit



Ruchira Perera  
Senior Relationship Manager -  
Corporate Banking



Dulin Rajapakse  
Senior Manager - IT



Anuruddha Ranasinghe  
Senior Manager - Zone II



Asanka Ranasinghe  
Senior Manager/ Zonal Head, Zone II



Damith Sumathirathne  
Senior Manager - Retail Assets Sales



Gihan Samarasinghe  
Senior Manager - Bancassurance



Nilmini Weerasekera  
Senior Relationship Manager -  
Corporate Banking



Dhananjeyan Wijendra  
Senior Manager - Retail Assets Centre




Ramani Wjeratne  
Senior Manager - Wattala Branch

Not pictured: Chris De Alwis - Senior Manager Marketing



**WE ARE GEARED  
FOR EXPANSION**



We have moved ahead  
significantly and the years  
ahead hold much promise in  
what we can offer our valued  
stakeholders



## Financial Reports

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### FINANCIAL CALENDAR 2015 AND PROPOSED FINANCIAL CALENDAR 2016

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

	2015 Submitted on	2016 to be submitted on or before
For the 3 months ended 31 March, (unaudited)	22 April 2015	15 May 2016
For the 3 and 6 months ended 30 June, (unaudited)	22 July 2015	15 August 2016
For the 3 and 9 months ended 30 September, (unaudited)	21 October 2015	15 November 2016
For the 3 months and year ended 31 December, (unaudited)	24 February 2016	28 February 2017

The year 2015, was a transformational year for the Bank. Several significant changes took place moving the Bank to it's next phase. New strategies were implemented including introducing new financial products, branch expansions, installation of new ATMs around Colombo and suburbs and staffing with the investment made by Culture Financials Holding Limited, a company registered in Cayman Islands.

With the above mentioned development the Board of Directors is presenting the Annual Report on the affairs of the Bank including the Audited Financial Statements of the Bank including the Consolidated Financial Statement of the Group for the year ended 31 December 2015 in compliance with Companies Act No. 7 of 2007 and Listing Rules of the Colombo Stock Exchange.

This Report was approved by the Board of Directors at the Board Meeting held on 24 February 2016.

#### LEGAL STATUS OF THE COMPANY

Union Bank of Colombo PLC was incorporated on 02 February 1995 as a Limited Liability Company. It was registered as Licensed Commercial Bank under the Banking Act No. 30 of 1988 and commenced banking business on 16 June 1995. The Bank was re-registered as required under the provisions of the Companies Act No.7 of 2007 on 23 September 2008. The Shares of the Bank were listed on

the Main Board of the Colombo Stock Exchange with effect from 29 March 2011. As a result the name of the Bank was changed from Union Bank of Colombo Limited to Union Bank of Colombo PLC.

#### PRINCIPAL ACTIVITIES AND THE NATURE OF THE BUSINESS OF THE BANK AND ITS SUBSIDIARIES

##### The Nature of the Business of the Bank

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

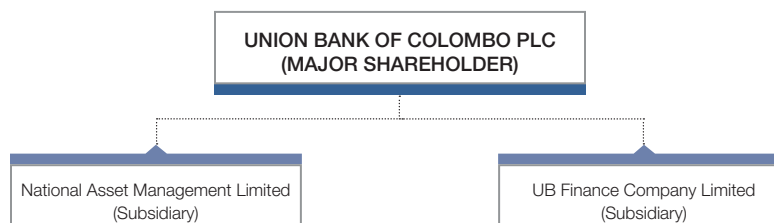
##### THE NATURE OF THE BUSINESS OF NATIONAL ASSET MANAGEMENT LIMITED (NAMAL), A SUBSIDIARY OF THE BANK

National Asset Management Limited (NAMAL) is the pioneer unit trust management company in Sri Lanka and launched National Equity Fund, the first unit trust in Sri Lanka in 1991. NAMAL manages eight unit trusts and private portfolios for institutional investors and individual clients.

##### THE NATURE OF THE BUSINESS OF UB FINANCE COMPANY LIMITED (UBF), A SUBSIDIARY OF THE BANK

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.

#### THE BANK AND THE SUBSIDIARIES



	<b>National Asset Management Company Limited (NAMAL)</b>	<b>UB Finance Company Limited (UBF)</b>
Legal status and Registered office	A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007.	A company formed as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007.
	Registered office and principal place of business at No. 64, Galle Road, Colombo 03, Sri Lanka.	Registered office and principal place of business at No. 10, Daisy Villa Avenue, Colombo 04, Sri Lanka.

	<b>National Asset Management Company Limited (NAMAL)</b>	<b>UB Finance Company Limited (UBF)</b>
Shareholding	Union Bank of Colombo PLC holds 51% of the share capital of the Company. Balance shareholding of the Company is held by DFCC Bank and Ennid Capital (Pvt) Ltd.	Union Bank of Colombo PLC holds 66.17% of the share capital of the Company. Further, the Bank holds 75.61% out of the total voting shares of the Company and the balance shares were held by 806 other shareholders.
Board of Directors	Mr. Alexis Indrajit Lovell Chairman Mr. Suren Madanayake Mr. Indrajit Wickramasinghe Mr. Malinda Samaratinga Mr. Harold Avancka Herat Ms. Khoo Siew Bee Mr. Indigahawela Janaka Palitha Gamage Mr. Tyrone Wilfred de Silva Mr. Wijenanda Punchi Banda Dambawinne	The Board of UB Finance Company Limited were reconstituted with the following members; Mr. Alexis Indrajit Lovell - Chairman Mr. Ananda Atukorala - Deputy Chairman Mr. Davis Golding (Mr. Rienzie Fernando - Alternate Director) Mr. Malinda Samaratinga Mr. Upali Wijeyesekera Mr. Indrajit Wickramasinghe Mr. Chandrakumar Ramachandra Mr. Ranvir Dewan Mr. Ransith Karunaratne – Chief Executive Officer
Directors and related party Shareholding in the Company as at 31 December 2015.	Mr. Alexis Indrajit Lovell, Chairman, Mr. Indrajit Wickramasinghe, Mr. Malinda Samaratinga and Mr. Wijenanda Punchi Banda Dambawinne were appointed to the Company by the Bank.	Mr. Alexis Indrajit Lovell, Chairman, Mr. Indrajit Wickramasinghe, Mr. Malinda Samaratinga and Mr. Ranvir Dewan were appointed to the Company by the Bank.  Mr. Davis Golding represents Shorecap II Limited and the said Company holds 275,000,000 Voting Shares in the Company.  Mr. Kenneth Kusinath Upali Wijeyesekera and related parties hold 690,770 Non Voting Shares with 57 Voting Shares in the Company.  Mr. Ananda Atukorala holds 10,010 Voting Shares in the Company.

The aggregate value of remuneration paid by the Bank to its key management personnel including directors and the aggregate values of the transactions of the Bank with its KMP's and their close relation as at 31 December 2015, are illustrated below:

<b>Key Management Personnel and Directors</b>	<b>2015 Rs.</b>	<b>As a % of Bank's regulatory Capital</b>
Remuneration and other employment benefits	173,066,237	
Directors Fees	7,309,522	
Loans and Receivables	85,495,806	0.6%
Due to other customers - Deposits	18,913,320	

Net accommodation granted and the transaction with subsidiaries are as follows:

<b>Transaction with Subsidiaries</b>		
Loans and Receivables	540,615,241	3.6%
Due to other customers - Deposits	9,580,849	
Repurchased agreements	248,018,345	

## CHANGES TO THE GROUP STRUCTURE

The Board of Directors of the Bank made the following appointments to its subsidiaries.

### UB FINANCE COMPANY LIMITED

Mr. Ranvir Dewan was appointed to the Board of UB Finance Company Limited with effect from 02 November 2015.

### NATIONAL ASSET MANAGEMENT LIMITED (NAMAL)

Mr. Wijenanda Punchi Banda Dambawinne was appointed to the Board of NAMAL with effect from 6 November 2015 in place of Mr. Ajith Wijeyesekera.

### REVIEW OF BUSINESS

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

### BRANCH NET WORK

As at 31 December 2015, the Bank had 64 branches.

### VISION AND MISSION

Vision and Mission of the Bank are given in page 5 of this Annual Report.

### FUTURE GOALS AND EXPANSIONS

CEO has given a review on page 18 of this Annual Report.

### FINANCIAL REPORTING AND RESPONSIBILITY FOR THE ACCOUNTS

The Directors are satisfied that the financial statements, presented from pages 139 to 208 give a true and fair view of the state of affairs of the Bank as at 31 December 2015 and the Profit and Loss Account for the year ended 31 December 2015. The Directors further declare that the following were adhered to in preparation of financial statements giving a balanced and understandable assessment of the Bank.

- ▶ The Company has not been engaged in any activity which contravenes law and regulations;

- ▶ The Directors have declared all their material interests refer page 132.
- ▶ The Company has made every endeavor to ensure equitable treatment of shareholders.
- ▶ The business is a going concern
- ▶ A review was conducted covering financial, operational and compliance controls and risk management, that obtained reasonable assurance of their effectiveness and successful adherence therewith.

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

The Directors also confirm that the financial statements of the Bank have been prepared in compliance with the Companies Act No. 07 of 2007 and as per the requirements of Colombo Stock Exchange, comply with the Sri Lanka Accounting standards and include Group and Bank results separately with regard to the subsidiaries of the Bank. The Directors have ensured that the Bank has maintained proper books of accounts and records. The Directors have taken reasonable measures to safeguard the assets of the Bank and to establish appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

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

The Gross Income of the Bank and the Group was Rs. 5,019,258,311 and Rs. 6,055,729,325 respectively.

Profit before taxation, VAT and NBT on financial services for the year ended 31.12.2015 for the Bank was

Rs. 328,136,811 and Rs. 428,463,908 for the Group.

Retained profit for the year ended 31.12.2015 for the Bank was Rs. 467,692,146 and the Group retained loss for the year ended 31.12.2015 was Rs. 91,502,391 respectively.

Property, plant and equipment, leasehold improvement and intangible assets addition during the year amounted to Rs. 667,399,734 for Bank and Rs. 721,672,971 for the Group.

### AUDITORS REPORT

Messrs. Ernst & Young Chartered Accountants, our Auditors, have carried out the Audit of the Financial Statements for the financial year ended 31 December 2015 are given on pages 139 to 208 of this Annual Report.

### SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Bank in preparation of the Financial Statements are given on pages 144 to 159 of this Annual Report.

### DONATIONS

The donations given by the Bank during the year 2015 are in total Rs. 222,500.

### PAYMENTS MADE TO DIRECTORS

The Directors fees and Remunerations made to the Board of Directors are disclosed in page 183 of this Annual Report.

### EMPLOYEE SHARE OPTION PLAN

With the approval of the shareholders, the Bank formulated an Employee Share Option Plan for key employees and directors of the Bank. The scheme was set up with the objective of providing key executives in employment with and directors of the Bank or its subsidiaries with an appropriate incentive to encourage them to continue in employment of and to provide services to the Bank or its subsidiaries and to improve its growth, profitability and financial success.

Options entitle a holder to subscribe to and purchase shares in the Bank. The total number of shares that may be issued by the Bank if all of the Options are granted, is 45,565,382 amounting to 4.17% of the total issued shares of the Bank.

Options may be granted by the Bank under the scheme until 16 June 2025 and will be granted to employees or directors who are eligible in terms of the scheme.

The details of the options offered to employees under the ESOP as at 31 December 2015 are as follows,  
No of options granted: 12,123,698  
No of options remaining: 12,123,698

Further Board of Directors confirm that the Bank or any of its subsidiaries have not, directly or indirectly provided funds for the ESOS.

#### POST BALANCE SHEET EVENTS

##### Dividend

The Board of Directors resolved at the Board meeting held on 24 February

2016, to pay a final dividend of Rs. 0.04 per share on 1,091,406,249 shares of the Bank amounting to Rupees Forty Three Million Six Hundred and Fifty Six Thousand Two Hundred and Fifty (Rs. 43,656,250/-) for the year ended 31 December 2015. The dividend payout ratio is 23%.

The Board of Directors ensured that the Company would meet the requirement of the Solvency Test in terms of the section 56(3) of the Companies Act No. 7 of 2007, immediately after the payment of said dividend.

#### SHAREHOLDER REGISTER

As at 31 December 2015, the total number of shares issued by the Bank was 1,091,406,249 including 33,553 shareholders. The 20 largest shareholders list is given on page 63 of this Annual Report.

#### DIRECTORS & OFFICERS LIABILITY POLICY

The Directors and Officers Liability insurance policy was renewed for a further period of 15 months from 29 September 2015 until 31 December

2016 at a premium of \$ 34,396.97 for a limit of liability of \$ 10 Mn. The policy was renewed for 15 months in order to align the new renewal date as 1 January 2017. This Directors and Officers Liability policy was obtained, based on the global policy of the Culture Financial Holdings Limited, the major shareholder of the Bank, from AIG - Dubai, fronted by AIA Insurance Lanka Ltd.

The Directors and Officers liability insurance provides indemnity for Directors and officers against the Legal Liabilities imposed on them as a consequence of wrongful decisions made in their capacity. The policy also extends its coverage to the Directors and Officers of the subsidiaries of Union Bank of Colombo PLC.

#### DIRECTORATES AS AT 31 DECEMBER 2015

Name of the Director	Position/Status	Alternate Director	Date of appointment	Age
Pangal Jayendra Nayak	Chairman – Non Independent Non Executive Director	None	27/10/2014	68
Alexis Indrajit Lovell	Deputy Chairman – Non Independent Non Executive Director	None	28/09/2007	63
Bodahandi Asoka Keerthi de Silva	Senior Director / Independent Non Executive Director	None	30/05/2008	67
Indrajit Asela Wickramasinghe	Executive Director/Chief Executive Officer	None	19/11/2014	48
Priyantha Damian Joseph Fernando	Independent Non Executive Director	None	02/11/2011	64
Mohamed Hisham Sabry Ghouse	Independent Non Executive Director	None	30/08/2012	53
Hussain Imtiaz Muhseen	Independent Non Executive Director	None	19/02/2013	61
Ranvir Dewan	Non Independent Non Executive Director	None	29/09/2014	62
Gaurav Trehan	Non Independent Non Executive Director	None	29/09/2014	40
Puneet Bhatia	Non Independent Non Executive Director	None	27/10/2014	49

Name of the Director	Position/Status	Alternate Director	Date of appointment	Age
Michael J O' Hanlon	Non Independent Non Executive Director	Sumedh Jog (35 years old)	27/10/2014 and Alternate Director was appointed on 13/03/2015.	60
Ayomi Aluwihare Gunawardene	Independent Non Executive Independent Director	None	19/11/2014	48
Sow Lin Chiew	Non Independent Non Executive Director	Yoke Sun Woon (52 years old)	20/01/2015 and Alternate Director was appointed on 20/01/2015.	56

#### THE NATURE OF DIRECTORATES AS AT 31 DECEMBER 2015

P Jayendra Nayak, Chairman of the Board, Mr. Alexis Lovell, Deputy Chairman, Ms. Sow Lin Chiew, Mr. Ranvir Dewan, Mr. Gaurav Trehan, Mr. Puneet Bhatia and Mr. Michael J O' Hanlon were the Non Independent Non Executive Directors of the Board. Mr. Asoka de Silva is the Senior Director of the Bank. Mr. Priyantha Fernando, Mr. Sabry Ghose, Mr. Imtiaz Muhseen and Ms. Ayomi Aluwihare Gunawardene were the Independent Non-Executive Directors of the Board. Mr. Indrajit Wickramasinghe serves as the Executive Director of the Board and is also the Chief Executive Officer of the Bank. Ms. Yoke Sun Woon and Mr. Sumedh Jog serve as the Alternate Directors to Ms. Sow Lin Chiew and Mr. Michael J O' Hanlon respectively.

#### NEW APPOINTMENTS AND RESIGNATION OF DIRECTORS

Mr. Kin Leong Chong, the Director who represented Vista Knowledge Pte Ltd, the second major shareholder of the Bank ceased to be a Director with effect from 20 January 2015. Ms. Sow Lin Chiew the alternate director to Mr. Kin Leong Chong was appointed as the Director to the Board and Ms. Yoke Sun Woon as her alternate on 20 January 2015.

Mr. Sumedh Jog was appointed as an Alternate Director to Mr. Michael J O' Hanlon on 19 February 2015 for a period of 2 years from the date of approval granted by the Central Bank of Sri Lanka.

#### RE-APPOINTMENTS

In terms of Article 88(i) read together with Article 89 of the Articles of Association of the Bank Mr. Priyantha Fernando, Mr. Gaurav Trehan, Mr. Ranvir Dewan, Mr. Puneet Bhatia and Dr. P J Nayak retire by rotation at the forthcoming Annual General Meeting and being eligible are recommended by the Directors for re-election in terms of Article 89 of the Articles of Association of the Bank.

#### APPRAISAL OF BOARD PERFORMANCE

A scheme of Self Assessment for the Board of Directors was approved by the Nominations Committee and the Board in 2010. Two questionnaires were approved enabling the directors to self-evaluate the Board as a whole and the performance of the fellow Non Executive Directors. The evaluation was made for year ended 2015 with the participation of all directors presently serving on the Board including the Alternate Directors. The Chairman of the Board tabled the brief summaries of the results of the questionnaire filled independently by all the directors to the Board.

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

#### REGISTERS OF DIRECTORS AND SECRETARIES

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

#### COMMUNICATION

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

#### DIRECTORS' INTEREST IN CONTRACTS

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

Mr. Michael J O' Hanlon declared that he has a relevant interest in Union Bank of Colombo PLC as he holds 1,588,324 ordinary voting shares through Culture Financial Holding Limited, the major shareholder of the Bank.

The Directors of the Bank have no direct or indirect interest in any contract or proposed contract of the Bank other than those disclosed herein and in page 129 on related party transactions.

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

#### ANNUAL GENERAL MEETINGS

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

#### COMPLIANCE WITH RULES & REGULATIONS INCLUDING CORPORATE GOVERNANCE PRACTICES

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

The Board has delegated its business operations to the Key Management Personnel led by the Chief Executive Officer and the business operations are monitored by the Board. The Board has formed several Board Committees to provide oversight to areas such as Credit, Risk Management, Audit, Human Resources and Nominations. The Committee members liaise with the Key Management Personnel in their day-to-day activities whenever necessary to ensure the safety and soundness of the Bank.

The Board of Directors has always taken decisions in accordance with the prevailing laws and regulations of the Country and specifically imposed by the regulatory bodies. The Board of Directors confirms that the factual findings of the Auditors issued under Sri Lanka related Services Practice statement 4750 has been incorporated in the Annual Corporate Governance Report. Further, the Board of Directors confirms that there are no financial, businesses, family, or other material/relevant relationships between the Chairman CEO and among Directors.

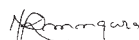
For and on behalf of the Board of Directors,



**Dr. P Jayendra Nayak**  
*Chairman*



**Indrajit Wickramasinghe**  
*Chief Executive Officer*



**Nirosha Kannangara**  
*Company Secretary*

**BOARD APPOINTED COMMITTEES**

The following Board Committees were constituted in compliance with the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka and revised Listing Rules of Colombo Stock Exchange. The composition of the Committees as at 31 December 2015 were as follows;

Name of Committee	Name of Committee Members
Audit Committee	Imtiaz Muhseen - Chairman Asoka de Silva Michael J O' Hanlon Ranvir Dewan Priyantha Fernando ( <i>appointed to the BAC w.e.f. from 01 July 2015</i> )  <i>* Sabry Ghouse was ceased to be a member w.e.f. 01 July 2015</i>
Human Resources and Remuneration Committee	Ayomi Aluwihare Gunawardene - Chairperson P. Jayendra Nayak Priyantha Fernando Sabry Ghouse Gaurav Trehan
Nomination Committee	Ayomi Aluwihare Gunawardene - Chairperson P. Jayendra Nayak Priyantha Fernando Sabry Ghouse Gaurav Trehan
Credit Committee	P. Jayendra Nayak - Chairman Alexis Lovell Sabry Ghouse Indrajit Wickramasinghe  <i>* Asoka de Silva was ceased to be a member w.e.f. 01 July 2015</i>
Integrated Risk Management Committee	Priyantha Fernando - Chairman Ranvir Dewan Puneet Bhatia Asoka de Silva Michael J. O' Hanlon ( <i>appointed to the IRMC w.e.f. 22 April 2015</i> ) Indrajit Wickramasinghe
Related Party Transactions Review Committee  ( <i>The Committee was formed on 30 September 2015 as per the Listing Rules of Colombo Stock Exchange</i> )	Ayomi Aluwihare Gunawardene - Chairperson Asoka de Silva Sabry Ghouse Indrajit Wickramasinghe

## OTHER DIRECTORSHIPS HELD BY THE BOARD

Set out below were the directorships held by the Directors in other institutions as at 31 December 2015.

Name of Director	Other Directorships Held
P Jayendra Nayak	None
Alexis Lovell	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ Associated Electrical Corporation Ltd</li> <li>▶ National Asset Management Ltd</li> <li>▶ UB Finance Company Limited</li> <li>▶ Lake Leisure Holdings (Pvt) Ltd</li> <li>▶ Real Investment Holdings Pte Ltd</li> <li>▶ Think Cube Systems (Pvt) Ltd</li> <li>▶ Think Cube Limited</li> </ul> <p><b>Principal</b></p> <ul style="list-style-type: none"> <li>▶ JI Capital Limited</li> </ul>
Asoka de Silva	None
Priyantha Fernando	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ Commercial Leasing &amp; Finance PLC</li> <li>▶ Taprobane Holdings PLC</li> <li>▶ Golden Key Credit Card Company Limited</li> <li>▶ Imperial Institute of Higher Education</li> <li>▶ Ceylon Leather Products PLC</li> <li>▶ Thomas Cook Travels - Sri Lanka (Pvt) Ltd</li> </ul>
Sabry Ghouse	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ Baywatch Eco Resort Village (Private) Ltd</li> <li>▶ West Agro Property Developers (Private) Ltd</li> </ul>
Imtiaz Muhseen	None
Ranvir Dewan	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ Shriram City Union Finance Limited</li> <li>▶ UB Finance Company Limited</li> </ul>
Gaurav Trehan	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ Shriram Properties Pvt. Ltd.</li> <li>▶ Shriram Automall India Ltd</li> <li>▶ Shriram General Insurance Co. Ltd.</li> <li>▶ Shriram Life Insurance Co. Ltd.</li> <li>▶ Manipal Health Enterprises Pvt. Ltd.</li> </ul>
Puneet Bhatia	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ TPG Capital India Private Limited</li> <li>▶ Shriram Transport Finance Company Limited</li> <li>▶ TPG Wholesale Private Limited</li> <li>▶ Shriram Properties Private Limited</li> <li>▶ Vishal e-Commerce Private Limited</li> <li>▶ Havells India Limited</li> </ul> <p><b>Additional Director</b></p> <ul style="list-style-type: none"> <li>▶ Flare Estate Private Limited</li> </ul> <p><b>Nominee Director</b></p> <ul style="list-style-type: none"> <li>▶ Shriram Holdings Madras Private Limited</li> <li>▶ Shriram Capital Limited</li> <li>▶ Janalakshmi Financial Services Limited</li> <li>▶ Manipal Health Enterprises Private Limited</li> </ul>
Michael J O'Hanlon	<p><b>Director</b></p> <ul style="list-style-type: none"> <li>▶ Roosevelt Management Company LLC</li> <li>▶ Rushmore Loan Management Services LLC</li> </ul>

Name of Director	Other Directorships Held
Ayomi Aluwihare Gunawardene	<b>Director</b> <ul style="list-style-type: none"> <li>▶ Smarased Property Holdings (Private) Limited</li> <li>▶ Corporate Trustee Services (Private) Limited</li> <li>▶ Besra (Private) Limited</li> <li>▶ Corporate Services (Private) Limited</li> <li>▶ Kestral (Private) Limited</li> </ul>
Indrajit Wickramasinghe	<b>Director</b> <ul style="list-style-type: none"> <li>▶ National Asset Management Ltd</li> <li>▶ UB Finance Company Ltd</li> </ul>
Sow Lin Chiew	<b>Director</b> <ul style="list-style-type: none"> <li>▶ Capax Trading Sdn Berhad</li> <li>▶ Genting Management and Consultancy Services Sdn Bhd</li> <li>▶ Sri Highlands Express Sdn Bhd</li> <li>▶ Genting Risk Solutions Sdn Bhd</li> <li>▶ Genting CDX Singapore Pte Ltd (formerly known as Genting International Industries (Singapore) Pte Ltd)</li> <li>▶ Genting Bhd (Hong Kong) Limited</li> <li>▶ Resorts World Limited</li> <li>▶ Resorts World Bhd (Hong Kong) Limited</li> <li>▶ Genting Power Holdings Limited</li> <li>▶ Genting Global Pte Ltd (formerly known as Genting (Singapore) Pte Ltd)</li> <li>▶ Oxalis Limited</li> <li>▶ Web Energy Ltd</li> <li>▶ Genting Power International Limited</li> <li>▶ Awana Hotels &amp; Resorts Management Sdn Bhd</li> <li>▶ CIMB (Private) Limited (Alternate Director to Mr. Chong Kin Leong)</li> <li>▶ Genting Management (Singapore) Pte Ltd</li> <li>▶ Vista Knowledge Pte Ltd</li> </ul>
Sumedh Jog (Alternate Director to Michael J O'Hanlon)	None
Yoke Sun Woon (Alternate Director to Sow Lin Chiew)	<b>Director</b> <ul style="list-style-type: none"> <li>▶ TauRx Pharmaceuticals Ltd (Alternate Director to Tan Kong Han)</li> <li>▶ GentingTauRx Diagnostic Centre Sdn Bhd (Alternate Director to Tan Sri Lim Kok Thay)</li> <li>▶ Lacustrine Limited</li> <li>▶ Genting Group Sdn Bhd</li> <li>▶ Genting Gaming Solutions Pte Ltd</li> <li>▶ Awana Vacation Resorts Management Sdn Bhd</li> <li>▶ Awana Hotels &amp; Resorts Sdn Bhd</li> <li>▶ Genting Innovation Pte Ltd</li> <li>▶ Resorts World (Singapore) Pte Ltd</li> </ul>

**NUMBER OF MEETINGS HELD AND ATTENDANCE**
**NUMBER OF MEETINGS HELD AND ATTENDANCE**

Name of Directors	Board Meetings		Audit Committee		Integrated Risk Management Committee		Nomination Committee		Human Resources & Remuneration Committee		Credit Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
P. Jayendra Nayak (Chairman)	12	12					04	04	11	11	13	13
Alexis Lovell (Deputy Chairman)	12	09									13	09
Asoka de Silva (Senior Director)	12	11	8	8	06	05					07	06
Priyantha Fernando	12	10	4	2	06	06	04	02	11	08		
Sabry Ghouse	12	12	4	3			04	03	11	10	13	13
Imtiaz Muhseen	12	11	8	8								
Ranvir Dewan	12	12	8	8	06	06						
Gaurav Trehan	12	12					04	03	11	9		
Puneet Bhatia	12	09			06	02						
Michael J O'Hanlon or his Alternate Director Sumedh Jog	12	10	8	8	04	03						
Ayomi Aluwihare Gunawardene	12	11					04	04	11	11		
Indrajit Wickramasinghe (Director /Chief Executive Officer)	12	12			06	06					13	13
Sow Lin Chiew or her Alternate Director Yoke Sun Woon	12	09										



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Chartered Accountants  
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HMAJ/WDRT/TW

## 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 ("Group"), which comprise the statement of financial position as at 31 December 2015, 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, set out on pages 139 to 208 of the annual report.

### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ("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 entity'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 entity'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 2015, 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 2015, 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 Section 151 and 153 of the Companies Act No.07 of 2007.

24 February 2016  
Colombo

**STATEMENT OF  
PROFIT OR  
LOSS**

Year ended 31 December	Note	BANK		GROUP	
		2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
<b>Gross Income</b>	4	5,019,258,311	4,546,418,312	6,055,729,325	5,314,408,569
Interest income		4,155,483,612	3,972,061,828	4,998,505,376	4,482,731,384
Less: Interest expense		2,133,781,611	2,209,487,241	2,558,427,747	2,512,193,633
<b>Net interest income</b>	5	2,021,702,001	1,762,574,587	2,440,077,629	1,970,537,751
Fee and commission income		226,603,279	197,198,292	404,789,452	351,032,094
Less: Fee and commission expense		46,005,344	43,559,906	61,773,747	58,620,098
<b>Net fee and commission income</b>	6	180,597,935	153,638,386	343,015,705	292,411,996
Net trading income	7	278,040,868	96,053,799	278,040,868	96,053,799
Other operating income (net)	8	359,130,552	281,104,393	374,393,629	384,591,292
<b>Total operating income</b>		2,839,471,356	2,293,371,166	3,435,527,831	2,743,594,838
Less: Credit loss expense	9	176,729,299	541,164,792	260,134,408	526,527,971
<b>Net operating income</b>		2,662,742,057	1,752,206,374	3,175,393,423	2,217,066,867
<b>Less:</b>					
Staff costs	10	993,195,427	660,125,648	1,159,493,872	784,681,134
Depreciation of property, plant and equipment	27	226,856,589	195,893,637	251,811,000	217,094,860
Amortisation of intangible assets	26	110,304,044	74,870,973	112,341,793	76,734,298
Other expenses	11	1,004,249,186	708,618,748	1,223,282,850	905,414,882
<b>Operating profit before value added tax (VAT) and national building tax (NBT) on financial services</b>		328,136,811	112,697,368	428,463,908	233,141,693
Less: VAT and NBT on financial services		122,142,851	51,894,352	136,283,898	72,610,184
<b>Profit before tax</b>		205,993,960	60,803,017	292,180,010	160,531,509
Less: Tax expense	12	13,295,975	3,714,869	37,437,246	82,334,844
<b>Profit for the year</b>		192,697,985	57,088,147	254,742,764	78,196,665
<b>Attributable to:</b>					
Equity holders of the parent		192,697,985	57,088,147	222,770,454	31,063,069
Non controlling interest		-	-	31,972,310	47,133,596
		192,697,985	57,088,147	254,742,764	78,196,665
<b>Earnings per share</b>					
Earnings per share - Basic	13.1			0.20	0.06
Earnings per share - Diluted	13.2			0.19	0.06

The notes to the Financial Statements from pages 144 to 208 form an integral part of these Financial Statements.

**STATEMENT OF  
COMPREHENSIVE  
INCOME**

Year ended 31 December	Note	BANK		GROUP	
		2015	2014	2015	2014
		Rs.	Rs.	Rs.	Rs.
Profit for the year		192,697,985	57,088,147	254,742,764	78,196,665
Other comprehensive income to be reclassified to profit or loss:					
Gains/(losses) on re-measuring available for sale financial assets		(26,929,760)	(1,720,629)	(27,797,978)	1,286,653
Net amount transferred to profit or loss (Available for sale financial assets)		1,720,629	-	1,720,629	-
Less: Income Tax effect on losses on re-measuring available for sale financial assets		7,058,557	-	7,058,557	-
Net other comprehensive income to be reclassified to profit or loss		(18,150,574)	(1,720,629)	(19,018,792)	1,286,653
Other comprehensive income not to be reclassified to profit or loss:					
Actuarial gains/(losses) on defined benefit plans	34.1	(5,118,585)	(8,550,698)	(5,406,969)	(8,162,418)
Less: Income Tax effect on actuarial losses on defined benefit plans		1,433,204	2,394,195	1,390,519	2,394,195
Net other comprehensive income not to be reclassified to profit or loss		(3,685,381)	(6,156,503)	(4,016,451)	(5,768,223)
Other comprehensive income for the year, net of taxes		(21,835,955)	(7,877,132)	(23,035,243)	(4,481,569)
<b>Total comprehensive income for the year, net of tax</b>		<b>170,862,030</b>	<b>49,211,015</b>	<b>231,707,521</b>	<b>73,715,096</b>
Attributable to:					
Equity holders of the parent		170,862,030	49,211,015	200,146,802	25,074,559
Non-controlling interest		-	-	31,560,719	48,640,537
<b>Total</b>		<b>170,862,030</b>	<b>49,211,015</b>	<b>231,707,521</b>	<b>73,715,096</b>

The notes to the Financial Statements from pages 144 to 208 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	BANK		GROUP	
		2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
<b>Assets</b>					
Cash and balances with banks	15	2,811,324,545	2,408,571,810	3,015,496,750	2,689,337,456
Reverse repurchased agreements	16	1,513,425,321	10,543,106,240	1,619,467,074	10,642,158,185
Placements with banks		284,078,387	73,994,788	294,074,296	186,430,108
Derivative financial instruments	17	10,621,429	4,150,249	10,621,429	4,150,249
Financial assets - held for trading	18	8,463,807,409	2,584,471,476	8,463,807,409	2,584,471,476
Loans and receivables to banks	19	-	-	16,004,324	16,004,324
Loans and receivables to other customers	20	40,095,331,952	25,944,569,911	45,450,313,621	29,217,857,242
Other loans and receivables	21	5,721,549,058	2,470,115,184	4,951,273,765	1,649,133,891
Financial investments - available for sale	22	8,356,130,222	1,647,685,722	8,538,559,055	1,800,750,206
Financial investments - held to maturity	24	140,528,827	140,027,415	140,528,827	140,027,415
Investment in real estate	25	-	-	213,274,310	258,886,718
Investments in subsidiaries	23	892,364,489	892,364,489	-	-
Property, plant and equipment	27	913,814,173	754,548,233	1,059,027,289	875,932,693
Goodwill and intangible assets	26	1,118,199,758	951,749,690	1,469,782,932	1,304,026,823
Current tax asset		208,403,675	149,447,786	224,554,666	149,447,786
Deferred tax assets	28.2	-	-	485,102,333	515,837,835
Other assets	29	475,909,210	430,318,315	590,237,970	523,917,935
<b>Total assets</b>		<b>71,005,488,455</b>	<b>48,995,121,308</b>	<b>76,542,126,050</b>	<b>52,558,370,342</b>
<b>Liabilities</b>					
Due to banks	30	6,945,248,678	2,090,587,725	7,156,387,845	2,145,831,980
Repurchased agreements	31	8,242,551,409	1,116,489,292	7,994,533,064	1,095,693,980
Due to other customers	32	37,652,508,137	27,808,891,340	41,623,920,639	30,323,850,013
Other borrowed funds	33	-	-	1,281,084,761	845,085,339
Current tax liabilities		-	-	173,498,460	181,441,829
Deferred tax liabilities	28.1	30,088,601	25,284,386	30,553,529	25,914,794
Other liabilities	34	1,212,915,667	1,203,584,315	1,567,078,750	1,443,520,609
<b>Total liabilities</b>		<b>54,083,312,492</b>	<b>32,244,837,058</b>	<b>59,827,057,048</b>	<b>36,061,338,544</b>
<b>Equity</b>					
Stated capital	35.1	16,334,781,723	16,334,781,723	16,334,781,723	16,334,781,723
Share warrants	35.2	65,484,375	65,484,375	65,484,375	65,484,375
Statutory reserve fund	35.4	71,417,070	61,782,171	80,624,342	69,168,604
Investment fund reserve		-	-	-	-
ESOP Reserve	35.3	1,029,683	-	1,029,683	-
Available for sale reserve		(18,229,035)	(78,461)	(4,575,850)	14,085,075
Retained earnings		467,692,147	288,314,442	(91,502,392)	(298,854,380)
<b>Total equity attributable to equity holders of the bank</b>		<b>16,922,175,963</b>	<b>16,750,284,250</b>	<b>16,385,841,881</b>	<b>16,184,665,397</b>
Non-controlling interests		-	-	329,227,121	312,366,401
<b>Total equity</b>		<b>16,922,175,963</b>	<b>16,750,284,250</b>	<b>16,715,069,002</b>	<b>16,497,031,798</b>
<b>Total equity and liabilities</b>		<b>71,005,488,455</b>	<b>48,995,121,308</b>	<b>76,542,126,050</b>	<b>52,558,370,342</b>
<b>Net asset value per share (Rs.)</b>		<b>15.50</b>	<b>15.35</b>	<b>15.32</b>	<b>15.12</b>
Commitments and Contingencies	38.1	36,045,939,247	24,188,914,041	36,045,939,247	24,188,914,041

The notes to the Financial Statements from pages 144 to 208 form an integral part of these Financial Statements.

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



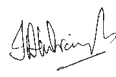
Malinda Samaratunga  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board;



P. Jayendra Nayak  
Chairman



Indrajit Wickramasinghe  
Director/CEO



Nirosha Kannangara  
Company Secretary

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Union Bank of Colombo PLC  
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# STATEMENT OF CHANGES IN EQUITY

BANK											
Year ended 31 December	Note	Stated Capital Rs.	Share warrants Rs.	Statutory Reserve Fund Rs.	Investment Reserve Rs.	ESOP Reserve Rs.	Available for sale reserve Rs.	Retained Earnings Rs.	Total Equity Rs.	Total Rs.	
<b>Balance as at 1 January 2014</b>		4,979,791,113	-	58,927,764	213,716,852	-	1,642,168	203,207,583	5,457,285,480		
Net Profit for the year		-	-	-	-	-	-	57,088,147	57,088,147		
Other Comprehensive Income		-	-	-	-	-	(1,720,629)	(6,156,503)	(7,877,132)		
Total comprehensive income		-	-	-	-	-	(1,720,629)	50,931,645	49,211,015		
Issue of share capital	35.1	11,354,990,610	-	-	-	-	-	-	11,354,990,610		
Issue of warrants	35.2	-	65,484,375	-	-	-	-	-	65,484,375		
Transfers during the year		-	-	2,854,407	(213,716,852)	-	-	210,862,445	-		
Dividend paid	14	-	-	-	-	-	-	(87,312,500)	(87,312,500)		
Share issue expense		-	-	-	-	-	-	(89,374,730)	(89,374,730)		
<b>Balance as at 31 December 2014</b>		<b>16,334,781,723</b>	<b>65,484,375</b>	<b>61,782,171</b>	-	-	<b>(78,461)</b>	<b>288,314,442</b>	<b>16,750,284,250</b>		
Net Profit for the year		-	-	-	-	-	-	192,697,985	192,697,985		
Other Comprehensive Income		-	-	-	-	-	(18,150,574)	(3,685,381)	(21,835,955)		
Total comprehensive income		-	-	-	-	-	(18,150,574)	189,012,604	170,862,030		
ESOP Issued	35.3	-	-	-	-	1,029,683	-	-	1,029,683		
Transfers during the year		-	-	9,634,899	-	-	-	(9,634,899)	-		
<b>Balance as at 31 December 2015</b>		<b>16,334,781,723</b>	<b>65,484,375</b>	<b>71,417,070</b>	-	<b>1,029,683</b>	<b>(18,229,035)</b>	<b>467,692,147</b>	<b>16,922,175,963</b>		
<b>GROUP</b>											
Year ended 31 December	Note	Stated Capital Rs.	Share warrants Rs.	Statutory Reserve Fund Rs.	Investment Reserve Rs.	ESOP Reserve Rs.	Available for sale reserve Rs.	Retained Earnings Rs.	Total Equity Rs.	Non Controlling Interest Rs.	Total Rs.
<b>Balance as at 1 January 2014</b>		4,979,791,113	-	69,271,620	214,888,840	-	14,174,007	(351,932,868)	4,920,192,712	273,525,864	5,193,718,576
Net Profit for the year		-	-	-	-	-	-	31,063,069	31,063,069	47,133,596	78,196,665
Other Comprehensive Income		-	-	-	-	-	(88,932)	(5,899,578)	(5,988,510)	1,506,941	(4,481,569)
Total comprehensive income		-	-	-	-	-	(88,932)	25,163,491	25,074,559	48,640,537	73,715,096
Issue of share capital	35.1	11,354,990,610	-	-	-	-	-	-	11,354,990,610	-	11,354,990,610
Issue of warrants	35.2	-	65,484,375	-	-	-	-	-	65,484,375	-	65,484,375
Transfers during the year		-	-	5,896,984	(214,888,840)	-	-	208,991,856	-	-	-
Dividend paid	14	-	-	-	-	-	-	(4,389,629)	(4,389,629)	-	(4,389,629)
Share issue expense		-	-	-	-	-	-	(87,312,500)	(87,312,500)	(9,800,000)	(97,112,500)
<b>Balance as at 31 December 2014</b>		<b>16,334,781,723</b>	<b>65,484,375</b>	<b>69,168,604</b>	-	-	<b>14,085,075</b>	<b>(298,854,380)</b>	<b>16,184,665,397</b>	<b>312,366,401</b>	<b>16,497,031,798</b>
Net Profit for the year		-	-	-	-	-	-	222,770,454	222,770,454	31,972,310	254,742,764
Other Comprehensive Income		-	-	-	-	-	(18,660,925)	(3,962,728)	(22,623,653)	(411,590)	(23,035,243)
Total comprehensive income		-	-	-	-	-	(18,660,925)	218,807,726	200,146,801	31,560,720	231,707,521
ESOP Issued	35.3	-	-	-	-	1,029,683	-	-	1,029,683	-	1,029,683
Transfers during the year		-	-	11,455,738	-	-	-	(11,455,738)	-	-	-
Dividend paid	35.4	-	-	-	-	-	-	-	-	(14,700,000)	(14,700,000)
<b>Balance as at 31 December 2015</b>		<b>16,334,781,723</b>	<b>65,484,375</b>	<b>80,624,342</b>	-	<b>1,029,683</b>	<b>(4,575,850)</b>	<b>(91,502,392)</b>	<b>16,385,841,881</b>	<b>329,227,121</b>	<b>16,715,069,002</b>

The notes to the Financial Statements from pages 144 to 208 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

As at 31 December	Note	BANK		GROUP	
		2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
<b>Cash Flow from Operating Activities</b>					
Interest receipts		3,751,510,811	4,044,152,639	4,485,752,177	4,492,975,539
Fee and commission receipts		180,597,935	125,160,524	343,015,704	263,934,133
Interest payments		(2,032,621,928)	(2,465,360,961)	(2,502,990,767)	(2,930,842,248)
Receipts from other operating activities		362,011,364	412,760,982	388,958,933	526,440,545
Payments on other operating activities		(2,101,288,729)	(1,407,194,038)	(2,496,905,627)	(1,746,682,023)
<b>Operating profit before changes in operating assets &amp; liabilities</b>		<b>160,209,453</b>	<b>709,519,145</b>	<b>217,830,420</b>	<b>605,825,946</b>
<b>(Increase)/decrease in operating assets:</b>					
Balances with Central Bank of Sri Lanka		(357,707,014)	168,765,679	(357,707,014)	168,765,679
Funds advanced to customers		(14,240,741,649)	(3,241,506,989)	(16,347,632,283)	(4,725,727,482)
Others		(52,062,076)	9,282,401	(27,178,807)	94,272,703
		(14,650,510,739)	(3,063,458,909)	(16,732,518,104)	(4,462,689,100)
<b>Increase /(decrease) in operating liabilities:</b>					
Due to banks and other customers		9,800,140,865	(274,306,410)	11,320,893,571	1,070,177,417
Repurchased agreements		7,109,813,929	986,590,557	6,882,590,895	968,091,215
Others		(140,902,468)	141,950,320	(29,423,525)	434,762,434
		16,769,052,326	854,234,467	18,174,060,941	2,473,031,065
<b>Net cash from/(used in) operating activities before income tax</b>		<b>2,278,751,040</b>	<b>(1,499,705,296)</b>	<b>1,659,373,257</b>	<b>(1,383,832,089)</b>
Retiring benefit obligation paid	34.1	(7,038,842)	(7,587,361)	(8,435,635)	(8,590,809)
Income tax paid		(10,811,663)	(9,520,761)	(28,519,955)	(65,032,190)
<b>Net cash from/(used in) operating activities</b>		<b>2,260,900,535</b>	<b>(1,516,813,418)</b>	<b>1,622,417,667</b>	<b>(1,457,455,087)</b>
<b>Cash flow from/(used in) investing activities</b>					
Dividends received		14,126,272	11,146,237	648,453	1,162,923
Investment in other financial assets-held for trading		(5,608,119,934)	(1,613,967,396)	(5,608,119,934)	(1,618,540,066)
Investment in financial assets-available for sale		(6,647,352,129)	89,042,579	(6,677,584,695)	30,132,354
Financial investments-held to maturity		(6,889,185)	(515,436)	(6,889,185)	(515,436)
Net increase in debt securities		(3,069,167,059)	-	(3,068,933,846)	
Purchase of property, plant and equipment	27	(390,645,620)	(209,058,463)	(443,575,069)	(229,589,345)
Purchase of intangible assets		(141,869,091)	(537,087,595)	(143,212,877)	(537,603,528)
Proceeds from Sale of property, plant and equipment		1,416,079	160,714	6,988,151	160,714
<b>Net cash used in investing activities</b>		<b>(15,848,500,667)</b>	<b>(2,260,279,359)</b>	<b>(15,940,679,002)</b>	<b>(2,354,792,384)</b>
<b>Cash flow from/(used in) financing activities</b>					
Proceeds from shares		-	11,420,474,985	-	11,420,474,985
Increase/decrease in borrowings		4,899,216,211	1,833,300,341	5,527,710,017	2,204,111,399
Share issue cost		-	(89,374,730)	-	(89,374,730)
Dividend paid		-	(87,312,500)	(14,700,000)	(97,112,500)
<b>Net cash from investing activities</b>		<b>4,899,216,211</b>	<b>13,077,088,096</b>	<b>5,513,010,017</b>	<b>13,438,099,154</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(8,688,383,921)</b>	<b>9,299,995,319</b>	<b>(8,805,251,318)</b>	<b>9,625,851,683</b>
Cash and cash equivalents at beginning of the year		11,932,106,847	2,632,111,528	12,369,115,502	2,743,263,819
<b>Cash and cash equivalents at end of the year</b>		<b>3,243,722,926</b>	<b>11,932,106,847</b>	<b>3,563,864,184</b>	<b>12,369,115,502</b>
<b>Reconciliation of cash and cash equivalents</b>					
Cash in hand and at banks	15	1,504,512,361	1,459,466,640	1,708,684,566	1,740,232,286
Placements with banks		284,074,181	73,994,788	294,070,090	186,430,108
Due to banks		(55,762,611)	(141,753,431)	(55,831,220)	(196,997,686)
Reverse repurchased agreements		1,510,898,995	10,540,398,849	1,616,940,748	10,639,450,794
		3,243,722,926	11,932,106,846	3,563,864,184	12,369,115,502

The notes to the Financial Statements from pages 144 to 208 form an integral part of these Financial Statements.

## 1.0 CORPORATE INFORMATION

### 1.1 General

Union Bank of Colombo PLC ("Bank") is a Public Limited Liability Company listed on the Colombo Stock Exchange, incorporated on 02 February 1995 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No.7 of 2007. The registered office of the Bank is at No.64, Galle Road, Colombo 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 2015 comprise the Bank (parent company), two subsidiaries National Assets Management Limited and UB Finance Company Limited and the Special Purpose Entity, Serandib Capital (Pvt) Ltd. (together referred to as the "Group")

National Asset Management Limited was incorporated on 28 September 1990 as a Limited Liability Company under the Companies Act No.17 of 1982. The company re-registered under the Companies Act No. 07 of 2007.

UB Finance Company Ltd is an unquoted public limited Company, incorporated and domiciled in Sri Lanka. The Company was incorporated in Sri Lanka on 12 July 1961 under the Companies Ordinance No.38 of 1938 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) Ltd is a private investment Company formed in 2003. The Bank considers this as a Special Purpose Entity and due to the combination of activities and arrangements mentioned in Note 2.2.7, management determined that, in substance, the Bank controls this entity. Consequently, Serandib Capital (Pvt) Ltd is included in the Bank's consolidated financial statements.

### 1.1.2 Parent Entity and Ultimate Controlling Parties

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.

### 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, etc.

#### 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) Ltd 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 Authorization for Issue

The Financial Statements of the Group and the Bank for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2016.

## 2.0 BASIS OF PREPARATION

### 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 2015 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 amendments thereto.

### 2.1.2 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

### 2.1.3 Functional and Presentation Currency

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

### 2.1.4 Presentation of Financial Statements

The Bank and the Group present their Statement of Financial Position is grouped by nature and listed 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 44 to the financial statement.

### 2.1.5 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 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.

### 2.1.6 Comparative Information

Comparative information is re-classified wherever necessary to comply with the current presentation, which is given in Note 36 of the Financial Statements.

## 2.2 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 and expenses and 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;

### 2.2.1 Going Concern

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

### 2.2.2 Impairment Losses on Loans and Receivables

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.

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 more detail in Note 20.4 and Note 20.5 to the financial statement.

### 2.2.3 Impairment of Available for Sale Investments

The Bank and the Group reviews 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.

The Bank and the Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The 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.

The determination of what is 'significant' or 'prolonged' requires judgment. The Bank and the Group generally treats 'significant' as 20% or more and 'prolong' as greater than six months.

### 2.2.4 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which such tax losses can be utilised 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 28.2 to the financial statement.

### 2.2.5 Defined Benefit Plan

The costs of the defined benefit plan and the present value of its obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and 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 extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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

Details of the key assumption used in the estimates are disclosed in Note 34.1 to the financial statement.

### 2.2.6 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 they are subject to uncertainty.

### 2.2.7 Consolidation of Special Purpose Entities (SPEs)

The Group consolidates those SPEs it controls. In assessing and determining if the Group controls SPEs, judgments are exercised to determine the following: whether the activities of the SPE are being conducted on behalf of the Group to obtain benefits from the SPE's operation;

whether the Group has rights to obtain the majority of the benefits of the SPE's activities and whether the Group retains the majority of the risks related to the SPE or its assets in order to obtain benefits from its activities. The Group's involvement with consolidated SPEs is detailed in Note 40.4.

#### **2.2.8 Commitment and Contingencies**

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

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

Details of the Commitment and Contingencies are disclosed in Note 38 to the financial statement.

#### **2.2.9 Fair Value of Financial Instruments**

Fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for 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 establish fair values. The valuation of financial instruments is described in more detail in Note 43.

The Bank and the Group measures 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 43.1.

#### **2.2.10 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 26.

#### **2.2.11 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 35.3.

### **2.3 Significant Accounting Policies – Statement of Financial Position**

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

#### **2.3.1 Basis of Consolidation**

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2015 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.

#### **2.3.1.1 Business Combination and Goodwill**

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

The Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative a bargain purchase gain is recognised immediately in the Statement of Profit or Loss.

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

#### **2.3.1.2 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 the Bank continues to recognise the investments in subsidiaries at cost.

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 de-recognised 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 31 December 2015.

All subsidiaries of the Bank have been incorporated in Sri Lanka. The information of the subsidiaries is given in Note 23.

#### 2.3.1.3 Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish narrow and well-defined objectives such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group

concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- ▶ The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- ▶ The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.
- ▶ The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE.

Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

#### 2.3.1.4 Transactions eliminated on Consolidation

Intra-group transactions and balances and any 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.

#### 2.3.2 Foreign Currency Transaction and Balances

All foreign currency transactions are translated in to the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions were attached.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees using the spot foreign exchange rate at that date and all differences arising on non-trading 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 date 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.

#### 2.3.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

Financial assets within the scope of LKAS 39 (Financial Instruments: Recognition and measurement) are classified as Derivative financial instruments, Loans and receivables, Financial investments - held to maturity, Financial investments - available for sale, Financial investments - held for trading as appropriate.

#### Date of Recognition

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

2.3.3.1 *Recognition and Initial Measurement of Financial Instruments*

The classification of financial instruments at initial recognition depends on their purpose, 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).

Further details on classification of financial assets and financial liabilities are given under Note 37.

2.3.3.1 (a) *Financial Assets*

1) Derivatives recorded at fair value through profit or loss

The Bank and the Group use derivatives such as currency swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

2) Non-Derivative Financial Assets  
The Bank and the Group recognises non-derivative financial assets by the following four categories: Financial investments - held for trading, Financial investments held to maturity, Loans and receivables and Financial investments - available for sale.

- (i) Financial investments - Held for trading  
Financial assets under held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value and dividend income are recorded in 'Net trading income'. The dividend is recognised according to the terms of the contract, or when the right to the payment has been established.

- (ii) Financial Investments Held to Maturity  
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, these 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 amortization 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 'Credit loss expense'. 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 Group would be prohibited from classifying any as financial asset as "held to maturity" the following two years.

- (iii) Loans and Receivables  
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 Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
  - ▶ Those that the Group, upon initial recognition, designates as available for sale.
  - ▶ Those for which the Group may not recover substantially all of its initial investment through contractual cash flows, other than 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 amortization is included in 'Interest income' and the losses arising from impairment are recognised in 'Credit loss expense' in the Statement of Profit or Loss.

- (iii). (a) Cash and Balances with Banks  
Cash Balances comprises of cash in hand and at banks that are subject to an insignificant risk of changes in their value. These are carried at amortised cost in the Statement of Financial Position.

Balances with Central Bank are the balances maintain as per the requirement of the Monetary Law Act that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 6% (2014: 6%) against all deposit liabilities denominated in Sri Lankan Rupees.

Details of cash and balances with Banks are given in Note 15 to the financial statements.

- (iii). (b) Loans and Receivables to Banks and Other Customers  
Details of 'Loans and receivables to banks and other customers' are given in Note 19 and Note 20 to the Financial Statements.

- (iii). (c) Placement with Banks and Other Loans and Receivables  
Details of 'Other loans and receivables' are given in Note 21 to the Financial Statements.

- (iv) Financial Investments - Available for sale  
Financial investments under 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.

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 'Other operating income'. Where the Group holds more than one

investment in the same security, they are deemed to be disposed of on a first-in first-out basis.

Interest earned whilst holding “Financial investments - Available for sale” is reported as ‘Interest income’ using the EIR. Dividends earned whilst holding ‘Financial investments - Available for sale’ are recognised in the Statement of Profit or Loss as ‘Other Operating Income’ 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.

Details of ‘Financial investments - available for sale’ are given in Note 22 to the Financial Statements.

(iv). (a) ‘Day 1’ Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank 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.

*2.3.3.1 (b) Financial Liabilities*

Initial Recognition and measurement financial liabilities within the scope of LKAS 39 are classified as Due to Banks, Repurchased agreements, Derivative financial instruments, Due to other customers (Deposits) and other borrowed funds as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Bank and the Group classify Financial Liabilities at Fair Value through Profit and Loss (FVTPL) or Financial Liabilities at amortised cost in accordance with the substance of the contractual arrangements and the definition of financial liabilities.

The Bank and the Group recognise financial liabilities in the Statement of Financial Position when they become a party to the contractual obligations of financial liability.

*Financial Liabilities at Amortised Cost*

Financial liabilities at amortised cost including Due to banks, Repurchase agreements, Due to other customers (Deposits) and Other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are integral part of the EIR.

The EIR amortization is included in ‘Interest Expenses’ in the Statement of Profit or Loss. Gains and Losses are recognised in the Statement of Profit or Loss when the liabilities are de-recognised as well as through the EIR amortization process.

Details of ‘Financial liabilities at amortised cost’ are given in Note 30-33 to the Financial Statements.

*2.3.3.2 Repurchased and Reverse Repurchased Agreements*

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within ‘Repurchased agreements’, reflecting the transaction’s economic substance as a loan to 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 EIR. When the counter party has the right to sell or re-pledge the securities, the Group reclassifies those securities in its Statement of Financial Position to ‘Financial assets held for trading pledged as collateral’ or to ‘Financial investments available for sale pledged as collateral’, as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid including accrued interest, is recorded in the statement of financial position within ‘Reverse repurchase agreements’, reflecting the transaction’s economic substance as a

loan by the Group. The difference between the purchase and resale prices is recorded in ‘Net interest income’ and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within ‘Financial liabilities held for trading’ and measured at fair value with any gains or losses included in ‘Net trading income’.

*2.3.3.3 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.

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 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 asset during the year.

*2.3.3.4 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 de-recognised 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 de-recognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is 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 Statement of Profit or Loss.

*2.3.3.5 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 asset or a group of financial assets is impaired. A financial asset 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 if 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 banks, Reverse repurchased agreements, Placement with banks, Loans and receivables to banks and other customers, Other loans and receivables and Financial investments - held to maturity. The Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial

asset, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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 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 20.4 and Note 20.5 respectively.

**(i). (a) Reversal of Impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

**(i). (b) Write-off of Financial Assets carried at Amortised Cost**

Financial assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

**(i). (c) Impairment of Re-scheduled Loans and Advances**

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

**(i). (d) Collateral Valuation**

The Group seeks to use collateral, where possible to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of 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 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.

**(i). (e) Collateral Repossessed**

The Group policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Asset determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

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

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

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for 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.

Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss, is removed from Equity and recognised in the Statement of Profit or Loss. In the case of equity investments classified as available for sale, objective evidence would also include a significant or prolonged decline in the fair value of the investment below its cost. The Group treats significant 'generally as 20% and 'prolonged' generally as greater than six months.

However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in 'Other Comprehensive Income'.

**2.3.3.6 Amortised Cost Measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.3.3.7 *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 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 counterparty 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 43 to the financial statement.

2.3.3.8 *Leasing Receivables*

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

**Bank as a lessee**

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of profit or loss on a straight line basis over the lease term.

Contingent rental payable is recognised as an expense in the period in which they are incurred.

**Bank as a lessor**

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

Contingent rents are recognised as revenue in the period in which they are earned.

2.3.4 **Real Estate Assets**

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 realizable 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 realizable 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.

### 2.3.5 Property, Plant and Equipment

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 during more than one period.

Details of property, plant and equipment are given in Note 27 to the financial statements.

#### 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 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 Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### Derecognition

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 de-recognised. 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 de-recognised. 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 and Equipment	6 – 15 Years
Furniture and Fittings	5 – 8 Years
Motor Vehicles	4 – 10 Years

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

#### 2.3.5.1 Borrowing Cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard – LKAS 23 (Borrowing Cost).

A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing cost ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing cost are recognised in the Statement of Profit or Loss in the period in which they are incurred.

### 2.3.6 Intangible assets

#### (i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 26 to the financial statements

#### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) **Computer Software**  
Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment. Subsequent expenditure on software assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most 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.

#### 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.

Details of goodwill and intangible assets are given in Note 26 to the financial statements.

#### 2.3.6.1 De-recognition of Intangible Assets

The carrying amount of an item of intangible asset is de-recognised 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 de-recognised.

#### 2.3.7 Impairment of Non-Financial Assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable

amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss. Impairment losses relating to goodwill are not reversed in future periods.

#### 2.3.8 Employee benefits/ Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in LKAS 19 (Employee Benefits)

The contribution payable to defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Staff Cost' as and when they become due. Unpaid contributions are recorded as a liability.

##### 2.3.8.1 Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable by the employer to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability.

(i) 'Employees' Provident Fund  
The Group and the employees contribute 12% and 10% respectively on the salary of each employee to the approved private provident fund. All subsidiary companies and their employees contribute 12% and

10% respectively on the salary of each employee to employees' provident fund.

(ii) 'Employees' Trust Fund

The Group contributes 3% of the salary of each employee to the employees' trust fund.

*2.3.8.2 Defined Benefit Plan*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in LKAS 19 (Employee Benefit).

**Gratuity**

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 Group.

An actuarial valuation is carried out at every year end to ascertain the full liability under the fund. The valuation was carried out as at 31 December 2015 by Messrs Piyal S. Goonethilleke 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 (55 yrs), early withdrawals from service and retirement on medical grounds etc.

Details of gratuity liability is given in Note 34.1 to the financial statements.

**Recognition of Actuarial Gain 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 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.

*2.3.8.3 Short term Employee Benefits*

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

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

*2.3.8.4 Share Based Payment Transactions*

**Employee Share Ownership Plan (ESOP)**

The first tranche of Employee Share Option grants were issued in December 2015 to employees in the Grade of Vice President and above. The ESOP grant provides employees an option to purchase shares of the Bank at the given exercise price once these vested 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.

At the time the employee leaves the Bank, before the service condition employees are not entitled to any of share based payments.

The fair value of the equity settled share based payment was recognised as an expense with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The equity component was estimated at grant date using a black-scholes-option pricing model, taking into account the terms and conditions on which the share options were granted.

The fair value of cash settled share based payments was re-measured at each reporting date. Any changes in the fair value of the liability were recognised as personnel expenses in profit or loss.

Fair value of equity-settled share based payment awards granted to employees on the grant date is recognised as an employee benefit expense, with a corresponding increase in equity, over the period in which the service and performance conditioned 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 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.

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 entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The details of employee share ownership plans are given in Note 35.3 to the Financial Statement.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share are given in note 13 to the Financial Statement.

### 2.3.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probably 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 in accordance with the Sri Lanka Accounting Standard – LKAS 37 on ‘Provision, Contingent Liabilities and Contingent Assets’.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risk and uncertainties surrounding the obligation at the date. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

### 2.3.10 Dividends on Ordinary Shares

Provision for final dividend is recognised at the time the dividend recommended and declared by the Board of Directors, and is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No 7 of 2007.

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

Dividend for the year that are declared after the reporting date are given in Note 42 to the financial statements as an event after the reporting period in accordance with the Sri Lanka Accounting Standard (LKAS 10) – “Events after the reporting period

### 2.3.11 Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

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.

Details of commitments and contingencies are given in Note 38.1.

#### 2.3.11.1 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigations against the Bank as at 31 December 2015 which would have a material impact on the financial statements other than those disclosed under Note 38.4.

### 2.4 Significant Accounting Policies – Recognition of Income and Expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following recognition criteria must also be met before revenue is recognised.

#### 2.4.1 Interest Income and Interest Expense

Interest income and interest expense of all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss are 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 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.

#### 2.4.2 Fee and Commission Income

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

- (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. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn

down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(ii) **Fee Income from Providing Transaction Services**

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

**2.4.3 Fee and Commission Expenses**

Fee and commission expense 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.

**2.4.4 Dividend Income**

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

**2.4.5 Net Trading Income**

Results arising from trading activities include all gains and losses from changes in fair value and dividends for financial assets-held for trading.

**2.4.6 Tax Expenses**

As per LKAS 12 (Income Taxes), tax expense is the aggregated amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Profit or Loss except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income' in which case it is recognised in Equity or in Other Comprehensive Income.

(i) **Current tax**

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 at the rates specified in Note 12.1.1 to the Financial Statements.

(ii) **Deferred tax**

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

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

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

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

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

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

(iii) **Value Added Tax on Financial Services (VAT on FS)**

VAT on Financial Services is calculated in accordance with Value Added Tax 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 on FS and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

(iv) **Withholding Tax (WHT) on Dividend**

Dividend distributed out of taxable profit of the local subsidiaries attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the WHT deducted at source is added to the tax expense of the subsidiaries in the Consolidated Financial Statements as a consolidation adjustment.

WHT that arise from the distribution of dividend by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

(v) Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and subsequent amendments thereto. ESC is payable at 0.25% on exempt turnover of the Bank and the corresponding turnover carried on by the Bank on which the taxable income is zero for the preceding year of assessment. It is deductible from income tax payable.

(vi) Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act, No. 9 of 2009 and subsequent amendments thereto with effect from 1 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on Financial Services.

(vii) Crop Insurance Levy (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

**2.5 Other Accounting Policies**

**2.5.1 Segment Reporting**

Group's activities have been segregated into five different segments ( Corporate Banking, Treasury, SME Banking, Retail Banking and other Group function ) based on the risk and rewards of each segments and the business activities that each unit is engaged.

Types of products and services from which each segments derives its revenue is as follows.

Corporate Banking	Term Loan, Factoring, Overdraft, Import/Export Loans and advances, Shipping and Other Guarantees
Retail Banking	Leasing, Hire purchase, Personal Loans, Housing Loans
Treasury	Money Market Products, Government Securities Trading, Repurchase transactions on Government Securities and FX dealings
SME Banking	SME Loans including Term loan and Overdraft
Other Group Function	Unit Trust Investment Management and Fee base operations

Segment result, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for the segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group.

Inter-segment transfers are accounted for competitive fair market rates/ prices charged to intercompany counterparts for similar services; such as services are eliminated on consolidation.

Details of the segment reporting are shown in Note 41 to the Financial Statements.

**2.5.2 Earnings per Share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share warrants issued and employee share ownership plans.

Details of basic and diluted earnings per share are given in Note 13.1 and 13.2 respectively.

**2.5.3 Cash Flow Statement**

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.

**2.5.3.1 Cash and Cash Equivalents**

Cash and cash equivalents comprise of cash in hand and at banks, placements with banks, Reverse repurchased agreements and un-favourable balances with local and foreign banks that are subject to an insignificant risk of change in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

**3.0 IMPROVEMENTS TO SRI LANKA ACCOUNTING STANDARDS**

**3.1 Amendments to the Accounting Standards implemented before 2015**

The following amendments and improvements are not expected to have a significant impact on the Group's consolidated financial statements.

- ▶ Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11)
- ▶ Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38)
- ▶ Equity Method in Separate Financial Statements (Amendments to LKAS 27)
- ▶ Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)
- ▶ Annual Improvements to SLFRSs 2012–2014 Cycle – various standards
- ▶ Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- ▶ Disclosure Initiative (Amendments to LKAS 1)

### 3.2 Standards Issued but not yet effective

The following new accounting standards were issued by the Institute of Chartered Accountants in Sri Lanka that are not mandatory for 31 December 2015 reporting period, non of those have been early adopted by the Group.

#### 3.2.1 SLFRS 09 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

#### 3.2.2 SLFRS 14 – Regulatory Deferral Accounts

SLFRS 14 is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. SLFRS 14 is effective for annual periods beginning on or after 1 January 2016.

#### 3.2.3 SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Group, as it is an existing SLFRS preparer/does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

4. GROSS INCOME

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Interest income (Refer Note 5.1)	4,155,483,612	3,972,061,828	4,998,505,376	4,482,731,384
Fee and commission income (Refer Note 6.1)	226,603,279	197,198,292	404,789,452	351,032,094
Net trading income (Refer Note 7)	278,040,868	96,053,799	278,040,868	96,053,799
Other operating income (Refer Note 8)	359,130,552	281,104,393	374,393,629	384,591,292
<b>Total</b>	<b>5,019,258,311</b>	<b>4,546,418,312</b>	<b>6,055,729,325</b>	<b>5,314,408,569</b>

5. NET INTEREST INCOME

5.1. Interest income

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Reverse Repurchase agreements	232,096,344	246,545,921	239,725,637	248,357,983
Placements with banks	14,101,406	12,237,442	15,919,601	26,935,821
Financial investments held for trading	91,200,221	73,176,305	91,200,221	73,176,305
Loans and receivables to banks	-	-	1,952,600	1,952,600
Loans and receivables to other customers	3,153,548,874	3,254,471,168	3,900,845,163	3,676,962,661
Other Loans and receivables	174,275,246	96,072,498	231,962,409	145,079,004
Interest income accrued on impaired financial assets	83,984,839	114,734,636	109,428,331	128,310,024
Financial investments-available for sale	385,470,032	154,451,079	386,664,764	161,584,208
Financial investments-held to maturity	20,806,650	20,372,779	20,806,650	20,372,779
<b>Total</b>	<b>4,155,483,612</b>	<b>3,972,061,828</b>	<b>4,998,505,376</b>	<b>4,482,731,384</b>

5.2. Interest expense

Due to banks	143,840,249	62,255,271	257,618,050	129,526,937
Due to other customers	1,989,941,362	2,147,186,970	2,300,809,697	2,382,621,696
Others	-	45,000	-	45,000
<b>Total</b>	<b>2,133,781,611</b>	<b>2,209,487,241</b>	<b>2,558,427,747</b>	<b>2,512,193,633</b>
<b>Net interest income</b>	<b>2,021,702,001</b>	<b>1,762,574,587</b>	<b>2,440,077,629</b>	<b>1,970,537,751</b>

5.3. 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 2015 to 31 December 2015, has been grossed up by Rs. 49.6Mn ( 2014 - Rs. 45.8Mn) and Rs. 48.1Mn ( 2014 - Rs. 45.4Mn) respectively.

6. NET FEE AND COMMISSION INCOME

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Fee and commission income	226,603,279	197,198,292	404,789,452	351,032,094
Less: Fee and commission expenses	46,005,344	43,559,907	61,773,747	58,620,098
<b>Net fee and commission income</b>	<b>180,597,935</b>	<b>153,638,386</b>	<b>343,015,705</b>	<b>292,411,996</b>

6.1. Fee and commission income				
Loans	35,802,710	18,908,422	83,077,675	51,851,085
Cards	5,924,439	2,688,027	5,924,439	2,688,027
Trade and remittances	126,350,350	111,155,465	126,350,350	111,155,465
Guarantees	49,373,906	53,742,463	49,373,906	53,742,463
Fund Management	-	-	121,807,709	116,613,814
Others	9,151,874	10,703,915	18,255,373	14,981,240
<b>Total</b>	<b>226,603,279</b>	<b>197,198,292</b>	<b>404,789,452</b>	<b>351,032,094</b>

7. NET TRADING INCOME

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Capital gain from government dealing securities	12,470,959	15,568,503	12,470,959	15,568,503
Income from dealing securities	(765,170)	19,045,831	(765,170)	19,045,831
Capital gain from investment in units	266,335,079	61,439,464	266,335,079	61,439,465
<b>Total</b>	<b>278,040,868</b>	<b>96,053,799</b>	<b>278,040,868</b>	<b>96,053,799</b>

8. OTHER OPERATING INCOME (NET)

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Dividend income	13,979,257	9,393,765	648,453	1,162,923
Gain/(loss) on sale of available for sale financial investments	6,608,417	-	12,633,112	18,520,668
Gain/(loss) on sale of property, plant and equipment	(3,107,013)	(6,611,013)	(1,681,319)	(6,611,013)
Foreign exchange gain	153,665,166	88,848,705	153,665,166	88,848,705
Others	187,984,725	189,472,936	209,128,217	282,670,009
<b>Total</b>	<b>359,130,552</b>	<b>281,104,393</b>	<b>374,393,629</b>	<b>384,591,292</b>

9. CREDIT LOSS EXPENSE

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Loans and Receivables to customers				
Overdrafts	84,751,816	61,738,268	84,751,816	61,738,268
Trade finance	(21,277,392)	32,384,648	(21,277,392)	32,384,648
Pawning	12,554,648	348,303,363	12,554,648	348,303,363
Staff loans	(514,507)	730,880	(514,507)	730,880
Term loans	72,912,320	62,902,666	67,456,552	(24,282,357)
Lease/HP	7,378,913	32,635,562	85,747,298	162,508,701
Others	20,923,501	2,469,405	31,415,993	(54,855,533)
<b>Total</b>	<b>176,729,299</b>	<b>541,164,792</b>	<b>260,134,408</b>	<b>526,527,971</b>

10. STAFF COSTS

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Salary and bonus	670,052,879	449,389,098	802,358,714	550,710,814
Contributions to defined contribution plans	86,722,345	60,924,296	104,494,976	74,945,350
Contributions to defined benefit plans	17,269,053	13,444,709	21,125,310	16,024,176
Social Security cost	25,158,169	18,154,233	35,675,705	24,420,218
Share based expenses	1,029,683	-	1,029,683	-
Others	192,963,298	118,213,312	194,809,484	118,580,576
<b>Total</b>	<b>993,195,427</b>	<b>660,125,648</b>	<b>1,159,493,872</b>	<b>784,681,134</b>

Contributions to Retirement benefit obligation have been made based on the actuarial valuation carried out as at 31 December 2015. Please refer note 34.1 for detailed disclosure and assumptions on the Retirement benefit obligation.

11. OTHER EXPENSES

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Directors' emoluments	7,309,522	9,999,998	14,885,237	17,091,903
Auditors' remunerations	3,980,000	3,260,000	6,373,298	5,719,124
Non-audit fees to auditors	1,992,689	1,902,353	1,992,689	1,989,247
Professional and legal expenses	35,383,742	16,342,084	49,724,602	31,587,843
Advertising and Marketing expenses	169,254,770	53,658,928	221,624,861	96,667,721
Office administration and establishment expenses	699,543,296	574,417,712	840,413,273	699,040,689
Others	86,785,167	49,039,673	88,268,890	53,318,355
<b>Total</b>	<b>1,004,249,186</b>	<b>708,618,748</b>	<b>1,223,282,850</b>	<b>905,414,882</b>

Directors' emoluments include fees paid to non-executive directors. Remuneration paid to executive directors are included under salary and bonus in note 10.

12. TAXATION

The components of income tax expense for the years ended 31 December 2015 and 2014 are;

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Current tax expense	-	-	17,348,502	73,762,222
(Over)/under provision in respect of prior years	-	-	(23,734,567)	4,781,618
Deferred tax expense	13,295,975	3,714,869	43,823,311	3,791,004
<b>Total</b>	<b>13,295,975</b>	<b>3,714,869</b>	<b>37,437,246</b>	<b>82,334,844</b>

12.1 Reconciliation of Accounting Profit to taxation

A reconciliation between the taxable income and the accounting profit multiplied by income tax rate for the years ended 31 December 2015 and 2014 is given below;

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Profit Before Tax	205,993,959	60,803,016	292,180,010	160,531,509
Add: Disallowable Expenses	542,545,691	556,896,401	643,900,780	901,215,842
Less: Tax Deductible Expenses	(1,046,412,234)	(550,669,152)	(1,095,288,071)	(589,033,807)
Tax Exempt Income	(114,194,999)	(89,653,984)	(114,194,999)	(89,653,984)
Adjusted profit/ (loss) for tax purposes	(412,067,582)	(22,623,718)	(273,402,279)	383,059,561
Tax Losses claimed	-	-	-	(101,488,477)
Taxable Income	-	-	-	281,571,084
Income Tax on Current Year Profit @28%	-	-	13,493,993	68,344,698
Income Tax on Current Year Profit @10% (NAMAL)	-	-	3,854,509	5,417,524
(Over)/ under provision in respect of previous year	-	-	(23,734,567)	4,781,618
Deferred Tax charge/(credit) ( Note No 28.1)	13,295,975	3,714,869	43,823,311	3,791,004
<b>Taxation for the year</b>	<b>13,295,975</b>	<b>3,714,869</b>	<b>37,437,246</b>	<b>82,334,844</b>
<b>Effective Tax Rate (%)</b>	<b>6%</b>	<b>6%</b>	<b>13%</b>	<b>51%</b>

12.1.1 Applicable rates of tax

	2015 Rs.	2014 Rs.
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) Ltd	28%	28%

12.2 The deferred tax (credit)/charge in the statement of profit or loss comprise of the following.

The following table shows deferred tax expense recorded in the statement of profit or loss due to changes in the deferred tax asset and liabilities

Year ended 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Deferred tax assets	(74,696,117)	(51,545,881)	(44,131,444)	(51,583,516)
Deferred tax liabilities	87,992,092	55,260,750	87,954,755	55,374,520
Deferred tax charge to income statement	13,295,975	3,714,869	43,823,311	3,791,004

13. EARNINGS PER SHARE

13.1 Earnings per share - Basic

The basic earnings per share have been calculated by dividing the profits attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year as required by the LKAS 33 (Earnings per Share).

Year ended 31 December	GROUP	
	2015 Rs.	2014 Rs.
Amount used as the numerator		
Net profit attributable to ordinary shareholders (Rs.)	222,770,454	31,063,069
Amount used as the denominator		
Weighted average number of ordinary shares (Refer Note 13.1.1)	1,091,406,249	540,380,650
Basic earnings per ordinary share (Rs.)	0.20	0.06

13.1.1 Weighted Average Number of Ordinary shares for Basic EPS

	2015		2014	
	Outstanding Rs.	Weighted Average Rs.	Outstanding Rs.	Weighted Average Rs.
Number of shares held as at 1 January	1,091,406,249	1,091,406,249	349,250,000	349,250,000
Add: Number of shares issued	-	-	742,156,249	191,130,650
Number of shares held as at 31 December	1,091,406,249	1,091,406,249	1,091,406,249	540,380,650

13.2 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 warrants and ESOPs into ordinary shares.

Year ended 31 December	2015		2014	
	Rs.		Rs.	
Amount used as the numerator				
Net profit attributable to ordinary shareholders (Rs.)	222,770,454	31,063,069		
Amount used as the denominator				
Weighted average number of ordinary shares (Refer Note 13.2.1)	1,151,431,340	554,549,344		
Diluted earnings per ordinary share (Rs.)	0.19	0.06		

13.2.1 Weighted Average Number of Ordinary shares for Diluted EPS

	2015	2014
	Rs.	Rs.
Number of ordinary shares used as denominator for Basic EPS (Refer Note 13.1.1)	1,091,406,249	540,380,650
Effect of dilution :		
Add: Weighted average number of potential ordinary shares outstanding under warrant	218,281,250	56,214,897
Add: Weighted average number of potential ordinary shares outstanding under ESOP	14,383,879	-
Less: Weighted average number of potential ordinary shares that would have been issued at average market price	(172,640,038)	(42,046,203)
Number of shares held as at 31 December	1,151,431,340	554,549,344

14. DIVIDEND PAID AND PROPOSED

Year ended 31 December	2015	2014
	Rs.	Rs.
Final dividend paid during the year		
Dividend on ordinary shares at Rs. 0.25	-	87,312,500
Final dividend proposed for the year		
Dividend on ordinary shares at Rs. 0.04	43,656,250	-

15. CASH AND BALANCES WITH BANKS

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Cash in hand and at Banks	1,504,512,361	1,459,466,640	1,708,684,566	1,740,232,286
Statutory balances with Central Bank of Sri Lanka (Refer 15.1)	1,306,812,184	949,105,170	1,306,812,184	949,105,170
Total	2,811,324,545	2,408,571,810	3,015,496,750	2,689,337,456

15.1 Statutory balances with Central bank include the cash balance that is required as per the provisions of section 93 of the Monetary Law act. The minimum cash reserve requirement was 6% of the rupee deposit liabilities as at 31 December 2015 ( 6% as at 31 December 2014). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

16. REVERSE REPURCHASED AGREEMENTS

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Due to banks	450,685,714	10,543,106,240	556,727,467	10,642,158,185
Due to other customers	1,062,739,607	-	1,062,739,607	-
Total	1,513,425,321	10,543,106,240	1,619,467,074	10,642,158,185

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross is the amount of a derivative's underlying asset, reference rate is the basis upon which changes in the fair value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end are indicative of neither the market risk nor the credit risk.

BANK & GROUP As at 31 December	2015			2014		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Forward foreign exchange contracts	10,621,429	-	5,930,976,737	4,150,249	-	1,479,992,857
<b>Total</b>	<b>10,621,429</b>	<b>-</b>	<b>5,930,976,737</b>	<b>4,150,249</b>	<b>-</b>	<b>1,479,992,857</b>

## 18. FINANCIAL ASSETS - HELD FOR TRADING

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Sri Lanka Government Securities	478,816,674	682,353,699	478,816,674	682,353,699
Equity securities	-	33,462,120	-	33,462,120
Investment in Units (Refer Note 18.1)	7,984,990,735	1,868,655,656	7,984,990,735	1,868,655,656
<b>Total</b>	<b>8,463,807,409</b>	<b>2,584,471,476</b>	<b>8,463,807,409</b>	<b>2,584,471,476</b>

### 18.1 Investment in Units

As at 31 December	2015			2014		
	No of units	Cost Rs.	Market Value Rs.	No of units	Cost Rs.	Market Value Rs.
	NAMAL Gilt Edge Fund	157,111,457	1,600,000,000	1,685,240,328	109,528,236	1,100,000,000
NAMAL High Yield Fund	208,482,210	2,900,000,000	3,058,142,133	55,095,491	750,000,000	757,546,465
NDB Wealth Management	228,473,720	3,200,457,232	3,241,608,274	-	-	-
<b>Total</b>		<b>7,700,457,232</b>	<b>7,984,990,735</b>		<b>1,850,000,000</b>	<b>1,868,655,656</b>

## 19. LOANS AND RECEIVABLES TO BANKS

GROUP As at 31 December	2015		2014	
	No. of Debentures	Carrying Value Rs.	No. of Debentures	Carrying Value Rs.
	Investments in Debentures			
Nations Trust Bank	50,200	5,675,342	50,200	5,675,342
National Development Bank	100,000	10,328,982	100,000	10,328,982
<b>Total</b>		<b>16,004,324</b>		<b>16,004,324</b>

20. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Gross loans and receivables (Refer Note 20.1)	40,663,715,473	26,558,875,250	46,420,781,086	30,648,645,894
(Less): Individual impairment (Refer Note 20.4)	(204,579,130)	(126,310,263)	(430,907,831)	(761,677,943)
Collective impairment (Refer Note 20.4)	(363,804,391)	(487,995,076)	(539,559,634)	(669,110,709)
<b>Net loans and receivables</b>	<b>40,095,331,952</b>	<b>25,944,569,911</b>	<b>45,450,313,621</b>	<b>29,217,857,242</b>

20.1 Loans and Receivables to other customers - by product

Overdrafts	7,804,094,111	7,489,640,925	7,776,506,004	7,489,640,925
Trade finance	9,163,730,137	5,803,521,408	9,163,730,137	5,803,521,408
Pawning	397,986,793	1,354,727,610	397,986,793	1,363,721,203
Staff loans	520,018,800	321,697,968	521,184,963	324,705,851
Term loans	21,209,688,983	10,276,601,512	22,232,999,617	11,393,743,744
Lease and Hire Purchase	1,164,132,321	954,207,202	4,591,949,789	2,883,752,584
Factoring	404,064,328	358,478,625	1,523,937,920	978,605,735
Others	-	-	212,485,863	410,954,444
<b>Gross Loans and Receivables</b>	<b>40,663,715,473</b>	<b>26,558,875,250</b>	<b>46,420,781,086</b>	<b>30,648,645,894</b>

20.2 Loans and Receivables to other customers - by currency

Sri Lanka Rupee	34,980,305,957	22,894,175,861	40,737,371,570	26,983,946,504
United States Dollar	5,556,820,808	3,489,287,835	5,556,820,808	3,489,287,835
Euro	119,090,532	166,517,611	119,090,532	166,517,611
Others	7,498,176	8,893,943	7,498,176	8,893,944
<b>Gross Loans and Receivables</b>	<b>40,663,715,473</b>	<b>26,558,875,250</b>	<b>46,420,781,086</b>	<b>30,648,645,894</b>

20.3 Loans and Receivables to other customers - by industry

Agriculture and fishing	4,827,820,094	3,470,842,147	4,827,820,094	3,470,842,147
Manufacturing	9,352,813,851	5,103,821,110	9,352,813,851	5,103,821,110
Tourism	983,108,403	708,969,280	983,108,403	708,969,280
Transport	49,212,623	35,507,984	3,477,030,092	1,965,053,367
Construction	1,750,224,623	2,056,567,899	3,286,562,391	3,267,460,132
Traders	10,324,950,463	7,884,362,149	11,444,824,054	8,504,489,257
New economy	245,422,936	198,508,412	245,422,936	198,508,412
Financial and Business Services	6,798,343,868	2,001,267,902	6,258,819,781	1,907,517,902
Infrastructure	51,805,206	58,683,558	51,805,206	58,683,558
Other Services	2,595,938,357	1,326,115,862	2,808,499,229	1,740,078,189
Other Customers Including Pawning	3,684,075,049	3,714,228,947	3,684,075,049	3,723,222,540
<b>Gross Loans and Receivables</b>	<b>40,663,715,473</b>	<b>26,558,875,250</b>	<b>46,420,781,086</b>	<b>30,648,645,894</b>

20.4 Movements in Individual and Collective Impairment during the Year

<b>Individual impairment</b>				
Opening balance as at 1 January	126,310,263	165,628,397	761,677,943	1,043,342,376
Charge to statement of profit or loss	78,268,867	92,803,882	167,034,366	188,472,390
Net write-off during the year	-	(132,122,016)	(497,804,478)	(470,136,823)
Closing balance as at 31 December	204,579,130	126,310,263	430,907,831	761,677,943
<b>Collective impairment</b>				
Opening balance as at 1 January	487,995,076	366,871,791	669,110,709	667,058,440
Charge to statement of profit or loss	98,460,432	372,579,620	93,100,042	253,508,604
Net write-off during the year	(222,651,117)	(251,456,335)	(222,651,117)	(251,456,335)
Closing balance as at 31 December	363,804,391	487,995,076	539,559,634	669,110,709
<b>Total impairment</b>	<b>568,383,521</b>	<b>614,305,339</b>	<b>970,467,465</b>	<b>1,430,788,652</b>

	Lease & Hire Purchases Rs.	Loans & Receivables Rs.	Pawning Rs.	Total Rs.
<b>BANK</b>				
Opening balance as at 1 January 2015	52,784,601	301,046,614	260,474,124	614,305,339
Charge to statement of profit or loss	7,378,913	156,795,737	12,554,649	176,729,299
Net write-off during the year	-	(119,273)	(222,531,844)	(222,651,117)
Closing balance as at 31 December 2015	60,163,514	457,723,078	50,496,929	568,383,521
<b>GROUP</b>				
Opening balance as at 1 January 2015	259,314,505	900,954,719	270,519,428	1,430,788,652
Charge to statement of profit or loss	85,747,298	161,832,461	12,554,649	260,134,408
Net write-off during the year	(188,367,843)	(299,510,604)	(232,577,148)	(720,455,595)
Closing balance as at 31 December 2015	156,693,960	763,276,576	50,496,929	970,467,465

## 20.6 Lease Rentals Receivables

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Total lease rentals receivable	1,222,504,102	816,979,185	5,416,898,606	2,715,298,178
Unearned lease income	(200,454,723)	(128,893,618)	(1,344,280,070)	(712,122,650)
Gross lease receivable	1,022,049,379	688,085,567	4,072,618,536	2,003,175,528
Impairment Allowance for lease receivable	(45,505,573)	(39,312,625)	(120,801,324)	(211,319,192)
Net lease receivables	976,543,806	648,772,942	3,951,817,212	1,791,856,336
Gross lease receivable within one year	395,789,249	344,933,790	1,286,153,722	878,986,923
Gross lease receivable after one year	626,260,130	343,151,776	2,786,464,815	1,124,188,605
<b>Total</b>	<b>1,022,049,379</b>	<b>688,085,566</b>	<b>4,072,618,537</b>	<b>2,003,175,528</b>
<b>Gross Lease Receivable within one year</b>				
Total lease receivable within one year	503,584,608	422,362,275	1,871,172,733	1,205,076,274
Unearned lease income	(107,795,359)	(77,428,485)	(585,019,012)	(326,089,351)
Gross lease receivables	395,789,249	344,933,790	1,286,153,721	878,986,923
Impairment Allowance for lease receivable	(39,114,360)	(29,937,622)	(62,652,311)	(194,529,153)
Net lease receivables	356,674,889	314,996,168	1,223,501,410	684,457,770
<b>Gross Lease Receivable after one year</b>				
Total lease receivable after one year	718,919,494	394,616,909	3,545,725,873	1,510,221,904
Unearned lease income	(92,659,364)	(51,465,133)	(759,261,058)	(386,033,299)
Gross lease receivables	626,260,130	343,151,776	2,786,464,815	1,124,188,605
Impairment Allowance for lease receivable	(6,391,213)	(9,375,003)	(58,149,013)	(16,790,039)
Net lease receivables	619,868,917	333,776,773	2,728,315,802	1,107,398,566
<b>20.7 Hire Purchase Receivables</b>				
Total hire purchase receivable	169,829,782	329,306,425	652,018,782	1,187,928,119
Unearned hire purchase income	(27,746,840)	(63,184,790)	(132,687,530)	(307,351,063)
Gross hire purchase receivable	142,082,942	266,121,634	519,331,252	880,577,056
Impairment Allowance for hire purchase receivable	(14,657,940)	(13,471,976)	(35,892,635)	(47,995,312)
Net hire purchase receivables	127,425,002	252,649,659	483,438,617	832,581,744
Gross hire purchase receivable within one year	78,939,763	101,408,533	263,068,403	329,860,274
Gross hire purchase receivable after one year	63,143,179	164,713,101	256,262,849	550,716,782
<b>Total</b>	<b>142,082,942</b>	<b>266,121,634</b>	<b>519,331,252</b>	<b>880,577,056</b>

20.7 Hire Purchase Receivables (contd.)

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
<i>Gross hire purchase Receivable within one year</i>				
Total hire purchase receivable within one year	98,925,512	135,296,430	350,724,398	495,323,086
Unearned hire purchase income	(19,985,749)	(33,887,897)	(87,655,995)	(165,462,811)
Gross hire purchase receivable	78,939,763	101,408,533	263,068,403	329,860,274
Impairment Allowance for hire purchase receivable	(12,908,607)	(8,042,245)	(23,272,910)	(39,896,003)
Net hire purchase receivables	66,031,156	93,366,288	239,795,493	289,964,271
<i>Gross hire purchase Receivable after one year</i>				
Total hire purchase receivable after one year	70,904,270	193,927,463	301,294,384	692,522,502
Unearned hire purchase income	(7,761,091)	(29,214,361)	(45,031,535)	(141,805,720)
Gross hire purchase receivable	63,143,179	164,713,101	256,262,849	550,716,782
Impairment Allowance for hire purchase receivable	(1,749,333)	(5,429,731)	(12,619,725)	(8,099,309)
Net hire purchase receivables	61,393,846	159,283,371	243,643,124	542,617,473

21. OTHER LOANS AND RECEIVABLES

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Investment in Deep Discounted Bond (Refer Note 21.1)	2,569,046,289	2,470,115,184	-	-
Fixed Deposits	-	-	1,780,685,198	1,630,814,880
Sri Lanka Development Bond	1,318,605,243	-	1,318,605,243	-
Investment in Debentures (Refer Note 21.2)	1,445,719,642	-	1,463,805,440	18,319,011
Lease backed trust certificates (Refer Note 21.3)	388,177,884	-	388,177,884	-
<b>Total</b>	<b>5,721,549,058</b>	<b>2,470,115,184</b>	<b>4,951,273,765</b>	<b>1,649,133,891</b>

21.1 Investment in Deep Discounted Bond

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%.

21.2 Investment in Debentures

BANK As at 31 December	2015	
	No. of Debentures Rs.	Carrying Value Rs.
Commercial Leasing & Finance PLC	5,000,000	521,904,110
DFCC Bank PLC	5,163,300	542,719,414
Pan Asia Banking Corporation PLC	3,715,280	381,096,118
<b>Total</b>		<b>1,445,719,642</b>

21.2 Investment in Debentures (contd.)

GROUP As at 31 December	2015		2014	
	No. of Debentures	Carrying Value	No. of Debentures	Carrying Value
	Rs.	Rs.	Rs.	Rs.
Commercial Leasing & Finance PLC	5,000,000	521,904,110	-	-
DFCC Bank PLC	5,163,300	542,719,414	-	-
Pan Asia Banking Corporation PLC	3,715,280	381,096,118	-	-
Ceylinco Sec. & Fin. Services Co Ltd	2,000	200,000	2,000	200,000
Ceylinco Institute of Mgt Ltd	2,000	200,000	2,000	200,000
Seylan Merchant Leasing Ltd	300	30,000	300	30,000
Senkadagala Finance PLC	180,000	18,085,798	180,000	18,089,011
		1,464,235,440		18,519,011
(Less): Impairment charges		(430,000)		(200,000)
<b>Total</b>		<b>1,463,805,440</b>		<b>18,319,011</b>

21.3 Lease backed trust certificates

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Senkadagala Finance Co. PLC	388,177,884	-	388,177,884	-
<b>Total</b>	<b>388,177,884</b>	<b>-</b>	<b>388,177,884</b>	<b>-</b>

22. FINANCIAL INVESTMENTS-AVAILABLE FOR SALE

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Equity securities				
Un-quoted	1,530,000	1,530,000	17,624,900	16,034,900
Quoted (Refer Note 22.1)	-	-	32,201,577	10,344,968
Investment in Unit Trusts (Refer Note 22.2)	-	-	124,688,297	117,661,594
Sri Lanka Government Securities - Available for sale	8,354,600,222	1,646,155,722	8,364,044,281	1,656,708,744
<b>Net Available for sale Investments</b>	<b>8,356,130,222</b>	<b>1,647,685,722</b>	<b>8,538,559,055</b>	<b>1,800,750,206</b>

22.1 Equity securities-Quoted Investments

As at 31 December	GROUP	
	2015	2014
	Rs.	Rs.
Cost	35,256,908	12,029,123
Less: Impairment Charges	(3,055,331)	(1,684,155)
<b>Total</b>	<b>32,201,577</b>	<b>10,344,968</b>

22.2 Investment in Units

GROUP As at 31 December	2015			2014		
	No of units	Cost	Market Value	No of units	Cost	Market Value
		Rs.	Rs.		Rs.	Rs.
Eagle Growth and Income Fund (Former Pyramid Unit Trust)	8,928	75,000	317,299	7,500	75,000	75,000
Cey Bank Unit Trust	11,323	100,000	336,388	9,569	100,000	100,000
Investrust Money Market Fund	1,903,529	20,000,000	20,758,122	-	-	-
NAMAL Money Market Fund	67,422	694,940	708,695	67,422	694,940	710,327
NAMAL High Yield Fund	6,992,337	93,111,468	102,567,793	8,493,005	106,107,422	116,776,267
<b>Total</b>		<b>113,981,408</b>	<b>124,688,297</b>		<b>106,977,362</b>	<b>117,661,594</b>

23. INVESTMENT IN SUBSIDIARIES

As at 31 December	2015		2014	
	Percentage Holding	Cost	Percentage Holding	Cost
	%	Rs.	%	Rs.
National Asset Management Ltd.	51.00	331,500,000	51.00	331,500,000
UB Finance Company Ltd.	66.17	560,864,489	66.17	560,864,489
<b>Total</b>		<b>892,364,489</b>		<b>892,364,489</b>

23.1. Summarised financial information of subsidiaries

	2015		2014	
	UB Finance Company Limited	National Asset Management Limited	UB Finance Company Limited	National Asset Management Limited
	Rs.	Rs.	Rs.	Rs.
<b>For the year ended 31 December</b>				
Net operating income	454,165,654	131,637,451	405,587,870	140,066,380
Less: Operating expenses	409,729,254	89,572,112	260,038,824	83,609,276
Profit before taxes	44,436,400	42,065,339	145,549,046	56,457,104
Less: Tax expense (including VAT on financial services and NBT)	8,019,633	1,958,161	79,067,651	6,165,389
Profit after tax	36,416,767	40,107,178	66,481,395	50,291,715
Total comprehensive income	35,256,183	40,068,475	67,515,574	52,653,098
<b>As at 31 December</b>				
Loans and receivables from other customers	5,894,505,757	1,091,153	3,367,037,331	-
Property, Plant and equipment and intangible assets	127,001,109	18,212,011	110,446,580	23,713,697
Other assets	87,730,961	26,112,283	60,817,133	35,699,730
Total assets	7,144,973,542	241,051,624	4,489,278,604	247,244,461
Due to other customers	4,122,167,401	-	2,661,670,855	-
Other borrowed funds	1,821,700,002	-	938,835,339	-
Other liabilities	340,138,718	14,047,736	232,966,097	10,621,171
Total liabilities	6,495,076,679	17,836,487	3,874,637,924	34,097,805
Total Equity	649,896,862	223,215,137	614,640,678	213,146,660

23.2 Proportion of equity interest held by non-controlling interest

As at 31 December	Country of incorporation and operation	2015	2014
National Asset Management Ltd.	Sri Lanka	33.8%	33.8%
UB Finance Company Ltd.	Sri Lanka	49.0%	49.0%

24. FINANCIAL INVESTMENTS - HELD TO MATURITY

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Senior Debentures	110,085,108	110,085,108	110,085,108	110,085,108
Sri Lanka Government Securities	30,443,719	29,942,307	30,443,719	29,942,307
<b>Total</b>	<b>140,528,827</b>	<b>140,027,415</b>	<b>140,528,827</b>	<b>140,027,415</b>

25. INVESTMENT IN REAL ESTATE

As at 31 December	Group	
	2015 Rs.	2014 Rs.
Land	158,400,034	240,424,951
Housing Projects	13,550,639	13,550,639
Other Projects	412,386,150	412,386,150
Less: Impairment Charge	(371,062,513)	(407,475,022)
<b>Total</b>	<b>213,274,310</b>	<b>258,886,718</b>

26. GOODWILL AND INTANGIBLE ASSETS

BANK	2015		2014	
	Computer Software Rs.	Software under development Rs.	Total Rs.	Computer Software Rs.
<b>Cost</b>				
Opening balance as at 1 January	1,035,241,270	-	1,035,241,270	62,571,709
Additions	132,232,253	144,521,861	276,754,114	695,736,775
Transfers	-	-	-	276,932,786
Closing balance as at 31 December	1,167,473,523	144,521,861	1,311,995,384	1,035,241,270
<b>(Less): Amortisation</b>				
Opening balance as at 1 January	83,491,582	-	83,491,582	8,620,609
Charge for the year	110,304,044	-	110,304,044	74,870,973
Transfers	-	-	-	1,142,008
Closing balance as at 31 December	193,795,626	-	193,795,626	83,491,582
<b>Net book value as at 31 December</b>	<b>973,677,897</b>	<b>144,521,861</b>	<b>1,118,199,758</b>	<b>951,749,690</b>

26. GOODWILL AND INTANGIBLE ASSETS (CONTD.)

GROUP	Goodwill		Computer Software		Brand Value		Asset Management and Advisory Intangible		Licenses and related Infrastructure		Total
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost											
Opening balance	113,031,112	113,031,112	1,071,469,978	97,142,473	10,168,890	10,168,890	118,947,300	118,947,300	136,000,582	136,000,582	1,449,617,862
Additions	-	-	278,097,902	698,644,719	-	-	-	-	-	-	278,097,902
Disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	275,682,786	-	-	-	-	-	-	-
Closing balance	113,031,112	113,031,112	1,349,567,880	1,071,469,978	10,168,890	10,168,890	118,947,300	118,947,300	136,000,582	136,000,582	1,727,715,765
(Less): Amortisation											
Opening balance	-	-	106,944,470	29,068,164	1,440,593	1,440,593	22,467,823	22,467,823	14,738,152	14,738,152	145,591,039
Charge for the year	-	-	112,341,793	76,734,298	-	-	-	-	-	-	112,341,793
Disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	1,142,008	-	-	-	-	-	-	-
Closing balance	-	-	219,286,263	106,944,471	1,440,593	1,440,593	22,467,823	22,467,823	14,738,152	14,738,152	257,932,832
(Less): Impairment charges											
Net book value as at 31 December	113,031,112	113,031,112	1,130,281,617	964,525,508	8,728,297	8,728,297	96,479,477	96,479,477	121,262,430	121,262,430	1,469,782,932

Impairment testing of intangible assets

Key assumptions used in value in use calculations

The recoverable amount of the intangible assets have been determined based on the following methods.

Intangible Asset	Method Used
Goodwill	Free Cashflow to Equity (FCFE)
Brand Value	Free Cashflow to Equity (FCFE)
Asset Management and Advisory Intangibles	Free Cashflow to Equity (FCFE)
Licensing and other Infrastructure	Greenfield Method

The rates used by the Bank:

	Goodwill	Brand Value	Asset Management and Advisory Intangibles	License and other infrastructure
Discount Rate	14.65%	14.65%	14.65%	14.65%
Terminal Growth Rate	2.50%	2.50%	2.50%	2.50%

The calculation of the above are sensitive to discount rates, budgeted income/cashflows, terminal growth rates used to extrapolate cash flows beyond the budgeted period, market rates and market CI ratios.

27. PROPERTY, PLANT AND EQUIPMENT

	BANK					GROUP						
	Leasehold Improvements	Computer & Equipments	Furniture & Fittings	Motor Vehicle	Work-in-progress	Land and Buildings	Leasehold properties	Computer & Equipments	Furniture & Fittings	Motor Vehicle	Work-in-progress	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>2015</b>												
<b>Cost</b>												
Opening balance	494,556,872	776,195,829	200,412,513	60,500,483	11,419,700	36,755,813	522,937,115	794,100,864	277,756,429	85,606,784	11,419,699	1,728,576,704
Additions	78,052,811	207,832,374	69,853,226	-	34,907,210	-	91,863,117	217,063,602	83,230,357	16,510,784	34,907,210	443,575,069
Disposals	(2,784,918)	(2,003,693)	(612,584)	(7,827,177)	-	-	(2,784,918)	(2,003,693)	(612,584)	(12,418,011)	-	(17,819,204)
Transfers	-	19,614,127	-	-	(19,614,127)	-	-	19,614,127	-	-	(19,614,127)	-
Closing balance	569,824,766	1,001,638,637	269,653,155	52,673,306	26,712,783	36,755,813	612,015,314	1,028,774,900	360,374,202	89,699,558	26,712,783	2,154,332,568
<b>(Less): Accumulated depreciation</b>												
Opening balance	258,171,416	428,565,446	89,411,979	12,388,322	-	5,105,360	262,000,198	436,851,066	120,994,331	27,693,058	-	852,644,014
Charge for the year	97,212,855	97,658,279	26,149,405	5,836,051	-	682,337	101,141,941	104,866,452	33,703,067	11,417,203	-	251,811,000
Disposals	(1,955,462)	(1,966,629)	(612,584)	(4,170,604)	-	-	(1,955,462)	(1,966,629)	(612,584)	(4,615,060)	-	(9,149,734)
Closing balance	353,428,810	524,257,096	114,948,800	14,053,768	-	5,787,698	361,166,677	539,750,889	154,084,815	34,495,201	-	1,095,305,279
Net book value as at 31 December	216,395,957	477,381,541	154,704,355	38,619,538	26,712,783	30,968,115	250,828,637	489,024,011	206,289,387	55,204,356	26,712,783	1,059,027,289
<b>2014</b>												
<b>Cost</b>												
Opening balance	463,892,593	661,967,925	179,656,953	50,435,084	287,324,443	36,755,813	485,582,633	673,277,546	251,633,589	78,706,903	287,324,443	1,813,280,907
Additions	53,286,513	103,836,247	27,966,987	22,065,399	11,419,700	-	60,279,976	107,965,224	37,375,429	22,065,399	11,419,700	239,105,728
Disposals	(22,622,234)	-	(7,211,427)	(12,000,000)	-	-	(23,225,494)	-	(7,348,632)	(15,165,518)	-	(45,739,644)
Adjustments	-	10,391,657	-	-	(287,324,443)	-	300,000	12,868,094	(3,903,937)	-	(287,324,443)	(278,070,286)
Closing balance	494,556,872	776,195,829	200,412,513	60,500,483	11,419,700	36,755,813	522,937,115	794,100,864	277,756,429	85,606,784	11,419,699	1,728,576,704
<b>(Less): Accumulated depreciation</b>												
Opening balance	178,320,558	350,072,198	76,129,063	13,667,258	-	4,421,472	180,158,392	354,737,831	100,156,804	26,691,031	-	666,165,530
Charge for the year	90,583,886	78,493,248	20,494,343	6,322,160	-	683,889	93,116,864	81,712,434	29,827,835	11,753,840	-	217,094,861
Disposals	(10,733,028)	-	(7,211,427)	(7,601,096)	-	-	(11,449,342)	-	(7,279,315)	(10,751,813)	-	(29,480,471)
Adjustments	-	-	-	-	-	-	174,285	400,801	(1,710,993)	-	-	(1,135,906)
Closing balance	258,171,416	428,565,446	89,411,979	12,388,322	-	5,105,361	262,000,198	436,851,066	120,994,331	27,693,058	-	852,644,014
<b>(Less): Impairment charges</b>												
Net book value as at 31 December	236,385,456	347,630,383	111,000,534	48,112,160	11,419,700	31,650,452	260,936,917	357,249,798	156,762,098	57,913,726	11,419,790	875,932,693

28. DEFERRED TAXATION

28.1 *Deferred Tax Liabilities*

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Balance as at beginning of the year	(25,284,386)	(23,963,712)	(25,914,794)	(24,517,986)
Deferred Tax charged/(reversed) to the Statement of Profit or Loss	(13,295,975)	(3,714,869)	(13,173,179)	(3,791,004)
Deferred Tax charged/(reversed) to the Statement of Other Comprehensive Income	8,491,760	2,394,195	8,534,445	2,394,195
Balance as at the year end	(30,088,601)	(25,284,386)	(30,553,529)	(25,914,794)
<b>Deferred Tax Assets - Statement of Profit or Loss</b>				
Carry Forward Losses	215,300,371	79,382,825	215,300,371	79,382,825
Retirement Benefit Obligation - Statement of Profit or Loss	16,504,429	13,639,969	16,805,735	13,855,817
Unclaimed impairment	16,477,291	80,851,491	16,477,291	80,851,491
Share based payments - ESOP	288,311	-	288,311	-
	248,570,402	173,874,285	248,871,708	174,090,132
<b>Deferred Tax Assets - Other Comprehensive Income</b>				
Actuarial gains/ (losses) on defined benefit plan liability	3,550,438	2,117,235	3,593,123	2,117,235
Gains / (losses) on re-measuring available for sale financial assets	7,058,557	-	7,058,557	-
	10,608,995	2,117,235	10,651,680	2,117,235
<b>Deferred Tax liability</b>				
Accelerated Depreciation allowance for tax purposes (Property, Plant and Equipment)	(226,934,849)	(157,618,406)	(227,743,767)	(158,464,662)
Accelerated Depreciation allowance for tax purposes ( Lease Rental Receivable)	(62,333,149)	(43,657,499)	(62,333,150)	(43,657,499)
	(289,267,997)	(201,275,906)	(290,076,916)	(202,122,161)
<b>Total</b>	<b>(30,088,601)</b>	<b>(25,284,386)</b>	<b>(30,553,529)</b>	<b>(25,914,794)</b>
<b>28.2 <i>Deferred Tax Assets</i></b>				
Balance as at beginning of the year	-	-	515,837,835	520,773,803
Deferred Tax charged to the Income Statement	-	-	(30,735,502)	(4,935,968)
Balance as at the year end	-	-	485,102,333	515,837,835
<b>Deferred Tax Assets</b>				
Carry Forward Losses	-	-	485,102,333	515,837,835
<b>Total</b>	<b>-</b>	<b>-</b>	<b>485,102,333</b>	<b>515,837,835</b>

29. OTHER ASSETS

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Advances	51,632,200	66,470,692	53,923,828	68,829,296
Prepayments	206,396,145	163,523,303	254,407,082	190,402,602
Refundable Deposits	28,468,184	15,825,994	28,693,303	15,825,994
Prepaid staff cost	139,415,795	134,773,275	139,606,250	135,022,684
Prepaid Lease Rental	1,156,098	2,400,191	1,156,098	2,400,191
Other debtors	20,570,373	636,227	46,442,752	12,985,785
Others	33,830,520	46,688,635	71,568,762	98,451,385
(Less) : Provision for other assets	(5,560,105)	-	(5,560,105)	-
<b>Total</b>	<b>475,909,210</b>	<b>430,318,315</b>	<b>590,237,970</b>	<b>523,917,935</b>

30. DUE TO BANKS

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Borrowings	6,945,214,060	2,090,553,444	7,156,353,227	2,090,553,444
Deposits	34,618	34,282	34,618	55,278,537
<b>Total</b>	<b>6,945,248,678</b>	<b>2,090,587,725</b>	<b>7,156,387,845</b>	<b>2,145,831,980</b>

31. REPURCHASED AGREEMENTS

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
<b>Due to Banks</b>				
Treasury Products	5,477,564,590	-	5,477,564,590	-
<b>Due to other customers</b>				
Treasury Products	2,537,945,792	1,116,489,292	2,289,927,447	1,095,693,980
Debentures	227,041,027	-	227,041,027	-
<b>Total</b>	<b>8,242,551,409</b>	<b>1,116,489,292</b>	<b>7,994,533,064</b>	<b>1,095,693,980</b>

32. DUE TO OTHER CUSTOMERS

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
At amortised cost	37,652,508,137	27,808,891,340	41,623,920,639	30,323,850,013
<b>Total</b>	<b>37,652,508,137</b>	<b>27,808,891,340</b>	<b>41,623,920,639</b>	<b>30,323,850,013</b>

32.1 Due to other Customers - by product

Demand deposits (current accounts)	2,933,981,979	2,206,541,297	2,930,651,037	2,202,984,016
Savings deposits	6,104,594,169	4,707,268,726	6,100,051,144	4,702,631,547
Fixed deposits	26,166,793,866	18,141,269,705	30,146,080,335	20,664,422,837
Certificate of deposits	2,447,138,123	2,753,811,612	2,447,138,123	2,753,811,613
<b>Total</b>	<b>37,652,508,137</b>	<b>27,808,891,340</b>	<b>41,623,920,639</b>	<b>30,323,850,013</b>

32.2 Due to other Customers - by currency

Sri Lanka Rupee	34,886,008,829	25,701,490,288	38,857,421,331	28,216,448,960
United States Dollar	2,265,928,816	1,620,195,096	2,265,928,816	1,620,195,096
Great Britain Pounds	222,075,512	254,794,540	222,075,512	254,794,540
Euro	132,001,689	114,085,363	132,001,689	114,085,363
Australian Dollar	145,572,987	117,547,299	145,572,987	117,547,299
Others	920,304	778,754	920,304	778,755
<b>Total</b>	<b>37,652,508,137</b>	<b>27,808,891,340</b>	<b>41,623,920,639</b>	<b>30,323,850,013</b>

33. OTHER BORROWED FUNDS

As at 31 December	GROUP	
	2015 Rs.	2014 Rs.
Borrowings from Financial Institutions	1,281,084,761	845,085,339
<b>Total</b>	<b>1,281,084,761</b>	<b>845,085,339</b>

34. OTHER LIABILITIES

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Accrued Expenses	29,500,484	29,866,662	49,698,260	34,659,832
Payable on Usance Bills	380,864,216	370,716,406	380,864,216	370,716,406
Retirement Benefit Obligation (Refer Note 34.1)	71,624,524	56,275,728	88,370,476	70,273,832
Other Creditors	573,328,858	484,961,321	836,554,003	484,961,321
Other Payables	157,597,585	261,764,198	211,591,795	482,909,218
<b>Total</b>	<b>1,212,915,667</b>	<b>1,203,584,315</b>	<b>1,567,078,750</b>	<b>1,443,520,609</b>

34.1 Retirement Benefit Obligation

a. Movement in Defined benefit obligation

Defined benefit obligation as at 1 January	56,275,728	41,867,683	70,273,832	54,678,047
Expense on defined benefit plan	17,269,053	13,444,709	21,125,310	16,024,176
Payments made during the year	(7,038,842)	(7,587,362)	(8,435,635)	(8,590,809)
(Gains)/Losses due to assumption change	5,118,585	8,550,698	5,406,969	8,162,418
Defined benefit obligation as at 31 December	71,624,524	56,275,728	88,370,476	70,273,832

b. Net benefit expense  
(recognised under the personnel expense)

Current Service cost	12,063,549	8,839,264	15,257,408	11,012,113
Interest cost on benefit obligation	5,205,504	4,605,445	5,867,902	5,012,063
Expense on defined benefit plan	17,269,053	13,444,709	21,125,310	16,024,176

c. The principal assumptions used in determining defined benefit obligation are shown below;

BANK & GROUP	2015	2014
Discount rate	10.50%	9.25%
Future salary increment rate	9.00%	8.25%
Retirement age	55 Years	55 Years
Maturity Profile	12.5 Years	12.6 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table

d. Messers Piyal S. Goonathileke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the defined benefit plan.

e. The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

Increase/(Decrease) in discount rate	Increase/ (Decrease) in salary increment rate	2015		2014			
		Sensitivity effect on Employment Benefit Obligation Increase/(Decrease) in the Liability	Sensitivity effect on Employment Benefit Obligation Increase/(Decrease) in the Liability	BANK Rs.	GROUP Rs.	BANK Rs.	GROUP Rs.
1%		(7,082,267)	(7,719,996)	(5,335,043)	(5,820,743)		
(-1%)		8,313,531	9,061,538	6,302,324	6,871,284		
	1%	8,116,637	8,849,727	6,130,310	6,683,525		
	(-1%)	(7,043,326)	(7,680,136)	(5,291,342)	(5,773,274)		

### 35. STATED CAPITAL

#### 35.1. Ordinary Shares

BANK & GROUP		
As at 31 December	2015 Rs.	2014 Rs.
Balance as at 1 January	16,334,781,723	4,979,791,113
Issue of ordinary shares	-	11,354,990,610
Balance as at 31 December	16,334,781,723	16,334,781,723

During the financial year ended 31 December 2014, the stated capital was increased by Rs.11,354,990,610 by the issue of 742,156,249 ordinary shares of each Rs. 15.30.

#### Reconciliation of number of shares

BANK & GROUP		
As at 31 December	2015 Rs.	2014 Rs.
Balance as at 1 January	1,091,406,249	349,250,000
Number of shares issued during the year	-	742,156,249
Balance as at 31 December	1,091,406,249	1,091,406,249

#### 35.2. Share Warrants

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Balance as at 1 January	65,484,375	-	65,484,375	-
Issue of warrants	-	65,484,375	-	65,484,375
Balance as at 31 December	65,484,375	65,484,375	65,484,375	65,484,375

During the financial year ended 31 December 2014, the Bank has issued 218,281,250 warrants to be exercised within a period of 6 years at a price of Rs.16 per warrant.

#### 35.3. Share Based Payment Transactions - Employee Share Option Plan (Esop)

##### Share-Based Payment Transactions

Under the Employee share option plan (ESOP), share options of the Bank are granted to vice president and above with performance base and time base terms. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest if and when the performance conditions and service periods are completed. Share options granted will not vest if the performance condition and service terms are not met.

The fair value of the share options is estimated at the grant date using a black-scholes-option pricing model, taking into account the terms and conditions on which the share options were granted.

The share options can be exercised up to two years after the vesting period and therefore, the contractual term of each option granted is five years. There are no cash settlement alternatives.

On 1 December 2015 the Bank established a Share Option Scheme that entitles employees to purchase shares in the Bank. The recognition and measurement principles in Sri Lanka Accounting Standard (SLFRS 2) "Share Based Payment" have been applied to the grants made in 2015. All equity based share options are to be settled by physical delivery of shares as new share issuance and cash components are settled in cash.

The following tables list the inputs and assumption used for the Option plan for the years ended 31 December 2015 in determining fair value of share option:

Fair value at measurement date	422,548,931
Share price	21.60
Exercise price	21.95
Expected volatility	26.04%
Option life (expected weighted average life)	5 Years
Risk free interest rate (based on government bonds)	6.92%

Total expense arising from share-based payment transactions for 2015 is Rs. 1,029,683.

*Movements during the year*

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in share options during the year.

	Number of Options	Weighted Average Exercise Price
Outstanding as at 1 Jan 2015	-	-
Granted During the Year	12,123,698	21.60
Exercised during the year	-	-
Expired during the year	-	-
Outstanding as at 31 Dec 2015	12,123,698	21.60

**35.4. Statutory Reserve Fund**

Five percent of the profit after is transferred to the Reseved Fund as required by Section 20 (1) of the Banking Act No. 30 of 1988. This Reserved Fund will be used only for the purposes of specified in Section 20 (2) of the Banking Act No. 30 of 1988.

**36. COMPARATIVE INFORMATION**

Following reclassification adjustments are made in order to provide more relevant information to the users;

	As reported in 2014 Rs.	BANK Current presentation in 2015 Rs.	Change Rs.	As reported in 2014 Rs.	GROUP Current presentation in 2015 Rs.	Change Rs.
As reported previously ;						
<b>Statement of Profit or Loss</b>						
Fee and commission income	168,720,430	197,198,292	(28,477,863)	322,554,231	351,032,094	(28,477,863)
Other operating income (net)	309,582,256	281,104,393	28,477,863	413,069,155	384,591,292	28,477,863
<b>Statement of Cash Flow</b>						
Cash and cash equivalents at beginning of the year	3,308,142,587	2,632,111,528	(676,031,059)	3,419,294,881	2,743,263,819	(676,031,062)
Cash and cash equivalents at end of the year	12,612,344,255	11,932,106,847	680,237,408	13,049,562,261	12,369,115,502	680,446,759
Investment in other financial assets held for trading	(1,609,761,048)	(1,613,967,396)	(4,206,348)	(1,614,124,372)	(1,618,540,066)	(4,415,697)

**37. MEASUREMENT OF FINANCIAL INSTRUMENTS**

Financial Statements are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses including fair value gains and losses, are 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) by heading of the Statement of Financial Position.

**a. BANK - 2015**

As at 31 December	Held for Trading Rs.	Held to Maturity Rs.	Amortised cost Rs.	Available- for-sale Rs.	Total Rs.
<b>ASSETS</b>					
Cash and balances with banks	-	-	2,811,324,545	-	2,811,324,545
Reverse repurchased agreements	-	-	1,513,425,321	-	1,513,425,321
Placements with banks	-	-	284,078,387	-	284,078,387
Derivative financial instruments	10,621,429	-	-	-	10,621,429
Financial assets - held for trading	8,463,807,409	-	-	-	8,463,807,409
Loans and receivables to other customers	-	-	40,095,331,952	-	40,095,331,952
Other loans and receivables	-	-	5,721,549,058	-	5,721,549,058
Financial investments - available for sale	-	-	-	8,356,130,222	8,356,130,222
Financial investments - held to maturity	-	140,528,827	-	-	140,528,827
Other assets	-	-	49,038,557	-	49,038,557
<b>Total financial assets</b>	<b>8,474,428,838</b>	<b>140,528,827</b>	<b>50,474,747,820</b>	<b>8,356,130,222</b>	<b>67,445,835,707</b>

37. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)

a. BANK - 2015 (contd.)

As at 31 December	Amortised cost Rs.	Total Rs.
<b>LIABILITIES</b>		
Due to banks	6,945,248,678	6,945,248,678
Repurchased agreements	8,242,551,409	8,242,551,409
Due to other customers	37,652,508,137	37,652,508,137
Other liabilities	954,193,075	954,193,075
<b>Total financial liabilities</b>	<b>53,794,501,299</b>	<b>53,794,501,299</b>

b. BANK - 2014

As at 31 December	Held for Trading Rs.	Held to Maturity Rs.	Amortised cost Rs.	Available- for-sale Rs.	Total Rs.
<b>ASSETS</b>					
Cash and balances with banks	-	-	2,408,571,810	-	2,408,571,810
Reverse repurchased agreements	-	-	10,543,106,240	-	10,543,106,240
Placements with banks	-	-	73,994,788	-	73,994,788
Derivative financial instruments	4,150,249	-	-	-	4,150,249
Financial assets - held for trading	2,584,471,476	-	-	-	2,584,471,476
Loans and receivables to other customers	-	-	25,944,569,911	-	25,944,569,911
Other loans and receivables	-	-	2,470,115,184	-	2,470,115,184
Financial investments - available for sale	-	-	-	1,647,685,722	1,647,685,722
Financial investments - held to maturity	-	140,027,415	-	-	140,027,415
Other assets	-	-	16,462,221	-	16,462,221
<b>Total financial assets</b>	<b>2,588,621,725</b>	<b>140,027,415</b>	<b>41,456,820,153</b>	<b>1,647,685,722</b>	<b>45,833,155,016</b>

As at 31 December	Amortised cost Rs.	Total Rs.
<b>LIABILITIES</b>		
Due to banks	2,090,587,725	2,090,587,725
Repurchased agreements	1,116,489,292	1,116,489,292
Due to other customers	27,808,891,340	27,808,891,340
Other liabilities	855,677,726	855,677,726
<b>Total financial liabilities</b>	<b>31,871,646,084</b>	<b>31,871,646,084</b>

37.1 MEASUREMENT OF FINANCIAL INSTRUMENTS

a. GROUP - 2015

As at 31 December	Held for Trading Rs.	Held to Maturity Rs.	Amortised Cost Rs.	Available- for-sale Rs.	Total Rs.
<b>ASSETS</b>					
Cash and balances with banks	-	-	3,015,496,750	-	3,015,496,750
Reverse repurchased agreements	-	-	1,619,467,074	-	1,619,467,074
Placements with banks	-	-	294,074,296	-	294,074,296
Derivative financial instruments	10,621,429	-	-	-	10,621,429
Financial assets - held for trading	8,463,807,409	-	-	-	8,463,807,409
Loans and receivables to banks	-	-	16,004,324	-	16,004,324
Loans and receivables to other customers	-	-	45,450,313,621	-	45,450,313,621
Other loans and receivables	-	-	4,951,273,765	-	4,951,273,765
Financial investments - available for sale	-	-	-	8,538,559,055	8,538,559,055
Financial investments - held to maturity	-	140,528,827	-	-	140,528,827
Other assets	-	-	75,136,055	-	75,136,055
<b>Total financial assets</b>	<b>8,474,428,838</b>	<b>140,528,827</b>	<b>55,421,765,885</b>	<b>8,538,559,055</b>	<b>72,575,282,605</b>

37.1 MEASUREMENT OF FINANCIAL INSTRUMENTS

a. GROUP - 2015 (contd.)

As at 31 December	Amortised cost Rs.	Total Rs.
<b>LIABILITIES</b>		
Due to banks	7,156,387,845	7,156,387,845
Repurchased agreements	7,994,533,064	7,994,533,064
Due to other customers	41,623,920,639	41,623,920,639
Other borrowed funds	1,281,084,761	1,281,084,761
Other liabilities	1,217,418,219	1,217,418,219
<b>Total financial liabilities</b>	<b>59,273,344,528</b>	<b>59,273,344,528</b>

b. GROUP - 2014

As at 31 December	Held for Trading Rs.	Held to Maturity Rs.	Amortised Cost Rs.	Available- for-sale Rs.	Total Rs.
<b>ASSETS</b>					
Cash and balances with central banks	-	-	2,689,337,456	-	2,689,337,456
Reverse repurchased agreements	-	-	10,642,158,185	-	10,642,158,185
Placements with banks	-	-	186,430,108	-	186,430,108
Derivative Financial Instruments	4,150,249	-	-	-	4,150,249
Financial assets held for trading	2,584,471,476	-	-	-	2,584,471,476
Loans and receivables to banks	-	-	16,004,324	-	16,004,324
Loans and receivables to other customers	-	-	29,217,857,242	-	29,217,857,242
Other loans and receivables	-	-	1,649,133,891	-	1,649,133,891
Financial investments -available for sale	-	-	-	1,800,750,206	1,800,750,206
Other Financial investments -held to maturity	-	140,027,415	-	-	140,027,415
Other assets	-	-	28,811,778	-	28,811,778
<b>Total financial assets</b>	<b>2,588,621,724</b>	<b>140,027,415</b>	<b>44,429,732,984</b>	<b>1,800,750,206</b>	<b>48,959,132,329</b>

As at 31 December	Amortised cost Rs.	Total Rs.
<b>LIABILITIES</b>		
Due to banks	2,145,831,980	2,145,831,980
Repurchased agreements	1,095,693,980	1,095,693,980
Due to other customers	30,323,850,013	30,323,850,013
Other borrowed funds	845,085,339	845,085,339
Other liabilities	855,677,726	855,677,726
<b>Total financial liabilities</b>	<b>35,266,139,039</b>	<b>35,266,139,039</b>

38. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS

In the normal course of business, the Bank entered in to various irrevocable commitments and incurs certain contingent liabilities. These consists of guarantees, letters of credit and other undrawn commitments to lend.

Though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the bank.

No material losses are anticipated as a result of these transactions.

### 38.1 Commitments and Contingencies

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Acceptances	707,571,076	541,477,751	707,571,076	541,477,751
Guarantees	3,404,819,723	3,561,670,921	3,404,819,723	3,561,670,921
Letters of credit	2,151,474,153	695,142,751	2,151,474,153	695,142,751
Spot Contracts	410,576,804	135,036,397	410,576,804	135,036,397
Forward Contracts	5,520,399,933	1,479,992,857	5,520,399,933	1,479,992,857
Cheque pending for realization	576,309,106	357,734,796	576,309,106	357,734,796
Other contingent items	3,484,710,415	2,235,512,467	3,484,710,415	2,235,512,467
Undrawn loan commitments	19,790,078,037	15,182,346,101	19,790,078,037	15,182,346,101
<b>Total</b>	<b>36,045,939,247</b>	<b>24,188,914,041</b>	<b>36,045,939,247</b>	<b>24,188,914,041</b>

### 38.2 Capital commitments

The commitments for the installation of Risk Management System and the core banking system incidental to the ordinary course of business as at 31 December are as follows;

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
<b>Approved and Contracted for</b>				
New branches/ Relocations and Refurbishments of Branches	15,453,890	12,762,606	15,453,890	12,762,606
Capital Commitments for new system implementation	30,570,784	3,133,780	30,570,784	3,133,780
Others	-	391,250	-	391,250
<b>Total</b>	<b>46,024,674</b>	<b>16,287,636</b>	<b>46,024,674</b>	<b>16,287,636</b>
<b>Approved but not Contracted for</b>				
New branches/ Relocations and Refurbishments of Branches	141,267,000	480,000,000	141,267,000	480,000,000
Capital Commitments for new system implementation	66,700,000	142,427,330		
Others	315,574,280	382,466,854	315,574,280	524,894,184
<b>Total</b>	<b>523,541,280</b>	<b>1,004,894,184</b>	<b>456,841,280</b>	<b>1,004,894,184</b>
<b>Total Capital Commitments</b>	<b>569,565,954</b>	<b>1,021,181,820</b>	<b>502,865,954</b>	<b>1,021,181,820</b>

### 38.3 Lease Arrangements

Operating Lease Commitments - Bank as Lessee

The bank has entered in to operating leases for bank premises. These leases have and average life of 5 years with no renewal option. There are no restrictions placed upon the lessee by entering in to these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows;

As at 31 December	BANK		GROUP	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Within one year	86,212,447	166,341,229	103,589,447	173,711,229
After one year to five years	174,359,189	174,104,338	283,683,851	215,760,963
More than five years	966,247	14,131,715	97,584,195	68,414,972
<b>Total</b>	<b>261,537,883</b>	<b>354,577,282</b>	<b>484,857,493</b>	<b>457,887,164</b>

### 38.4 Litigations against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has established and legal protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonable estimated, the Bank makes adjustments to account for any adverse effect which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of it's outcome.

38.4 *Litigations against the Bank (contd.)*

- a. 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.
Order made in favour of the Bank	129/12/CL
Trial	11745/L, 16858/L, 2053/L, 2321/L, 2346/L, WP/HCCA/AV 1590 (F) 1992/L, 1993/ L, 23847/P

- b. Appeals filed by customers to obtain enjoining orders to stay the auction of property mortgaged.

Court	Case No.
Commercial High Court	223/13 M (Civil), 121/2014 MR, 488/2014 MR, 79/2015 DSP 64/2015 MR CHC, 518/2014 MR CHC, 506/2014 MR CHC 363/2015 MR CHC, 341/2015 MR CHC, 512/2015 MR CHC
Supreme Court	22/2011 SC CHC, 42/2010 SC

- c. Court actions have been initiated by customers against recovery of money due to the Bank in District Court, case number Negambo-7406/L and Batticaloa 2632/15 SPL.

38.4.1 Litigations against the UB Finance Company Limited

- a. Cases filed against the Company over the repossession of vehicles in District court colombo

Legal Status	Case No
Trial	DSP/0222/10

- 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/107/11, DLM/213/14, 4107/11/M, HC(civil)/121/14, DMR/1608/14, DMR/1609/14, DMR/1610/14

- 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
Supreme Court	SCFR/317/09

- d. Actions filed against the Company with respect to mortgaged property, court orders, title of property.

Court	Case No
District Courts	DSP/0266/12, 2121/P, DLM/126/14
Commercial High Court	HCRA/887/13
Civil Appellate High Court	HCLA/97/14

- 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
Supreme Court	SC/SPL/LA/26/2014
HC	CA(Writ)/377/13 (Appeal Case), CA(Writ)/413/13
Labour Arbitration	3540A

39. ASSET PLEDGE

Nature of Assets	Nature of Liability	2015	2014
		Carrying Amount	Carrying Amount
<b>BANK</b>			
Government Treasury Bills and Bonds	Repurchased agreements	8,015,510,382	1,116,489,292
Debentures	Repurchased agreements	227,041,027	-
<b>GROUP</b>			
Government Treasury Bills and Bonds	Repurchased agreements	7,767,492,037	1,095,693,980
Debentures	Repurchased agreements	227,041,027	-
Lease receivables	Securitisation	1,589,823,456	845,085,339

40. 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.

40.1 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.

40.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Accordingly, Key Management Personnel include the members of the Board of Directors of the entity (including executive and non-executive).

40.2.1 Compensation of Key Management Personnel

	2015	2014
	Rs.	Rs.
Short-term benefits	69,865,701	32,937,180
Post-employment benefits	3,772,725	7,099,195
Other Long term benefits	1,500,000	3,147,375
Total	75,138,427	43,183,750

Current year KMPs include all the directors of the subsidiaries.

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.

40.3 Transactions, Arrangements and Agreements involving KMPs, their Close Family Members (CFMs)

CFMs of a KMPs are those family members who may be expected to influence by, that KMP in their dealing with the entity. They may include KMPs' domestic partner and children, children of KMPs' domestic partner and dependents of the KMP or the KMPs' domestic partner.

40.3.1 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.

	2015		2014	
	Closing Balance	Maximum	Closing Balance	Maximum
	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>				
Loans and Receivables	9,313,494	8,290,984	5,710,997	8,256,812
<b>Liabilities</b>				
Due to other customers	14,994,884	33,261,774	9,341,916	12,326,161

	2015	2014
	Rs.	Rs.
<b>Income Statement - Bank</b>		
Interest Income	186,164	353,923
Interest Expense	796,077	817,309
<b>ESOP granted to KMPs</b>		
Number of options exercised during the year	-	-
Number of options remaining as at 31 December	7,643,819	-

40.4 Transactions with other related parties

The following table shows the outstanding balance and the corresponding interest during the year.

Transaction with Subsidiaries

	2015		2014	
	Closing Balance	Maximum	Closing Balance	Maximum
	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>				
Loans and Receivables	540,615,241	645,048,621	93,750,000	157,911,127
Other Assets	23,373	23,373	2,182,796	2,182,796
<b>Liabilities</b>				
Due to other customers	9,580,849	171,099,929	32,902,219	112,240,209
Repurchased agreements	248,018,345	350,371,228	-	-
Other Payables	-	-	1,468,178	1,468,178

	2015	2014
	Rs.	Rs.
<b>Income Statement - Bank</b>		
Interest Income	27,515,040	8,794,627
Interest Expense	7,299,697	6,229,174
Rent Income	5,846,775	7,057,099
Dividend Received	13,817,257	9,205,125
Other Income	-	2,026,749

**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. 69.4 Mn to the Fund for the year ended 31 December 2015 (2014 - Rs. 49.0 Mn). Fund has invested a sum of Rs. 220 Mn with the bank as at 31 December 2015 (2014 : Rs. 395 Mn).

During the year, bank has incurred sum of Rs 13.5 Mn ( 2014 : Rs. 31.1 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 years Deep Discount Bond maturing in 2023 issued by Serandib Capital Limited, a Special Purpose Vehicle in 2003.

	Balance as at 31-Dec-15 Rs.	Income/ Expense during 2015 Rs.	Balance as at 31-Dec-14 Rs.	Income/ Expense during 2014 Rs.
Serandib Bond	2,569,046,289	98,931,105	2,470,115,184	95,004,430
Deposits	141,174,050	8,147,836	134,367,382	9,581,576
Bonus Coupon	-	792,043	-	1,068,068
Agency Fee	-	47,573	-	63,575

41. SEGMENT INFORMATION

For the Management purposes, the Bank is organised in to four operating segments based on the services offered to customers. The following table presents income, profit and certain asset and liability information regarding the Group operating segments.

	Corporate			Treasury			SME			Retail			Other Group Companies			Total
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	
Interest Income	1,179,162,092	891,321,341	896,567,285	616,741,198	1,645,495,076	2,360,578,504	307,024,180	-	970,256,744	614,090,341	4,998,505,376	4,482,731,384				
Inter-Segment Interest Income	-	-	-	-	-	522,836,477	2,235,034,092	-	-	-	2,235,034,093	522,836,477				
Total Interest Income	1,179,162,092	891,321,341	896,567,285	616,741,198	1,645,495,076	2,883,414,980	2,542,068,272	-	970,256,744	614,090,341	7,233,539,469	5,005,567,861				
Total Interest Expense	150,577,580	295,837,098	387,150,238	83,055,774	8,521,942	1,814,784,967	1,602,103,280	-	410,074,707	318,515,794	2,558,427,747	2,512,193,633				
Inter-Segment Interest Expense	764,972,374	458,661,967	249,451,609	64,174,510	1,220,610,110	-	-	-	-	-	2,235,034,093	522,836,477				
Net Interest Income	263,612,139	136,822,277	259,965,438	469,510,915	416,363,024	1,068,630,013	939,954,992	-	560,182,037	295,574,546	2,440,077,629	1,970,537,751				
Total Other Income	97,294,391	80,272,308	426,366,366	194,001,313	265,575,482	261,800,588	8,821,512	-	197,392,451	236,982,878	995,450,202	773,057,087				
Total Net Income	360,906,530	217,094,584	686,331,804	663,512,228	681,938,506	1,330,430,602	948,776,504	-	757,574,488	532,557,424	3,435,527,831	2,743,594,838				
Less :																
Impairment	44,297,116	35,661,924	-	-	120,154,161	505,502,867	12,278,021	-	83,405,109	(14,636,820)	260,134,408	526,527,971				
Depreciation and Amortisation	27,576,011	24,956,991	27,576,011	24,956,991	113,724,178	220,850,628	168,284,434	-	26,992,160	23,064,548	364,152,793	293,829,158				
Other Expenses	316,795,018	253,030,708	365,694,237	265,157,465	491,965,765	850,556,223	803,542,656	-	404,779,047	321,351,620	2,382,776,722	1,690,096,016				
Segmental Results	(27,761,615)	(96,555,038)	293,061,556	373,397,771	(43,905,598)	(246,479,117)	(35,328,607)	-	242,398,172	202,778,076	428,463,908	233,141,693				
Less: VAT and NBT on Financial Services																
Less: Taxation																
Profit After Taxation																
Other Information																
Segment Assets	20,860,914,602	9,102,577,518	22,935,432,699	17,394,928,113	18,498,169,830	19,411,525,268	4,362,800,923	-	7,885,846,330	4,761,779,928	74,543,164,384	50,670,810,826				
Unallocated Assets																
Consolidated Total Assets																
Segment Liabilities	4,686,267,279	2,657,070,487	15,216,824,152	2,947,364,364	247,522,964	25,671,181,412	33,470,801,876	-	5,627,064,230	4,035,256,113	59,148,480,501	35,310,872,376				
Unallocated Liabilities																
Consolidated Total Liabilities																
Cash flow from operating activities	656,522,795	(304,974,863)	541,627,173	(271,459,177)	895,705,957	(727,429,730)	167,044,608	-	(638,482,866)	(153,591,318)	1,622,417,667	(1,457,455,087)				
Cash flow from investing activities	(154,221,008)	(491,820,173)	(15,317,402,035)	(437,770,832)	(210,406,518)	(1,173,096,423)	(99,298,746)	-	(219,409,694)	(252,105,957)	(15,940,679,002)	(2,354,792,384)				
Cash flow from financing activities	-	422,191,162	4,899,216,212	11,796,268,794	-	1,007,015,464	-	-	613,793,805	212,623,735	5,513,010,017	13,438,099,154				

#### 42. 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 proposed a final dividend of Rs. 0.04 per ordinary share for the financial year ended 31 December 2015. The dividend is to be approved by the share holders at the Annual General Meeting will be held on 31 March 2016.
- ▶ The Statutory Reserve Requirement has increased to 7.5% from 6% in 2015 with effect from 16 January 2016.

#### 43. FAIR VALUE OF ASSETS AND LIABILITIES

##### *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 assets - Held for trading**

Financial assets 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 & un-quoted 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.

Unquoted equities are valued using valuation techniques or pricing models based on the observable and unobservable data at the reporting date.

##### **43.1 Valuation Model**

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.

BANK As at 31 December 2015	Quoted prices in active markets (Level 1) Rs.	Significant observable inputs (Level 2) Rs.	Significant unobservable inputs (Level 3) Rs.	Total Rs.
<b>Financial asset measured at fair value</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	10,621,429	-	10,621,429
<b>Financial Assets - held for trading</b>				
Government debt securities - Treasury bills and bonds	478,816,674	-	-	478,816,674
Investment in Units	7,984,990,735	-	-	7,984,990,735
<b>Financial Assets - available for sale</b>				
Government debt securities - Treasury bills and bonds	8,354,600,222	-	-	8,354,600,222
<b>Total Financial Assets measured at fair value</b>	<b>16,818,407,631</b>	<b>10,621,429</b>	<b>-</b>	<b>16,829,029,060</b>

As at 31 December 2014	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
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<b>Financial asset measured at fair value</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	4,150,249	-	4,150,249
<b>Financial Assets - held for trading</b>				
Government debt securities - Treasury bills and bonds	682,353,699	-	-	682,353,699
Quoted equities	33,462,120	-	-	33,462,120
Investment in Units	1,868,655,656	-	-	1,868,655,656
<b>Financial Assets - available for sale</b>				
Government debt securities - Treasury bills and bonds	1,646,155,722	-	-	1,646,155,722
<b>Total Financial Assets measured at fair value</b>	<b>4,230,627,197</b>	<b>4,150,249</b>	<b>-</b>	<b>4,234,777,446</b>

GROUP As at 31 December 2015	Quoted prices in active markets (Level 1) Rs.	Significant observable inputs (Level 2) Rs.	Significant unobservable inputs (Level 3) Rs.	Total Rs.
<b>Financial asset measured at fair value</b>				
<b>Derivative financial instruments</b>				
Forward foreign exchange contracts	-	10,621,429	-	10,621,429
<b>Financial Assets - held for trading</b>				
Government debt securities - Treasury bills and bonds	478,816,674	-	-	478,816,674
Investment in Units	7,984,990,735	-	-	7,984,990,735
<b>Financial Assets - available for sale</b>				
Government debt securities - Treasury bills and bonds	8,364,044,281	-	-	8,364,044,281
Equity Securities - Quoted	32,201,577	-	-	32,201,577
Equity Securities - Unquoted	-	-	15,894,000	15,894,000
Investment in Units	124,688,297	-	-	124,688,297
<b>Total Financial Assets measured at fair value</b>	<b>16,984,741,564</b>	<b>10,621,429</b>	<b>15,894,000</b>	<b>17,011,256,994</b>

As at 31 December 2014	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial asset measured at fair value</b>				
Derivative financial instruments				
Forward foreign exchange contracts	-	4,150,249	-	4,150,249
<b>Financial Assets held for trading</b>				
Government debt securities - Treasury bills and bonds	682,353,699	-	-	682,353,699
Equity Securities	33,462,120	-	-	33,462,120
Investment in Units	1,868,655,656	-	-	1,868,655,656
<b>Financial Assets available for sale</b>				
Government debt securities - Treasury bills and bonds	1,656,708,744	-	-	1,656,708,744
Equity Securities - Quoted	10,344,968	-	-	10,344,968
Equity Securities - Unquoted	-	-	14,304,000	14,304,000
Investment in Units	117,661,594	-	-	117,661,594
<b>Total Financial Assets measured at fair value</b>	<b>4,369,186,781</b>	<b>4,150,249</b>	<b>14,304,000</b>	<b>4,387,641,030</b>

There have no transfers between Level 1 and Level 2 during the year.

#### 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

	2015 Rs.	2014 Rs.
Balance as at 01 January	14,304,000	12,314,418
To gain or losses:		
in OCI	1,590,000	1,989,582
<b>Balance as at 31 December</b>	<b>15,894,000</b>	<b>14,304,000</b>

##### b. Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 31 December 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy,

Type of Instrument	: Share Investment
Fair values at 31 December 2015"	: Rs. 15,894,000
Valuation Technique	: Tangible Book Value
Significant unobservable inputs	: Audited Financial Statements of the Company

#### Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

##### Loans and receivables to other customers

Fair value of loans and receivables is estimated using valuation models, such as discounted cash flow techniques. Input in to the valuation technique includes interest rates, repayment period and current market rates.

##### Other Loans and receivables

Other loans and receivable consist of debenture investments, Sri Lanka development bonds, fixed deposits and lease backed certificate which are subsequently measured at amortised cost. Fair value of such other loans and receivables are valued using discounted cash flow techniques. Input in to the valuation technique includes interest rates, repayment period and current market rates.

##### Financial Investment - held to maturity

Financial Investments - held to maturity , which primarily consist of Government debt securities and debenture investments which 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 investments is valued using discounted cash flow technique using observable market inputs such as interest rates and remaining maturity period.

**Due to other customers - FDs & CDs**

The fair value of due to customers (deposits) is estimated using discounted cash flow techniques, apply the rates that are offered to deposits of similar maturities and terms.

As at 31 December	Fair Value			Total Value Rs.	Carrying Value Rs.
	Level 1	Level 2	Level 3		
	Rs.	Rs.	Rs.		
<b>BANK - 2015</b>					
<b>Financial assets</b>					
Loans and receivables to other customers	-	40,682,032,992	-	40,682,032,992	40,663,715,473
Other loans and receivables	-	5,653,473,836	-	5,653,473,836	5,721,549,058
Financial investments - held to maturity	-	140,647,191	-	140,647,191	140,528,827
<b>Total</b>	-	46,476,154,019	-	46,476,154,019	46,525,793,358
<b>Financial liabilities</b>					
Due to other customers - FDs & CDs	-	28,540,314,680	-	28,540,314,680	28,613,931,989
<b>Total</b>	-	28,540,314,680	-	28,540,314,680	28,613,931,989

**BANK - 2014**

<b>Financial assets</b>					
Loans and receivables to other customers	-	26,600,632,538	-	26,600,632,538	26,558,875,250
Other loans and receivables	-	2,470,115,184	-	2,470,115,184	2,470,115,184
Financial investments- held to maturity	151,493,743	-	-	151,493,743	140,027,415
<b>Total</b>	151,493,743	29,070,747,722	-	29,222,241,465	29,169,017,849
<b>Financial liabilities</b>					
Due to other customers	-	20,974,957,091	-	20,974,957,091	20,895,081,317
<b>Total</b>	-	20,974,957,091	-	20,974,957,091	20,895,081,317

As at 31 December	Fair Value			Total Value Rs.	Carrying Value Rs.
	Level 1	Level 2	Level 3		
	Rs.	Rs.	Rs.		
<b>GROUP - 2015</b>					
<b>Financial assets</b>					
Loans and receivables to other customers		45,556,681,094		45,556,681,094	46,420,781,086
Other loans and receivables		5,653,473,836			4,951,273,765
Other Financial investments - held to maturity		140,647,191		140,647,191	140,528,827
<b>Total</b>	-	51,350,802,121	-	45,697,328,285	51,512,583,678
<b>Financial liabilities</b>					
Due to other customers - FDs & CDs		34,052,591,188		34,052,591,188	32,593,218,458
Other borrowed funds		1,282,295,109		1,282,295,109	1,281,084,761
<b>Total</b>	-	35,334,886,297	-	35,334,886,297	33,874,303,219

**GROUP - 2014**

<b>Financial assets</b>					
Loans and receivables to other customers	-	30,289,174,489	-	30,289,174,489	29,217,857,242
Other Financial investments -held to maturity	151,493,743	-	-	151,493,743	140,027,415
<b>Total</b>	151,493,743	30,289,174,489	-	30,440,668,232	29,357,884,657
<b>Financial liabilities</b>					
Due to other customers - FDs & CDs	-	23,517,533,788	-	23,517,533,788	23,418,234,450
Other borrowed funds	-	927,928,698	-	927,928,698	845,085,339
<b>Total</b>	-	24,445,462,486	-	24,445,462,486	24,263,319,789

**Assets for which fair value approximates carrying value**

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 following assets and liabilities which are short-term maturity or re-price to current market rates.

Assets	Liabilities
> Cash and balances with central bank	> Due to banks
> Reverse repurchased agreements	> Repurchased agreements
> Placements with banks	> Due to other customers - Savings & Current Accounts
> Other assets	> Other liabilities

**Reclassification of financial assets**

There have been no reclassifications during 2015 and 2014.

**44. MATURITY ANALYSIS OF ASSETS & LIABILITIES**

Bank As at 31 December	2015			2014		
	Within 12 months Rs.	After 12 months Rs.	Total Rs.	Within 12 months Rs.	After 12 months Rs.	Total Rs.
<b>Assets</b>						
Cash and balances with banks	2,811,324,545	-	2,811,324,545	2,408,571,810	-	2,408,571,810
Reverse repurchased agreements	1,513,425,321	-	1,513,425,321	10,543,106,240	-	10,543,106,240
Placements with banks	284,078,387	-	284,078,387	73,994,788	-	73,994,788
Derivative financial instruments	10,621,429	-	10,621,429	4,150,249	-	4,150,249
Financial assets - held for trading	8,463,807,409	-	8,463,807,409	2,584,471,476	-	2,584,471,476
Loans and receivables to other customers	29,669,193,737	10,426,138,215	40,095,331,952	20,707,060,697	5,237,509,214	25,944,569,911
Other loans and receivables	1,764,644,770	3,956,904,288	5,721,549,058	-	2,470,115,184	2,470,115,184
Financial investments - available for sale	5,298,690,344	3,057,439,878	8,356,130,222	1,646,155,722	1,530,000	1,647,685,722
Financial investments - held to maturity	7,242,443	133,286,384	140,528,827	7,239,725	132,787,690	140,027,415
Investments in subsidiaries	-	892,364,489	892,364,489	-	892,364,489	892,364,489
Property, plant and equipment	-	913,814,173	913,814,173	-	754,548,233	754,548,233
Goodwill and intangible assets	-	1,118,199,758	1,118,199,758	-	951,749,690	951,749,690
Current tax asset	208,403,675	-	208,403,675	149,447,786	-	149,447,786
Other assets	290,690,179	185,219,031	475,909,210	229,706,261	200,612,054	430,318,315
<b>Total assets</b>	<b>50,322,122,238</b>	<b>20,683,366,216</b>	<b>71,005,488,455</b>	<b>38,353,904,754</b>	<b>10,641,216,554</b>	<b>48,995,121,308</b>
<b>Liabilities</b>						
Due to banks	5,884,767,774	1,060,480,904	6,945,248,678	2,029,173,691	61,414,034	2,090,587,725
Repurchased agreements	8,242,551,409	-	8,242,551,409	1,116,489,292	-	1,116,489,292
Due to other customers	37,059,621,710	592,886,427	37,652,508,137	27,101,844,154	707,047,186	27,808,891,340
Deferred tax liabilities	30,088,601	-	30,088,601	25,284,386	-	25,284,386
Other liabilities	1,133,150,392	79,765,275	1,212,915,667	1,153,655,928	49,928,387	1,203,584,315
<b>Total liabilities</b>	<b>52,350,179,886</b>	<b>1,733,132,606</b>	<b>54,083,312,492</b>	<b>31,426,447,451</b>	<b>818,389,607</b>	<b>32,244,837,058</b>
<b>Maturity Gap</b>	<b>(2,028,057,648)</b>	<b>18,950,233,610</b>	<b>16,922,175,962</b>	<b>6,927,457,303</b>	<b>9,822,826,947</b>	<b>16,750,284,250</b>
<b>Cumulative Gap</b>	<b>(2,028,057,648)</b>	<b>16,922,175,962</b>		<b>6,927,457,303</b>	<b>16,750,284,250</b>	

44.1 MATURITY ANALYSIS OF ASSETS & LIABILITIES

GROUP As at 31 December	2015			2014		
	Within	After	Total	Within	After	Total
	12	12		12	12	
	months	months	Rs.	months	months	Rs.
<b>Assets</b>						
Cash and balances with banks	3,015,496,750	-	3,015,496,750	2,689,337,456	-	2,689,337,456
Reverse repurchased agreements	1,619,467,074	-	1,619,467,074	10,642,158,185	-	10,642,158,185
Placements with banks	294,074,296	-	294,074,296	186,430,108	-	186,430,108
Derivative Financial Instruments	10,621,429	-	10,621,429	4,150,249	-	4,150,249
Financial assets held for trading	8,463,807,409	-	8,463,807,409	2,584,471,476	-	2,584,471,476
Loans and receivables to Banks	16,004,324	-	16,004,324	-	16,004,324	16,004,324
Loans and receivables to other customers	32,396,813,982	13,053,499,639	45,450,313,621	22,415,378,050	6,802,479,192	29,217,857,242
Other loans and receivables	1,764,644,770	3,186,628,995	4,951,273,765	-	1,649,133,891	1,649,133,891
Financial investments – Available for sale	5,433,126,831	3,105,432,224	8,538,559,055	1,798,011,123	2,739,083	1,800,750,206
Financial investments – Held to maturity	7,242,443	133,286,384	140,528,827	7,239,725	132,787,690	140,027,415
Investments in Real Estate	213,274,310	-	213,274,310	-	258,886,718	258,886,718
Goodwill and intangible assets	-	1,059,027,289	1,059,027,289	-	1,304,026,823	1,304,026,823
Property, plant and equipment	-	1,469,782,932	1,469,782,932	-	875,932,693	875,932,693
Current tax asset	224,554,666	-	224,554,666	149,447,786	-	149,447,786
Deferred tax assets	-	485,102,333	485,102,333	-	515,837,835	515,837,835
Other assets	318,314,176	271,923,794	590,237,970	261,755,020	262,162,915	523,917,935
<b>Total assets</b>	<b>53,777,442,460</b>	<b>22,764,683,590</b>	<b>76,542,126,050</b>	<b>40,738,379,178</b>	<b>11,819,991,164</b>	<b>52,558,370,342</b>
<b>Liabilities</b>						
Due to banks	6,095,906,941	1,060,480,904	7,156,387,845	2,084,417,946	61,414,034	2,145,831,980
Repurchased agreements	7,994,533,064	-	7,994,533,064	1,095,693,980	-	1,095,693,980
Due to other customers	39,574,225,459	2,049,695,180	41,623,920,639	28,703,305,294	1,620,544,719	30,323,850,013
Other borrowed funds	769,508,864	511,575,897	1,281,084,761	657,301,933	187,783,406	845,085,339
Current tax liabilities	3,255,215	170,243,245	173,498,460	8,767,604	172,674,224	181,441,829
Deferred tax liabilities	30,553,529	-	30,553,529	25,284,386	630,408	25,914,794
Other liabilities	1,379,007,434	188,071,316	1,567,078,750	1,381,752,596	61,768,013	1,443,520,609
<b>Total liabilities</b>	<b>55,846,990,506</b>	<b>3,980,066,542</b>	<b>59,827,057,048</b>	<b>33,956,523,740</b>	<b>2,104,814,804</b>	<b>36,061,338,544</b>
<b>Maturity Gap</b>	<b>(2,069,548,046)</b>	<b>18,784,617,048</b>	<b>16,715,069,002</b>	<b>6,781,855,438</b>	<b>9,715,176,360</b>	<b>16,497,031,798</b>
<b>Cumulative Gap</b>	<b>(2,069,548,046)</b>	<b>16,715,069,002</b>	<b>-</b>	<b>6,781,855,438</b>	<b>16,497,031,798</b>	<b>-</b>

45. RISK MANAGEMENT

45.1 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 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.

The IRMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. IRMC is also responsible for managing risks and monitoring risk levels and reports on quarterly basis to the Board.

The Risk Management Department (RMD) is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the IRMC to ensure that procedures are compliant with the overall framework.

The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the bank. This unit ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on daily/ monthly/ quarterly basis, where necessary, to the IRMC or its sub committees, and the relevant actions are taken to address exceptions and any areas of weakness.

Bank Treasury and the Assets and Liabilities Management Committee (ALCO) are responsible for managing the bank's assets and liabilities and the overall financial structure. The Treasury Middle Office, which reports to the Head of Risk Management (independent from treasury) further monitors positions and transactions. The Treasury and ALCO are also primarily responsible for the funding and liquidity risks of the bank.

The bank's policy is that risk management processes throughout the bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

### **Risk measurement and reporting systems**

Monitoring and controlling risks is primarily performed based on limits established by the bank. These limits reflect the business strategy and market environment of the bank as well as the level of risk that the bank is willing to accept, with additional emphasis on selected industries. In addition, the bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and Risk Committees. These reports include aggregate credit exposures, credit concentration, operational risk, market risk, liquidity ratios and stress tests. On a quarterly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the bank.

All risk related policies including a well documented Integrated Risk Management Framework are uploaded in the Bank's Intranet which are being viewed by all staff at all levels for a comprehensive understanding of the Bank's risk appetite and the overall risk management of the Bank.

Briefings are also given to other relevant members of the bank on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

### **Risk mitigation**

As part of its overall risk management, the bank uses various processes and instruments to manage exposures resulting from credit risks, changes in interest rates, foreign currencies, equity risks, and exposures arising from transactions.

The bank actively uses collateral to reduce its credit risks.

### **Excessive risk concentration**

In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific guidelines, including concentration limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

### **45.2 Credit risk**

Credit risk is the risk of financial loss for the Bank if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and receivables to customers/other banks and investments in debt securities.

In addition to the credit risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as Letter of credit, guarantees etc which would carry credit risk.

The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

The bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of borrowers, including regular collateral revisions. Bank uses a risk rating process to rate the borrowers according to its risk profile. The credit quality review process aims to allow the bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

A structured and 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 Managers/ Branch Managers annually. Also bank's borrower risk rating system forms an integral part of the evaluation of credit proposals and assists the approval authorities to assess the creditworthiness of the borrowers. Bank's systems for credit evaluation and decision making are independent from collateralisation albeit collateral helps to mitigate credit risk.

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

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

#### **Impairment assessment**

The methodology of the impairment assessment has explained in the Note 2.3.3.5 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 counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- ▶ For securities lending and reverse repurchase transactions, cash or securities
- ▶ For commercial lending, charges over real estate properties, inventory and trade receivables etc
- ▶ For retail lending, mortgages over residential properties etc

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

The Bank also makes use of netting agreements with borrowers with whom a significant volume of transactions are undertaken.

Although on 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 that the documentation are legally enforceable.

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 Financial Assets	2015		2014	
	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
	Reverse repurchased agreements	1,513,425,321	-	10,543,106,240
Placements with banks	284,078,387	284,078,387	73,994,788	73,994,788
Derivative Financial Instruments	10,621,429	10,621,429	4,150,249	4,150,249
Financial assets-held for trading	478,816,674	478,816,674	682,353,699	682,353,699
Loans and receivables to other customers (Gross)	40,663,715,474	19,851,391,310	26,558,875,250	1,005,459,443
Other loans and receivables	5,721,549,058	1,318,605,244	2,470,115,184	-
Financial investments-available for sale	8,354,600,222	8,354,600,222	1,647,685,722	1,647,685,722
Other Financial investments-held to maturity	140,528,827	30,443,719	140,027,415	29,942,307
Other assets	49,038,557	49,038,557	16,462,221	16,462,221
<b>Total</b>	<b>57,216,373,948</b>	<b>30,377,595,541</b>	<b>42,136,770,768</b>	<b>3,460,048,429</b>

GROUP As at 31 December Financial Assets	2015		2014	
	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
	Reverse repurchased agreements	1,619,467,074	-	10,642,158,185
Placements with banks	294,074,296	294,074,296	186,430,108	186,430,108
Derivative Financial Instruments	10,621,429	10,621,429	4,150,249	4,150,249
Financial assets-held for trading	478,816,674	478,816,674	682,353,699	682,353,699
Loans and receivables Banks	16,004,324	-	16,004,324	-
Loans and receivables to other customers (Gross)	46,420,781,086	26,048,129,013	30,648,645,893	1,500,438,124
Other loans and receivables	4,951,273,765	1,318,605,244	1,649,133,891	1,631,044,880
Financial investments-available for sale	8,364,044,279	8,364,044,279	1,800,750,206	1,800,750,206
Other Financial investments-held to maturity	140,528,827	30,443,719	140,027,415	29,942,307
Other assets	75,136,055	75,136,055	28,811,778	28,811,778
<b>Total</b>	<b>62,370,747,809</b>	<b>36,619,870,709</b>	<b>45,798,465,748</b>	<b>5,863,921,351</b>

#### Credit quality by class of financial assets

The bank manages the credit quality of financial assets using internal credit ratings. It is the bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions. All internal ratings are rechecked at several approval levels within the bank viz 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 2015	Past due but not impaired						
	Neither past due nor impaired Rs.	Less than 3 months Rs.	3-6 months Rs.	6-12 months Rs.	Over 12 months Rs.	Individually impaired Rs.	Total Rs.
	Cash and balances with banks	2,811,324,545	-	-	-	-	-
Reverse repurchased agreements	1,513,425,321	-	-	-	-	-	1,513,425,321
Placements with banks	284,078,387	-	-	-	-	-	284,078,387
Derivative Financial Instruments	10,621,429	-	-	-	-	-	10,621,429
Financial assets held for trading	478,816,674	-	-	-	-	-	478,816,674
Loans and receivables to other customers (Gross)	33,666,317,538	3,993,863,516	80,572,822	120,878,650	852,953,854	1,949,129,092	40,663,715,473
Other loans and receivables	5,721,549,058	-	-	-	-	-	5,721,549,058
Financial investments-available for sale	8,354,600,222	-	-	-	-	-	8,354,600,222
Other Financial investments- held to maturity	140,528,827	-	-	-	-	-	140,528,827
Other assets	49,038,557	-	-	-	-	-	49,038,557
	<b>53,030,300,559</b>	<b>3,993,863,516</b>	<b>80,572,822</b>	<b>120,878,650</b>	<b>852,953,854</b>	<b>1,949,129,092</b>	<b>60,027,698,493</b>

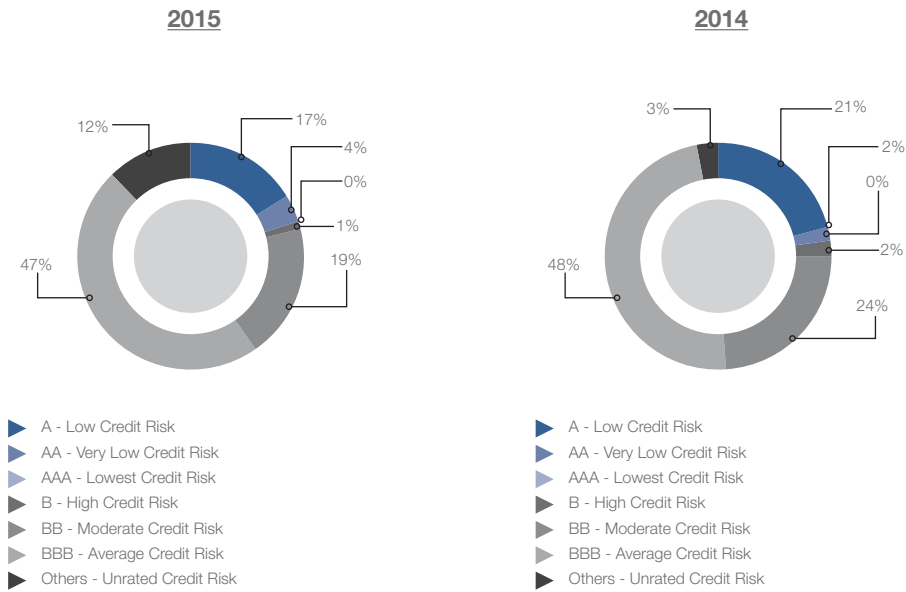
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BANK As at 31 December 2014	Past due but not impaired							Total Rs.
	Neither past due nor impaired Rs.	Less than 3 months Rs.	3-6 months Rs.	6-12 months Rs.	Over 12 months Rs.	Individually impaired Rs.		
	Cash and balances with banks	2,408,571,810	-	-	-	-	-	
Reverse repurchased agreements	10,543,106,240	-	-	-	-	-	10,543,106,240	
Placements with banks	73,994,788	-	-	-	-	-	73,994,788	
Derivative Financial Instruments	4,150,249	-	-	-	-	-	4,150,249	
Financial assets-held for trading	2,584,471,476	-	-	-	-	-	2,584,471,476	
Loans and receivables to other customers (Gross)	21,155,063,856	2,772,425,812	186,177,139	335,867,325	1,359,823,978	749,527,140	26,558,875,250	
Other loans and receivables	2,470,115,184	-	-	-	-	-	2,470,115,184	
Financial investments-available for sale	1,647,685,722	-	-	-	-	-	1,647,685,722	
Other Financial investments- held to maturity	140,027,415	-	-	-	-	-	140,027,415	
Other assets	16,462,221	-	-	-	-	-	16,462,221	
	41,043,638,960	2,772,425,812	186,177,139	335,867,325	1,359,823,978	749,527,140	46,447,460,355	

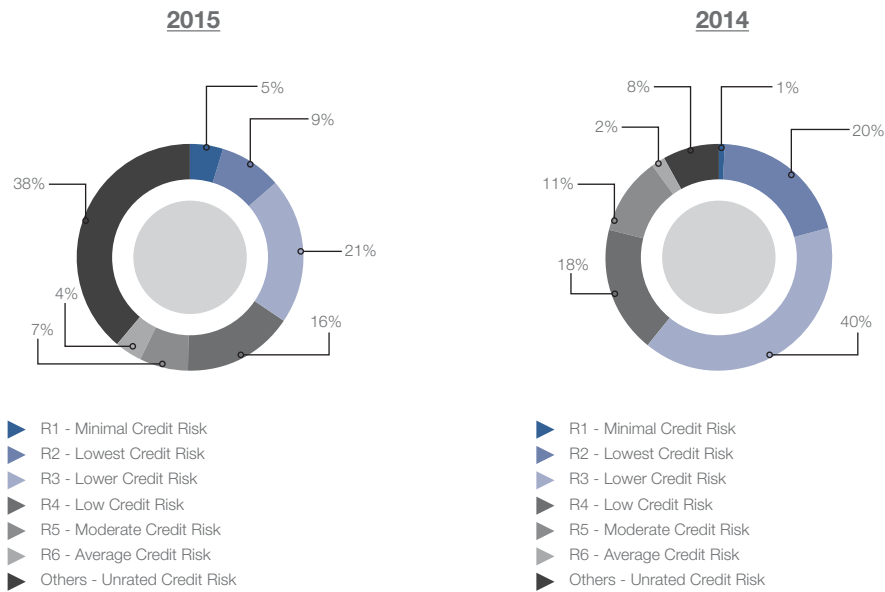
**Credit Risk Exposure of the Loans and Receivables based on Internal Credit Risk Rating**

GROUP As at 31 December 2015	Past due but not impaired							Total Rs.
	Neither past due nor impaired Rs.	Less than 3 months Rs.	3-6 months Rs.	6-12 months Rs.	Over 12 months Rs.	Individually impaired Rs.		
	Cash and balances with banks	3,015,496,750	-	-	-	-	-	
Reverse repurchased agreements	1,619,467,074	-	-	-	-	-	1,619,467,074	
Placements with banks	294,074,296	-	-	-	-	-	294,074,296	
Derivative Financial Instruments	10,621,429	-	-	-	-	-	10,621,429	
Financial assets-held for trading	478,816,674	-	-	-	-	-	478,816,674	
Loans and receivables to Banks	16,004,324	-	-	-	-	-	16,004,324	
Loans and receivables to other customers (Gross)	36,012,164,621	5,875,233,469	549,161,090	291,095,658	1,107,143,420	2,585,982,828	46,420,781,086	
Other loans and receivables	4,951,273,765	-	-	-	-	-	4,951,273,765	
Financial investments-available for sale	8,364,044,281	-	-	-	-	-	8,364,044,281	
Other Financial investments-held to maturity	140,528,827	-	-	-	-	-	140,528,827	
Other assets	75,136,055	-	-	-	-	-	75,136,055	
	54,977,628,096	5,875,233,469	549,161,090	291,095,658	1,107,143,420	2,585,982,828	65,386,244,561	

GROUP As at 31 December 2014	Past due but not impaired							Total Rs.
	Neither past due nor impaired Rs.	Less than 3 months Rs.	3-6 months Rs.	6-12 months Rs.	Over 12 months Rs.	Individually impaired Rs.		
	Cash and balances with banks	2,689,337,456	-	-	-	-	-	
Reverse repurchased agreements	10,642,158,185	-	-	-	-	-	10,642,158,185	
Placements with banks	186,430,108	-	-	-	-	-	186,430,108	
Derivative Financial Instruments	4,150,249	-	-	-	-	-	4,150,249	
Financial assets-Held for trading	2,584,471,476	-	-	-	-	-	2,584,471,476	
Loans and receivables to Banks	16,004,324	-	-	-	-	-	16,004,324	
Loans and receivables to other customers (Gross)	22,333,681,180	3,888,206,184	541,079,246	448,745,241	1,675,362,447	1,761,571,594	30,648,645,893	
Other loans and receivables	1,649,133,891	-	-	-	-	-	1,649,133,891	
Financial investments-available for sale	1,800,750,206	-	-	-	-	-	1,800,750,206	
Other Financial investments-held to maturity	140,027,415	-	-	-	-	-	140,027,415	
Other assets	28,811,778	-	-	-	-	-	28,811,778	
	42,074,956,268	3,888,206,184	541,079,246	448,745,241	1,675,362,447	1,761,571,594	50,389,920,980	



Retail Risk rating



UR (unrated exposures) consists individual clients, pawning, consumer, OD (Cash Backed) and other few facilities (NCRCS, Cheque purchase, Vehicle loans)

**Analysis of risk concentration**

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. Risk is monitored and managed against Board approved limits for industry sector and individual / group exposures.

The following table shows the risk concentration by industry for the components of the statement of financial position.

BANK										
As at 31 December 2015										
	Financial	Government	Consumer	Retail and	Construction	Manufacturing	Service	Total		
	Services			Wholesale						
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
<b>Financial Assets</b>										
Cash and balances with banks	1,504,512,361	1,306,812,184	-	-	-	-	-	-	2,811,324,545	
Reverse repurchased agreements	1,163,367,629	350,057,692	-	-	-	-	-	-	1,513,425,321	
Placements with banks	284,078,387	-	-	-	-	-	-	-	284,078,387	
Derivative Financial Instruments	10,621,429	-	-	-	-	-	-	-	10,621,429	
Financial assets-held for trading	-	478,816,674	-	-	-	-	7,984,990,735	-	8,463,807,409	
Loans and receivables to other customers (Gross)	6,798,343,868	-	3,684,077,870	10,324,950,463	2,047,452,764	14,180,633,948	3,628,256,560	-	40,663,715,473	
Other loans and receivables	5,721,549,058	-	-	-	-	-	-	-	5,721,549,058	
Financial investments-available for sale	-	8,356,130,222	-	-	-	-	-	-	8,356,130,222	
Financial investments-held to maturity	110,085,108	30,443,719	-	-	-	-	-	-	140,528,827	
Other assets	-	-	-	-	-	-	49,038,557	-	49,038,557	
<b>Total</b>	<b>15,592,557,840</b>	<b>10,522,260,491</b>	<b>3,684,077,870</b>	<b>10,324,950,463</b>	<b>2,047,452,764</b>	<b>14,180,633,948</b>	<b>11,662,285,852</b>	<b>68,014,219,228</b>		

BANK										
As at 31 December 2014										
	Financial	Government	Consumer	Retail and	Construction	Manufacturing	Service	Total		
	Services			Wholesale						
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Cash and balances with banks	1,459,466,640	949,105,170	-	-	-	-	-	-	2,408,571,810	
Reverse repurchased agreements	10,543,106,240	-	-	-	-	-	-	-	10,543,106,240	
Placements with banks	73,994,788	-	-	-	-	-	-	-	73,994,788	
Derivative Financial Instruments	4,150,249	-	-	-	-	-	-	-	4,150,249	
Financial assets - held for trading	11,166,120	682,353,699	-	243,000	-	-	1,890,708,656	-	2,584,471,476	
Loans and receivables to other customers	1,956,340,393	-	7,019,090,079	7,704,363,652	2,054,026,275	4,986,193,959	2,224,555,553	-	25,944,569,911	
Other loans and receivables	2,470,115,184	-	-	-	-	-	-	-	2,470,115,184	
Financial investments - available for sale	1,647,155,722	-	-	-	-	-	530,000	-	1,647,685,722	
Financial investments - held to maturity	140,027,415	-	-	-	-	-	-	-	140,027,415	
Other assets	-	-	-	-	-	-	16,462,221	-	16,462,221	
<b>Total</b>	<b>18,305,522,749</b>	<b>1,631,458,869</b>	<b>7,019,090,079</b>	<b>7,704,606,652</b>	<b>2,054,026,275</b>	<b>4,986,193,959</b>	<b>4,132,256,430</b>	<b>45,833,155,013</b>		

GROUP									
As at 31 December 2015	Financial	Government	Consumer	Retail and	Construction	Manufacturing	Service	Total	
	Services			Wholesale					
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>									
Cash and balances with banks	1,708,684,566	1,306,812,184	-	-	-	-	-	-	3,015,496,750
Reverse repurchased agreements	915,349,284	704,117,790	-	-	-	-	-	-	1,619,467,074
Placements with banks	294,074,296	-	-	-	-	-	-	-	294,074,296
Derivative Financial Instruments	10,621,429	-	-	-	-	-	-	-	10,621,429
Financial assets held-for-trading	-	478,816,674	-	-	-	-	7,984,990,735	-	8,463,807,409
Loans and receivables to Banks	16,004,324	-	-	-	-	-	-	-	16,004,324
Loans and receivables to other customers	6,257,728,628	-	7,057,428,554	11,217,527,368	2,567,774,676	14,180,633,948	5,139,687,912	-	46,420,781,086
Other loans and receivables	4,951,273,765	-	-	-	-	-	-	-	4,951,273,765
Financial investments - available for sale	32,098,344	8,356,130,222	-	-	-	-	150,330,489	-	8,538,559,055
Financial investments - held to maturity	110,085,108	30,443,719	-	-	-	-	-	-	140,528,827
Other assets	25,060,636	-	-	-	-	-	50,075,419	-	75,136,055
<b>Total</b>	<b>14,320,980,380</b>	<b>10,876,320,589</b>	<b>7,057,428,554</b>	<b>11,217,527,368</b>	<b>2,567,774,676</b>	<b>14,180,633,948</b>	<b>13,325,084,555</b>	<b>-</b>	<b>73,545,750,070</b>

GROUP									
As at 31 December 2014	Financial	Government	Consumer	Retail and	Construction	Manufacturing	Service	Total	
	Services			Wholesale					
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>									
Cash and balances with banks	1,740,232,286	949,105,170	-	-	-	-	-	-	2,689,337,456
Reverse repurchased agreements	10,522,310,929	119,847,256	-	-	-	-	-	-	10,642,158,185
Placements with banks	186,430,108	-	-	-	-	-	-	-	186,430,108
Derivative Financial Instruments	4,150,249	-	-	-	-	-	-	-	4,150,249
Financial assets held for trading	11,166,120	682,353,699	-	243,000	-	-	1,890,708,656	-	2,584,471,475
Loans and receivables to Banks	16,004,324	-	-	-	-	-	-	-	16,004,324
Loans and receivables to other customers	1,862,590,393	-	8,784,046,023	8,211,855,518	2,528,521,486	4,986,193,959	2,844,649,863	-	29,217,857,242
Other loans and receivables	1,649,133,891	-	-	-	-	-	-	-	1,649,133,891
Financial investments - available for sale	1,648,364,804	10,553,023	-	-	-	14,304,000	127,528,379	-	1,800,750,206
Financial investments - held to maturity	140,027,415	-	-	-	-	-	-	-	140,027,415
Other assets	-	-	-	-	-	-	28,811,778	-	28,811,778
<b>Total</b>	<b>17,780,410,518</b>	<b>1,761,859,148</b>	<b>8,784,046,022</b>	<b>8,212,098,518</b>	<b>2,528,521,486</b>	<b>5,000,497,958</b>	<b>4,891,698,677</b>	<b>-</b>	<b>48,959,132,328</b>

**Concentration by Location**

Concentration by location for loans and receivables 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 unit (FCBU). Concentration of loans and receivables by location is given below.

<b>BANK</b>				
As at 31 December	2015		2014	
	Rs.	%	Rs.	%
Central	660,501,545	1.6%	460,739,988	1.7%
Eastern	165,290,466	0.4%	314,315,972	1.2%
North Central	651,160,580	1.6%	623,316,408	2.3%
North Western	1,195,045,530	2.9%	1,183,689,639	4.5%
Northern	572,514,643	1.4%	847,580,958	3.2%
Sabaragamuwa	1,000,516,142	2.5%	526,573,438	2.0%
Southern	2,205,320,265	5.4%	1,040,287,584	3.9%
Uva	264,436,223	0.7%	185,965,919	0.7%
Western	33,948,930,078	83.5%	21,376,405,344	80.5%
<b>Total</b>	<b>40,663,715,473</b>	<b>100%</b>	<b>26,558,875,250</b>	<b>100%</b>

<b>GROUP</b>				
As at 31 December	2015		2014	
	Rs.	%	Rs.	%
Central	1,013,541,545	2.5%	544,277,927	1.8%
Eastern	165,290,466	0.4%	371,305,401	1.2%
North Central	791,766,580	1.9%	736,331,491	2.4%
North Western	1,792,512,531	4.4%	1,398,307,419	4.6%
Northern	572,514,643	1.4%	1,001,258,018	3.3%
Sabaragamuwa	1,298,488,142	3.2%	622,047,808	2.0%
Southern	3,516,587,265	8.6%	1,228,904,773	4.0%
Uva	264,436,223	0.7%	219,683,873	0.7%
Western	37,005,643,691	91.0%	24,526,529,183	80.0%
<b>Total</b>	<b>46,420,781,086</b>	<b>100%</b>	<b>30,648,645,893</b>	<b>100%</b>

**Commitments and guarantees**

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

Following table shows the Bank's and Group's maximum credit risk exposure to commitment and contingencies

As at 31 December	<b>BANK</b>		<b>GROUP</b>	
	2015	2014	2015	2014
	Rs.	Rs.	Rs.	Rs.
Acceptances	707,571,076	541,477,751	707,571,076	541,477,751
Guarantees	3,404,819,723	3,561,670,921	3,404,819,723	3,561,670,921
Letters of credit	2,151,474,153	695,142,751	2,151,474,153	695,142,751
Spot Contracts	410,576,804	135,036,397	410,576,804	135,036,397
Forward Contracts	5,520,399,933	1,479,992,857	5,520,399,933	1,479,992,857
Cheque pending for realization	576,309,106	357,734,796	576,309,106	357,734,796
Other contingent items	3,484,710,415	2,235,512,467	3,484,710,415	2,235,512,467
Undrawn loan commitments	19,790,078,037	15,182,346,101	19,790,078,037	15,182,346,101
<b>Total</b>	<b>36,045,939,247</b>	<b>24,188,914,041</b>	<b>36,045,939,247</b>	<b>24,188,914,041</b>

### 45.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flow requirements and collateral needs without affecting either daily operations or the financial condition. It is managed by Assets and Liability Management Committee (ALCO) using various statistical analysis using both current and stressed scenarios. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity consistently through ALCO. The bank has developed internal control processes and contingency funding plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has lines of credit that it can access to meet liquidity needs. In addition, the bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% of customer deposits. In accordance with the bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of liquid assets to customer liabilities, to reflect market conditions. The ratios during the year are as follows:

Liquid Asset Ratios	2015	2014
	%	%
Year End	21.9	50.8
Maximum	51.9	51.8
Minimum	21.4	20.7
Average	31.9	29.0

### Advances to Deposit Ratios

The bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers.

Advance to Deposit Ratio	2015	2014
	%	%
Year End	109.2	95.5
<b>Net Loans to Assets</b>		
Net Loans (Rs Mn)	40,095,331,952	25,944,569,911
Total Assets (Rs Mn)	71,005,488,454	48,995,121,308
Ratio	56.5%	53.0%

### 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.

NOTES TO THE  
FINANCIAL  
STATEMENTS

BANK - MATURITY ANALYSIS OF FINANCIAL ASSETS & LIABILITIES					
As at 31 December	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>2015</b>					
<b>Assets</b>					
Cash and balances with banks	2,811,324,545	-	-	-	2,811,324,545
Reverse re-purchase agreements	1,513,425,321	-	-	-	1,513,425,321
Placements with banks	284,078,387	-	-	-	284,078,387
Derivative financial instruments	10,621,429	-	-	-	10,621,429
Financial assets-held for trading	8,463,807,409	-	-	-	8,463,807,409
Loans and receivables to other customers	23,912,257,403	6,263,750,325	11,981,673,892	1,417,827,893	43,575,509,514
Other loans and receivables	1,426,100,083	338,544,686	1,387,858,000	2,569,046,289	5,721,549,058
Financial investments-available for sale	8,353,070,223	-	-	1,530,000	8,354,600,222
Financial investments-held to maturity	6,815,108	427,335	133,286,384	-	140,528,827
Other assets	49,038,557	-	-	-	49,038,557
<b>Total financial assets</b>	<b>46,830,538,465</b>	<b>6,602,722,346</b>	<b>13,502,818,276</b>	<b>3,988,404,182</b>	<b>70,924,483,269</b>
<b>Liabilities</b>					
Due to banks	3,619,712,655	2,265,055,119	1,060,480,904	-	6,945,248,678
Repurchased agreements	8,078,804,584	163,746,825	-	-	8,242,551,419
Due to other customers	25,053,303,050	12,374,404,378	677,182,164	287,698	38,105,177,290
Other liabilities	547,594,100	406,598,974	-	-	954,193,074
<b>Total financial liabilities</b>	<b>37,299,414,389</b>	<b>15,209,805,296</b>	<b>1,737,663,068</b>	<b>287,698</b>	<b>54,247,170,451</b>
<b>Maturity Gap</b>	<b>9,531,124,076</b>	<b>(8,607,082,951)</b>	<b>11,765,155,208</b>	<b>3,988,116,484</b>	<b>16,677,312,818</b>
<b>Cumulative Gap</b>	<b>9,531,124,076</b>	<b>924,041,126</b>	<b>12,689,196,334</b>	<b>16,677,312,818</b>	<b>-</b>
<b>2014</b>					
<b>Assets</b>					
Cash and balances with banks	2,408,571,810	-	-	-	2,408,571,810
Repurchased agreements	10,543,106,240	-	-	-	10,543,106,240
Balances with banks	73,994,788	-	-	-	73,994,788
Derivative financial instruments	4,150,249	-	-	-	4,150,249
Financial assets-held for trading	2,584,471,476	-	-	-	2,584,471,476
Loans and receivables to other customers	17,245,103,589	3,827,546,447	6,221,123,176	650,998,626	27,944,771,839
Deep Discounted Bond	-	-	-	3,458,108,968	3,458,108,968
Financial investments-available for sale	667,004,510	979,151,211	-	1,530,000	1,647,685,721
Financial investments-held to maturity	6,815,107	424,617	132,845,383	-	140,085,107
Other assets	3,029,400	270,000	12,738,720	424,100	16,462,220
<b>Total financial assets</b>	<b>33,536,247,169</b>	<b>4,807,392,276</b>	<b>6,366,707,279</b>	<b>4,111,061,694</b>	<b>48,821,408,418</b>
<b>Liabilities</b>					
Due to banks	1,993,918,881	38,470,025	64,610,836	-	2,096,999,742
Repurchased agreements	1,116,489,292	-	-	-	1,116,489,292
Due to other customers	17,768,364,396	9,743,704,417	707,944,192	114,999,296	28,335,012,300
Other liabilities	410,551,976	154,737,773	290,387,978	-	855,677,726
<b>Total financial liabilities</b>	<b>21,289,324,545</b>	<b>9,936,912,215</b>	<b>1,062,943,005</b>	<b>114,999,296</b>	<b>32,404,179,060</b>
<b>Maturity Gap</b>	<b>12,246,922,625</b>	<b>(5,129,519,939)</b>	<b>5,303,764,274</b>	<b>3,996,062,398</b>	<b>16,417,229,359</b>
<b>Cumulative Gap</b>	<b>12,246,922,625</b>	<b>7,117,402,686</b>	<b>12,421,166,960</b>	<b>16,417,229,359</b>	<b>-</b>

GROUP - MATURITY ANALYSIS OF FINANCIAL ASSETS & LIABILITIES					
As at 31 December	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>2015</b>					
<b>Assets</b>					
Cash and balances with banks	3,015,496,750	-	-	-	3,015,496,750
Reverse re-purchase agreements	1,619,467,074	-	-	-	1,619,467,074
Placements with banks	294,074,296	-	-	-	294,074,296
Derivative financial instruments	10,621,429	-	-	-	10,621,429
Financial assets-held for trading	8,463,807,409	-	-	-	8,463,807,409
Loans and receivables Banks	-	-	16,004,324	-	16,004,324
Loans and receivables to other customers	25,857,327,629	7,086,448,323	14,969,719,350	1,419,079,824	49,332,575,126
Other loans and receivables	1,426,100,083	338,544,686	1,405,943,798	1,780,685,198	4,951,273,765
Financial investments-available for sale	8,506,460,709	-	32,098,346	-	8,538,559,055
Financial investments-held to maturity	6,815,108	427,335	133,286,384	-	140,528,827
Other assets	75,136,055	-	-	-	75,136,055
<b>Total financial assets</b>	<b>49,275,306,543</b>	<b>7,425,420,344</b>	<b>16,557,052,202</b>	<b>3,199,765,022</b>	<b>76,457,544,110</b>
<b>Liabilities</b>					
Due to banks	3,830,851,823	2,265,055,119	1,060,480,903	-	7,156,387,845
Repurchased agreements	7,830,786,240	163,746,824	-	-	7,994,533,065
Due to other customers	25,996,007,974	13,946,303,203	2,133,990,917	287,698	42,076,589,792
Other borrowed funds	163,465,597	606,043,267	511,575,897	-	1,281,084,761
Other liabilities	810,819,244	406,598,975	-	-	1,217,418,219
<b>Total financial liabilities</b>	<b>38,631,930,878</b>	<b>17,387,747,388</b>	<b>3,706,047,717</b>	<b>287,698</b>	<b>59,726,013,682</b>
<b>Maturity Gap</b>	<b>10,643,375,665</b>	<b>(9,962,327,044)</b>	<b>12,851,004,483</b>	<b>3,199,477,324</b>	<b>16,731,530,428</b>
<b>Cumulative Gap</b>	<b>10,643,375,665</b>	<b>681,048,621</b>	<b>13,532,053,104</b>	<b>16,731,530,428</b>	<b>-</b>
<b>2014</b>					
<b>Assets</b>					
Cash and balances with banks	2,689,337,456	-	-	-	2,689,337,456
Reverse repurchased agreements	10,642,158,185	-	-	-	10,642,158,185
Placements with banks	186,430,108	-	-	-	186,430,108
Derivative financial instruments	4,150,249	-	-	-	4,150,249
Financial assets-held for trading	2,584,471,476	-	-	-	2,584,471,476
Loans and receivables Banks	-	-	16,004,324	-	16,004,324
Loans and receivables to other customers	18,544,358,038	4,236,609,351	7,781,955,707	655,136,074	31,218,059,170
Other loans and receivables	61,970	-	18,089,011	3,458,338,968	3,476,489,949
Financial investments-available for sale	667,004,510	1,096,637,805	1,209,083	35,898,808	1,800,750,206
Financial investments-held to maturity	6,815,108	424,617	132,845,383	-	140,085,108
Other assets	15,378,958	270,000	12,738,720	424,100	28,811,778
<b>Total financial assets</b>	<b>35,340,166,057</b>	<b>5,333,941,773</b>	<b>7,962,842,228</b>	<b>4,149,797,950</b>	<b>52,786,748,009</b>
<b>Liabilities</b>					
Due to banks	2,049,163,136	38,470,025	64,610,836	-	2,152,243,997
Repurchased agreements	1,095,693,980	-	-	-	1,095,693,980
Due to other customers	18,164,262,801	10,949,267,152	1,621,441,724	114,999,296	30,849,970,973
Other borrowed funds	183,360,013	398,941,920	262,783,404	-	845,085,337
Other liabilities	410,551,976	154,737,773	290,387,978	-	855,677,726
<b>Total financial liabilities</b>	<b>21,903,031,906</b>	<b>11,541,416,869</b>	<b>2,239,223,942</b>	<b>114,999,296</b>	<b>35,798,672,014</b>
<b>Maturity Gap</b>	<b>13,437,134,150</b>	<b>(6,207,475,096)</b>	<b>5,723,618,285</b>	<b>4,034,798,654</b>	<b>16,988,075,994</b>
<b>Cumulative Gap</b>	<b>13,437,134,150</b>	<b>7,229,659,054</b>	<b>12,953,277,340</b>	<b>16,988,075,994</b>	<b>-</b>

**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 & GROUP As at 31 December 2015	Total Rs.	On demand Rs.	0-3M Rs.	3-12M Rs.	1-5Y Rs.	<5Y Rs.
<b>Commitments</b>						
Undrawn OD	1,258,676,287	1,258,676,287	-	-	-	-
Commitments for Un-utilised Facilities	18,531,401,750	18,531,401,750	-	-	-	-
<b>Sub Total</b>	<b>19,790,078,037</b>	<b>19,790,078,037</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Acceptances	707,571,076	230,086,228	465,878,721	11,606,127	-	-
Guarantees	3,404,819,723	614,381,671	741,929,168	1,276,996,081	771,512,803	-
Documentary Credit	2,151,474,153	123,209,631	1,686,408,384	341,856,138	-	-
Bills for Collection	204,495,780	100,423,542	66,681,740	37,390,498	-	-
Others	3,280,214,635	-	3,113,491,664	21,035,662	92,900,268	52,787,041
Cheque pending for realisation	576,309,106	576,309,106	-	-	-	-
<b>Sub Total</b>	<b>10,324,884,473</b>	<b>1,644,410,178</b>	<b>6,074,389,677</b>	<b>1,688,884,506</b>	<b>864,413,071</b>	<b>52,787,041</b>
Spot Purchase	205,294,646	-	205,294,646	-	-	-
Spot Sold	205,282,158	-	205,282,158	-	-	-
<b>Sub Total</b>	<b>410,576,804</b>	<b>-</b>	<b>410,576,804</b>	<b>-</b>	<b>-</b>	<b>-</b>
Forward Contracts Bought	2,756,856,647	-	2,756,856,647	-	-	-
Forward Contracts Sold	2,763,543,286	-	2,763,543,286	-	-	-
<b>Sub Total</b>	<b>5,520,399,933</b>	<b>-</b>	<b>5,520,399,913</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Commitments and Contingent Liability</b>	<b>36,045,939,247</b>	<b>21,434,488,215</b>	<b>12,005,366,414</b>	<b>1,688,884,506</b>	<b>864,413,071</b>	<b>52,787,041</b>

BANK & GROUP As at 31 December 2014	Total Rs.	On demand Rs.	0-3M Rs.	3-12M Rs.	1-5Y Rs.	<5Y Rs.
<b>Commitments</b>						
Undrawn OD	1,411,349,342	1,411,349,342	-	-	-	-
Commitments for Unutilised Facilities	13,770,996,759	13,770,996,759	-	-	-	-
<b>Sub Total</b>	<b>15,182,346,101</b>	<b>15,182,346,101</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Acceptances	541,477,751	262,173,933	239,732,014	39,571,805	-	-
Guarantees	3,561,670,921	724,064,812	1,066,477,587	1,113,876,807	657,251,715	-
Documentary Credit	695,142,751	70,940,657	535,382,051	88,820,043	-	-
Bills for Collection	299,403,287	223,723,875	75,679,412	-	-	-
Others	1,936,109,179	400,000,000	1,350,921,085	20,408,820	90,131,931	74,647,344
Cheque pending for realisation	357,734,796	357,734,796	-	-	-	-
<b>Sub Total</b>	<b>7,391,538,686</b>	<b>2,038,638,072</b>	<b>3,268,192,150</b>	<b>1,262,677,475</b>	<b>747,383,645</b>	<b>74,647,344</b>
Spot Purchase	67,755,400	67,755,400	-	-	-	-
Spot Sold	67,280,997	67,280,997	-	-	-	-
<b>Sub Total</b>	<b>135,036,397</b>	<b>135,036,397</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Forward Contracts Bought	741,811,165	741,811,165	-	-	-	-
Forward Contracts Sold	738,181,692	738,181,692	-	-	-	-
<b>Sub Total</b>	<b>1,479,992,857</b>	<b>-</b>	<b>1,479,992,857</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Commitments and Contingent Liability</b>	<b>24,188,914,041</b>	<b>17,356,020,570</b>	<b>4,748,185,007</b>	<b>1,262,677,475</b>	<b>747,383,645</b>	<b>74,647,344</b>

**45.4 Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market risk factors such as interest rates, foreign exchange rates and equity prices. The bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the trading portfolio is marked to market on a daily basis. Non-trading positions are managed and monitored using other sensitivity analyses on a monthly basis.

**45.4.1 Market risk – trading (including financial assets and financial liabilities designated at fair value through profit or loss)**

The trading book is marked to market on a daily basis by the Treasury Mid Office (TMO) whose independent from Treasury front office and is reporting to the Head of risk management. Various Board approved limits such as dealer wise limits etc are also monitored on a daily basis by TMO,

**45.4.2 Market risk-non-trading**

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments impacting the P&L and the economic value of equity. The Board has established limits on the non-trading interest rate gaps for stipulated periods.

The 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.

**Interest Rate Sensitivity Analysis**

The following table demonstrates the sensitivity of the bank's profit before tax to a reasonable possible changes in interest rate with all other variables held constant.

	Increase/Decrease in basis points	Effect on profit before tax
Rate Sensitive Assets	100 / (100)	318 Mn / (318 Mn)
Rate Sensitive Liabilities	100 / (100)	(373 Mn) / 373 Mn
Net Effect		(54 Mn) / 54 Mn

The table below analyses the Bank's interest rate risk exposure on assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

<b>BANK - INTEREST SENSITIVITY ANALYSIS OF FINANCIAL ASSETS &amp; FINANCIAL LIABILITIES</b>							
As at 31 December 2015	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
<b>Assets</b>							
Cash and balances with banks	2,811,324,545	-	-	-	-	2,811,324,545	
Reverse repurchased agreements	1,513,425,321	1,513,425,321	-	-	-	-	
Placements with banks	284,078,387	284,078,387	-	-	-	-	
Derivative Financial Instruments	10,621,429	-	-	-	-	10,621,429	
Financial assets held for trading	8,463,807,409	322,788,701	79,999,987	76,027,985	-	7,984,990,736	
Loans and receivables to other customers	40,095,331,952	23,720,718,435	5,948,475,303	9,485,576,703	940,561,511	-	
Other loans and receivables	5,721,549,058	1,426,100,083	338,544,686	3,956,904,289	-	-	
Financial investments -available for sale	8,356,130,222	2,991,054,247	2,307,636,097	3,004,588,698	51,321,180	1,530,000	
Financial investments-held to maturity	140,528,827	6,815,108	427,335	133,286,384	-	-	
Other assets	49,038,557	-	-	-	-	49,038,557	
<b>Total financial assets</b>	<b>67,445,835,707</b>	<b>30,264,980,282</b>	<b>8,675,083,408</b>	<b>16,656,384,059</b>	<b>991,882,691</b>	<b>10,857,505,267</b>	
<b>Liabilities</b>							
Due to banks	6,945,248,678	3,619,712,655	2,265,055,119	1,060,480,904	-	-	
Repurchased agreements	8,242,551,409	8,078,804,585	163,746,824	-	-	-	
Due to other customers	37,652,508,137	22,086,492,718	12,039,120,566	592,598,729	287,699	2,934,008,425	
Other liabilities	954,193,074	-	-	-	-	954,193,075	
<b>Total financial liabilities</b>	<b>53,794,501,298</b>	<b>33,785,009,958</b>	<b>14,467,922,509</b>	<b>1,653,079,633</b>	<b>287,699</b>	<b>3,333,201,500</b>	
<b>Interest Rate Sensitivity GAP</b>	<b>13,651,334,409</b>	<b>(3,520,029,674)</b>	<b>(5,792,839,101)</b>	<b>15,003,304,426</b>	<b>991,594,992</b>	<b>6,969,303,767</b>	

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BANK - INTEREST SENSITIVITY ANALYSIS OF FINANCIAL ASSETS & FINANCIAL LIABILITIES						
As at 31 December 2014	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
<b>Assets</b>						
Cash and balances with banks	2,408,571,810	-	-	-	-	2,408,571,810
Reverse repurchased agreements	10,543,106,240	10,543,106,240	-	-	-	-
Placements with banks	73,994,788	73,994,788	-	-	-	-
Derivative Financial Instruments	4,150,249	-	-	-	-	4,150,249
Financial assets held for trading	2,584,471,476	17,207,777	562,448,761	102,697,161	-	1,902,117,776
Loans and receivables to other customers	25,944,569,911	17,107,677,448	3,599,383,249	4,826,674,368	410,834,846	-
Other loans and receivables	2,470,115,184	-	-	-	2,470,115,184	-
Financial investments-available for sale	1,647,685,722	667,004,510	979,151,211	-	-	1,530,000
Financial investments-held to maturity	140,027,415	6,815,108	424,617	132,787,690	-	-
Other assets	16,462,221	-	-	-	-	16,462,221
<b>Total financial assets</b>	<b>45,833,155,013</b>	<b>28,415,805,871</b>	<b>5,141,407,839</b>	<b>5,062,159,219</b>	<b>2,880,950,029</b>	<b>4,332,832,055</b>
<b>Liabilities</b>						
Due to banks	2,090,587,725	1,994,057,927	35,115,763	61,414,034	-	-
Cash collateral on securities lent and reverse repurchased agreements	1,116,489,292	1,116,489,292	-	-	-	-
Due to other customers	27,808,891,340	15,462,892,112	9,432,410,745	614,869,904	92,177,282	2,206,541,297
Other liabilities	855,677,726	-	-	-	-	855,677,726
<b>Total financial liabilities</b>	<b>31,871,646,083</b>	<b>18,573,439,331</b>	<b>9,467,526,508</b>	<b>676,283,938</b>	<b>92,177,282</b>	<b>3,062,219,023</b>
<b>Interest Rate Sensitivity GAP</b>	<b>13,961,508,930</b>	<b>9,842,366,540</b>	<b>(4,326,118,670)</b>	<b>4,385,875,281</b>	<b>2,788,772,747</b>	<b>1,270,613,032</b>

GROUP - INTEREST SENSITIVITY ANALYSIS OF FINANCIAL ASSETS & FINANCIAL LIABILITIES						
As at 31 December 2015	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
<b>Assets</b>						
Cash and balances with banks	3,015,496,750	209,942,545	-	-	-	2,805,554,205
Reverse repurchased agreements	1,619,467,074	1,619,467,074	-	-	-	-
Placements with banks	294,074,296	284,078,387	-	-	-	9,995,909
Derivative Financial Instruments	10,621,429	-	-	-	-	10,621,429
Financial assets held for trading	8,463,807,409	322,788,700	79,999,987	76,027,986	-	7,984,990,736
Loans and receivables to Banks	16,004,324	-	-	16,004,324	-	-
Loans and receivables to other customers	45,450,313,621	25,263,704,717	6,771,173,300	12,473,622,164	941,813,440	-
Other loans and receivables	4,951,273,765	1,426,100,084	338,544,686	3,186,628,995	-	-
Financial investments-available for sale	8,538,559,055	2,991,054,248	2,307,636,097	3,004,588,698	51,321,181	183,958,831
Financial investments-held to maturity	140,528,827	6,815,108	427,335	133,286,384	-	-
Other assets	75,136,055	-	-	-	-	75,136,055
<b>Total financial assets</b>	<b>72,575,282,605</b>	<b>32,123,950,863</b>	<b>9,497,781,405</b>	<b>18,890,158,551</b>	<b>993,134,621</b>	<b>11,070,257,208</b>
<b>Liabilities</b>						
Due to banks	7,156,387,845	3,619,712,655	2,265,055,119	1,060,480,904	-	211,139,167
Repurchased agreements	7,994,533,064	7,830,786,240	163,746,825	-	-	-
Due to other customers	41,623,920,639	24,559,793,158	13,687,987,526	441,843,830	287,698	2,934,008,425
Other borrowed funds	1,281,084,761	163,465,597	606,043,267	511,575,897	-	-
Other liabilities	1,217,418,219	-	-	-	-	1,217,418,219
<b>Total financial liabilities</b>	<b>59,273,344,528</b>	<b>36,173,757,650</b>	<b>16,722,832,737</b>	<b>2,013,900,631</b>	<b>287,698</b>	<b>4,362,565,813</b>
<b>Interest Rate Sensitivity GAP</b>	<b>13,301,938,077</b>	<b>(4,049,806,787)</b>	<b>(7,225,051,331)</b>	<b>16,876,257,920</b>	<b>992,846,923</b>	<b>6,707,691,395</b>

**GROUP -INTEREST SENSITIVITY ANALYSIS OF FINANCIAL ASSETS & FINANCIAL LIABILITIES**
**NOTES TO THE  
FINANCIAL  
STATEMENTS**

	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
<b>As at 31 December 2014</b>						
<b>Assets</b>						
Cash and balances with banks	2,689,337,456	290,474,542	-	-	-	2,398,862,914
Reverse repurchased agreements	10,642,158,185	10,642,158,185	-	-	-	-
Placements with banks	186,430,108	173,994,788	-	-	-	12,435,319
Derivatives	4,150,249	-	-	-	-	4,150,249
Financial assets held for trading	2,584,471,476	17,207,777	562,448,761	102,697,161	-	1,902,117,776
Loans and receivables to Banks	16,004,324	-	-	16,004,324	-	-
Loans and receivables to other customers	29,217,857,241	18,406,931,897	4,008,446,152	6,387,506,898	414,972,294	-
Other loans and receivables	1,649,133,891	-	-	1,648,903,891	-	230,000
Financial investments-available for sale	1,800,750,206	667,004,510	979,151,211	-	10,553,023	144,041,462
Financial investments-held-to-maturity	140,027,415	6,815,108	424,617	132,787,690	-	-
Other assets	28,811,778	-	-	-	-	28,811,778
<b>Total financial assets</b>	<b>48,959,132,329</b>	<b>30,204,586,807</b>	<b>5,550,470,741</b>	<b>8,287,899,964</b>	<b>425,525,317</b>	<b>4,490,649,498</b>
<b>Liabilities</b>						
Due to banks	2,145,831,980	2,032,383,171	35,115,763	61,414,034	-	16,919,011
Repurchased agreements	1,095,693,980	1,095,693,980	-	-	-	-
Due to other customers	30,232,850,012	15,947,145,995	10,533,175,282	1,528,367,437	92,177,282	2,202,984,016
Other borrowed funds	845,085,337	114,845,608	398,941,920	262,783,404	-	68,514,406
Other liabilities	855,677,726	-	-	-	-	855,677,726
<b>Total financial liabilities</b>	<b>35,175,139,036</b>	<b>19,190,068,754</b>	<b>10,967,232,965</b>	<b>1,852,564,875</b>	<b>92,177,282</b>	<b>3,144,095,159</b>
<b>Interest Rate Sensitivity GAP</b>	<b>13,783,993,293</b>	<b>11,014,518,054</b>	<b>(5,416,762,224)</b>	<b>6,435,335,089</b>	<b>333,348,035</b>	<b>1,346,554,339</b>

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. Following table illustrate the change to the Bank's capital adequacy ratio (CAR) due to the volatility in exchange rate.

**ADJUSTED CAR FOR THE POSSIBLE EXCHANGE RATE MOVEMENTS**

	<i>Revised Car After Stress Testing</i>			
If Exchange Rate Moves Down by	Current	5%	10%	15%
Bank Tier O1 Ratio	24.44	23.43	24.42	24.41
UBC Total CAR	23.99	23.98	23.97	23.96

**ADJUSTED CAR FOR THE POSSIBLE EXCHANGE RATE MOVEMENTS**

	<i>Revised Car After Stress Testing</i>			
If Exchange Rate Moves Up by	Current	5%	10%	15%
Bank Tier O1 Ratio	24.44	24.45	24.47	24.48
UBC Total CAR	23.99	24.01	24.02	24.03

**Foreign currency Sensitivity**

The following table demonstrate the sensitivity to profit before tax to a reasonable possible changes in exchange rates, with all other variable held constant.

	Change in foreign currency rate	Net Open Position (Before currency sensitivity)	Net Open Position (After currency sensitivity)	Effect on profit before tax
2015	5% / -5%	193 Mn	202 Mn	9.6 Mn

**Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.

**Country Risk**

Country risk is the risk that an occurrence within a country could have an adverse 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 such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

**Geographical Analysis – Group**

	As at 31 December 2015		As at 31 December 2014	
	Financial Assets	Financial Liability	Financial Assets	Financial Liability
ASIA	88,284,448	-	-	59,466,467
EUROPE	25,752,692	1,579,757	24,370,807	-
AMERICA	128,611,521	31,575,602	200,764,640	82,286,965
AUSTRALIA	2,553,033	-	2,758,777	-
<b>Total</b>	<b>245,201,695</b>	<b>33,155,359</b>	<b>227,894,224</b>	<b>141,753,431</b>

Except for the above, the bank does not carry any other Financial Asset or Financial Liability outside Sri Lanka.

**45.6 Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Please refer the Risk Management section of this Annual report for more information.

**46. CAPITAL**

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local banking supervisor, Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking supervision.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

**Capital management**

The primary objective of the Bank's capital requirement policy is to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders.

**QUARTERLY  
PERFORMANCE  
OF THE  
BANK 2015**

Rs'000	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>For the Quarter ended</b>				
Net Interest Income	527,935	511,392	498,377	483,998
Non Interest Income	134,563	176,426	223,705	283,076
<b>Less:</b>				
Impairment	58,452	48,404	29,994	39,879
Non Interest Expenses	546,123	562,686	596,877	628,919
Operating Profit Before VAT and Corporate Tax	57,922	76,728	95,211	98,276
Operating Profit After Corporate Tax	25,095	34,985	56,590	76,028
<b>As At the Quarter ended</b>				
Total Assets	49,441,888	55,825,191	64,948,146	71,005,488
Loans and Receivables to other customers	29,258,427	33,092,717	38,065,311	40,095,332
Equity Capital and reserves	16,773,753	16,811,216	16,865,232	16,922,176
<b>Regulatory Capital Adequacy</b>				
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	38.11%	33.20%	28.29%	23.55%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	37.42%	32.59%	27.77%	23.11%
<b>Assets Quality</b>				
Gross Non-Performing Advances Ratio, % (net of interest in suspense)	5.75%	4.87%	4.01%	3.55%
Net-Non Performing Advances, %(net of interest in suspense and provision)	4.97%	3.99%	3.16%	2.69%
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets, Ratio (Minimum Requirement, 20% )				
Domestic Banking Unit	46.06%	26.97%	21.97%	21.87%
Off-Shore Banking Unit	22.35%	22.92%	22.91%	22.70%
<b>Profitability (Annualised)</b>				
Interest Margin	4.29%	3.97%	3.60%	3.37%
Return on Assets	0.28%	0.31%	0.34%	0.34%
Return on Equity	0.60%	0.72%	0.93%	1.14%

TEN YEARS  
AT A  
GLANCE

DECADE AT A GLANCE	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
<b>Operating Results</b>	<b>SLFRs</b>			
Gross Income	5,019,258,311	4,546,418,315	4,792,751,683	3,942,648,925
Interest Income	4,155,483,612	3,972,061,828	4,129,391,151	3,444,113,712
Interest Expense	2,133,781,611	2,209,487,241	2,973,676,442	2,211,052,866
Net Interest Income	2,021,702,001	1,762,574,587	1,155,714,709	1,233,060,846
Exchange Income	153,665,165	88,812,833	97,009,143	169,701,453
Other Income	710,109,533	485,543,653	566,351,389	328,833,760
Profit/ (loss ) before Taxation	328,136,811	112,697,368	148,693,932	559,237,254
Value Added Tax	122,142,851	51,894,352	42,268,878	96,262,603
Income Tax	13,295,975	3,714,869	(6,289,141)	149,330,531
<b>Profit/ (loss ) After Income Tax</b>	<b>192,697,985</b>	<b>57,088,147</b>	<b>112,714,195</b>	<b>313,644,120</b>
<b>Assets</b>				
Cash & Balances with Central Bank	2,811,324,545	2,408,571,810	2,134,479,401	2,325,986,601
Investment Securities	-	-	-	-
Sri Lanka government securities	-	-	-	1,632,053,657
Reverse repurchased agreements	1,513,425,321	10,543,106,240	1,349,743,147	601,312,663
Placement with banks	284,078,387	73,994,788	314,544,739	1,601,622,423
Derivative Financial Instruments	10,621,429	4,150,249	1,457,949	-
Financial assets held for trading	8,463,807,409	2,584,471,476	989,205,827	431,054,402
Bills of Exchange	-	-	-	-
Net Loans and Advances	-	-	-	-
Loans and receivables to other customers	40,095,331,952	25,944,569,911	23,461,925,446	20,024,729,288
Other loans and receivables	5,721,549,058	2,470,115,184	2,375,110,753	
Financial investments-available for sale	8,356,130,222	1,647,685,722	139,555,559	-
Financial investments-held to maturity	140,528,827	140,027,415	1,736,728,300	2,285,290,340
Investments in subsidiaries	892,364,489	892,364,489	892,364,489	912,364,489
Property, Plant & Equipment	913,814,173	754,548,233	1,025,087,918	614,440,620
Goodwill and intangible assets	1,118,199,758	951,749,690	53,951,100	39,995,579
Current Tax asset	208,403,673	149,447,786	94,514,640	-
Other assets	475,909,210	430,318,315	442,293,016	354,025,008
<b>Total Assets</b>	<b>71,005,488,454</b>	<b>48,995,121,308</b>	<b>35,010,962,285</b>	<b>30,822,875,070</b>
<b>Liabilities</b>				
Deposits				
Borrowings & Due to foreign banks				
Due to banks	6,945,248,678	2,090,587,725	163,448,473	911,898,460
Derivatives	-	-	2,057,759	2,057,759
Repurchased agreements	8,242,551,409	1,116,489,292	129,449,986	499,494,690
Due to other customers	37,652,508,137	27,808,891,340	28,339,687,162	23,142,801,872
Current tax liabilities	-	-	36,134,098	36,134,098
Deferred tax liabilities	30,088,600	25,284,386	23,963,712	37,155,236
Other Liabilities	1,212,915,667	1,203,584,315	897,127,471	730,329,174
<b>Total Liabilities</b>	<b>54,083,312,492</b>	<b>32,244,837,059</b>	<b>29,553,676,804</b>	<b>25,359,871,290</b>
<b>Shareholder's Funds</b>				
Share Capital	16,334,781,723	16,334,781,723	4,979,791,113	4,979,791,113
Share Warrants	65,484,375	65,484,375	-	-
Reserves	521,909,865	350,018,152	477,494,367	483,212,668
<b>Total</b>	<b>16,922,175,962</b>	<b>16,750,284,250</b>	<b>5,457,285,480</b>	<b>5,463,003,781</b>
<b>Contingencies</b>				
Guarantees	3,404,819,723	3,561,670,921	3,320,762,103	4,561,468,438
Documentary Credit	2,151,474,153	695,142,751	1,068,369,433	1,618,464,283
Others	30,489,645,371	19,932,100,369	16,422,733,333	9,359,657,092
<b>Total</b>	<b>36,045,939,247</b>	<b>24,188,914,041</b>	<b>20,811,864,868</b>	<b>15,539,589,813</b>
<b>Share Information</b>				
Earnings per share	0.2	0.1	0.3	0.9

2011 Rs.	2010 Rs.	2009 Rs.	2008 Rs.	2007 Rs.	2006 Rs.
2,523,138,664	2,078,120,074	2,052,704,053	1,935,829,061	1,311,123,307	1,000,773,915
2,083,742,198	1,771,976,557	1,855,783,799	1,750,332,385	1,155,289,418	851,527,221
1,102,214,847	997,841,287	1,392,872,704	1,387,000,585	912,902,139	591,520,173
981,527,351	774,135,270	462,911,095	363,331,800	242,387,279	260,007,048
81,375,306	48,204,897	39,728,046	44,404,151	36,530,449	32,396,218
358,021,160	257,938,620	157,192,208	141,092,525	119,303,440	116,850,476
534,028,312	412,841,729	180,451,783	112,104,760	60,316,076	115,413,441
82,784,786	104,850,021	46,468,715	36,659,428	19,351,651	30,565,802
143,550,243	158,194,702	71,842,056	52,343,464	27,548,269	33,732,854
307,693,283	149,797,006	62,141,012	23,101,868	13,416,156	51,114,785
1,887,571,088	1,092,431,525	1,396,635,110	2,144,048,967	1,855,471,509	1,524,976,488
-	-	4,795,820,729	2,350,343,067	2,032,421,349	1,961,317,620
1,006,065,002	2,434,526,632	-	-	-	-
245,126,821	1,852,604,648	-	-	-	-
1,951,977,627	943,348,776	-	-	-	-
148,409	1,275,208	-	-	-	-
149,622,004	161,205,900	-	-	-	-
-	-	330,734,648	121,274,375	111,750,401	114,255,785
-	-	7,189,589,535	7,535,680,642	6,542,913,408	4,954,947,343
17,292,929,045	9,919,464,662	-	-	-	-
-	-	-	-	-	-
2,197,453,404	2,112,994,811	-	-	-	-
912,382,009	-	-	-	-	-
465,108,037	235,669,824	201,581,378	163,031,569	114,236,432	86,709,807
10,670,522	4,024,643	-	-	-	-
-	-	39,182,113	65,762,470	89,116,311	99,038,775
272,268,917	212,906,869	352,605,675	299,212,971	414,270,269	317,101,045
26,391,322,884	18,970,453,499	14,306,149,188	12,679,354,060	11,160,179,679	9,058,346,864
		11,963,995,607	10,492,076,858	8,932,543,714	7,807,072,788
		92,396,759	92,983,345	130,543,576	148,044,309
380,999,451	320,824,567	-	-	-	-
1,912,522	-	-	-	-	-
128,288,554	81,785,390	-	-	-	-
19,754,596,560	13,442,439,001	-	-	-	-
21,534,610	-	-	-	-	-
19,661,352	5,884,454	-	-	-	-
885,385,524	538,351,472	650,982,544	613,330,591	766,730,991	356,284,525
21,192,378,574	14,414,047,864	12,707,374,910	11,198,390,794	9,829,818,281	8,311,401,622
4,979,791,113	4,604,791,113	1,813,170,000	1,757,500,000	1,630,000,000	1,060,000,000
-	-	-	-	-	-
219,153,197	(48,385,479)	(214,395,722)	(276,536,734)	(299,638,602)	(313,054,758)
5,198,944,310	4,556,405,634	1,598,774,278	1,480,963,266	1,330,361,398	746,945,242
3,046,794,128	2,540,197,217	3,552,649,733	2,633,841,926	1,822,445,064	1,251,473,265
1,057,390,906	1,175,259,265	458,399,214	280,735,267	418,912,792	508,218,821
9,838,797,844	3,797,219,009	1,614,871,192	862,033,930	865,210,194	498,548,041
13,942,982,879	7,512,675,491	5,625,920,139	3,776,611,123	3,106,568,050	2,258,240,127
0.9	0.6	0.4	0.2	0.1	0.5

**CAPITAL  
ADEQUACY**

BASEL II (Rs. '000) As at 31 December	BANK				GROUP			
	2015		2014		2015		2014	
	Assets	Risk weighted Assets	Assets	Risk weighted Assets	Assets	Risk weighted Assets	Assets	Risk weighted Assets
Risk-weighted Assets for Credit Risk								
Claims on Central Government and Central Bank of Sri Lanka	12,059,274	-	5,476,178	-	14,180,805	-	5,485,772	-
Claims on Foreign sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on BIS, IMF and Multilateral Development Banks(MDBs)	-	-	-	-	-	-	-	-
Claims on Banks Exposures	1,474,167	549,306	8,031,739	1,618,603	1,489,187	553,816	8,046,759	1,623,113
Rupee Exposures less than 3 months	12,899	2,580	7,689,000	1,537,800	12,899	2,580	7,689,000	1,537,800
Foreign Currency Exposures less than 3 months	532,560	237,271	301,889	60,378	532,560	237,271	301,889	60,378
Exposures more than 3 months (both rupee & foreign currency)	928,707	309,455	40,850	20,425	943,727	313,965	55,870	24,935
Claims on Financial Institutions	8,123,332	6,295,025	2,532,535	2,482,599	7,440,752	5,394,280	2,550,535	2,491,599
Primary Dealers/Finance Companies	5,554,286	3,725,979	-	-	4,834,697	2,838,161	18,000	9,000
Other Financial Institutions	2,569,046	2,569,046	2,532,535	2,482,599	2,606,055	2,556,119	2,532,535	2,482,599
Claims on Corporates	4,573,648	7,648,237	5,226,250	8,657,124	10,687,071	13,761,660	5,337,988	8,768,862
Retail claims	20,131,013	18,290,374	9,727,445	8,663,216	20,131,013	18,290,374	12,490,357	10,735,400
Claims Secured by Residential Property	3,270,484	2,304,062	1,130,017	787,944	3,270,484	2,304,062	1,149,016	797,444
Claims Secured by Commercial real Estate	1,889,216	1,889,216	4,562,300	4,562,300	1,889,216	1,889,216	4,562,300	4,562,300
Past Due Loans	1,653,084	2,379,717	778,926	1,133,151	1,653,084	2,379,717	722,788	1,077,013
Past Due Residential Mortgage Loans	408,089	390,864	315,931	303,315	408,089	390,864	520,938	405,818
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items	1,369,443	22,683	1,262,280	6,141	1,551,144	22,683	1,673,832	6,141
Other Assets	2,175,878	2,405,960	1,955,629	2,339,575	3,839,642	4,069,723	3,236,915	3,620,862
<b>Total</b>	<b>57,127,627</b>	<b>42,175,443</b>	<b>40,999,229</b>	<b>30,553,970</b>	<b>66,540,486</b>	<b>49,056,395</b>	<b>45,777,200</b>	<b>34,088,553</b>

Rs. '000 As at 31 December	BANK					GROUP			
	Credit Conversion Factor (%)	2015 Principal amount of Off-balance	Credit equivalent of Off-balance sheet items	2014 Principal amount of Off-balance sheet items	Credit equivalent of Off-balance sheet items	2015 Principal amount of balance Sheet Item	Credit equivalent of Off-balance sheet items	2014 Principal amount of balance Sheet Item	Credit equivalent of Off-balance Sheet
<b>Off-balance sheet Items</b>									
<b>Direct Credit Substitutes</b>									
General Guarantees of Indebtedness	100%	910,218	910,218	649,048	649,048	649,048	649,048	649,048	649,048
<b>Transaction-related Contingencies</b>									
Performance Bonds, Bid Bonds and Warranties	50%	1,411,557	705,779	1,740,864	870,432	1,740,864	870,432	1,740,864	870,432
Others	50%	2,244,411	1,122,206	3,482,587	1,741,294	3,482,587	1,741,294	3,482,587	1,741,294
<b>Short-Term Self-Liquidating Trade-Related Contingencies</b>									
Shipping Guarantees	20%	410,815	82,163	289,859	57,972	289,859	57,972	289,859	57,972
Documentary Letters of Credit	20%	2,151,474	430,295	695,143	139,029	695,143	139,029	695,143	139,029
Trade related acceptances	20%	-	-	-	-	-	-	-	-
Others	20%	707,571	141,514	541,478	108,296	541,478	108,296	541,478	108,296
<b>Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time</b>									
Formal Standby Facilities and Credit Lines	0%	10,712,109	-	677,243	-	10,712,109	-	677,243	-
Undrawn Term Loans	0%	8,539,223	-	2,284,178	-	8,539,223	-	2,284,178	-
Undrawn Overdraft Facilities/ Unused Credit Card Lines	0%	3,901,197	-	2,743,653	-	3,901,197	-	2,743,653	-
Others	0%	780,805	-	757,412	-	780,805	-	757,412	-
<b>Commitments with an original maturity up to 1 year</b>									
Others (please specify)	20%	733,599	146,720	1,456,764	291,353	1,456,764	291,353	1,456,764	291,353
<b>Other Commitments with an Original Maturity of over one year</b>									
Undrawn Term Loans	50%	-	-	-	-	-	-	-	-
Others	50%	166,723	83,361	185,188	92,594	185,188	92,594	185,188	92,594
<b>Foreign Exchange Contracts</b>									
Original Maturity-less than one year	2%	7,472,286	149,446	1,615,029	32,301	1,615,029	32,301	1,615,029	32,301
<b>Total</b>		<b>40,141,988</b>	<b>3,771,702</b>	<b>17,118,446</b>	<b>3,982,317</b>	<b>34,589,293</b>	<b>3,982,319</b>	<b>17,118,446</b>	<b>3,982,317</b>

Rs'000' As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
<b>Risk-weighted amounts for Market Risk</b>				
<b>Interest Rate Risk</b>				
General risk	104,363	760	104,363	760
Specific risk	-	-	-	-
<b>Equity Risk</b>				
General risk	798,453	189,095	798,453	202,056
Specific risk	798,453	189,095	798,453	201,880
<b>Foreign Exchange and Gold Risk</b>				
General risk	21,508	3,323	21,508	3,323
<b>Total Capital Charge for Market Risk</b>	<b>1,722,777</b>	<b>382,272</b>	<b>1,722,777</b>	<b>408,018</b>
<b>Total Risk-weighted amount for Market Risk ( Total Capital Charge X 10 )</b>	<b>17,227,771</b>	<b>3,822,725</b>	<b>17,227,771</b>	<b>4,080,179</b>

**CAPITAL  
ADEQUACY**

Rs'000' As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
<b>Risk-weighted Assets for Operational Risk</b>				
Average Net Income for last three financial years	2,705,133	1,916,886	2,705,133	1,932,639
<b>Deductions :</b>				
Realised profits from the sale of securities ( average of last three financial years )	50,562	43,775	50,562	21,445
Extraordinary / irregular item of income ( average of last three financial years )	33,333	33,333	33,333	-
Income from insurance ( average of last three financial years )	-	-	-	-
Gross Income	2,621,238	1,839,778	2,621,238	1,911,194
Total Capital Charge for Operational Risk (Gross Income X 15%)	393,186	275,967	393,186	286,679
<b>Total Risk-weighted amount for Operational risk (Total Capital Charge for Operational Risk X 10)</b>	<b>3,931,856</b>	<b>2,759,666</b>	<b>3,931,856</b>	<b>2,866,791</b>

Rs'000' As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
Risk-weighted assets for credit risk	42,175,443	30,553,970	49,056,395	34,088,553
Risk-weighted amounts for market risk	17,227,771	3,822,725	17,227,771	4,080,179
Risk-weighted amounts for operational risk	3,931,856	2,759,666	3,931,856	2,866,791
<b>Total Risk-weighted Assets</b>	<b>63,335,071</b>	<b>37,136,361</b>	<b>70,216,022</b>	<b>41,035,524</b>

Rs'000' As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
<b>Calculation of Total Capital Base</b>				
<b>Core Capital (Tier 1)</b>				
Paid-up Ordinary Shares/Common Stock/Assigned Capital	16,334,782	16,334,782	16,334,782	16,400,266
Non-cumulative, Non-redeemable Preference Shares	-	-	-	-
Share Premium	-	-	-	-
Statutory Reserve Fund	71,417	58,928	80,624	63,272
Published Retained Profits/(Accumulated Losses)	467,692	115,895	(91,502)	(439,245)
General and Other Reserves	(17,199)	213,717	(3,546)	214,889
Surplus/Loss after tax arising from the sale of fixed and long-term investments	-	-	-	-
Unpublished Current Year's Profit/Losses	-	-	-	-
Minority Interests (consistent with the above capital constituents)	-	-	338,235	312,366
Approved perpetual debt capital instruments	-	-	-	-
<b>Deductions/Adjustments-Tier 1</b>				
Goodwill/Net deferred tax assets	-	-	113,031	113,031
Net Deferred Tax Assets	-	-	479,532	489,923
Other intangible assets	1,118,200	951,750	1,356,752	1,190,996
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	-	-	-	-
50% of investments in unconsolidated banking and financial subsidiary companies.	280,432	280,432	-	-
50% investments in the capital of other banks and financial institutions	-	5,583	-	5,583
<b>Total Core Capital</b>	<b>15,458,060</b>	<b>15,485,556</b>	<b>14,709,278</b>	<b>14,752,015</b>
<b>Supplementary Capital (Tier II)</b>				
Revaluation Reserves (as approved by CBSL)	-	-	-	-
General Provisions	-	-	-	-
Hybrid (debt/equity) Capital Instruments	-	-	-	-
Minority Interests arising from Preference Shares issued by Subsidiaries	-	-	-	-
Approved Subordinated Term Debt	-	-	-	-
Actual amount of Approved Subordinated Term Debt	-	-	-	-
<b>Deductions-Tier II</b>				
50% of investments in unconsolidated banking and financial subsidiary companies.	280,432	280,432	-	-
50% investments in the capital of other banks and financial institutions	-	5,583	-	5,583
<b>Eligible Tier II Capital</b>				
<b>Base Capital ( Tier I + Tier II )</b>	<b>15,177,627</b>	<b>15,199,541</b>	<b>14,709,278</b>	<b>14,746,432</b>

## LIMITS :

- (i) Approved subordinated Term Debt is limited to 50% of Total Tier 1 Capital.
- (ii) The total of Tier 11 Supplementary Elements should not exceed a maximum of 100% of Tier 1 Elements.
- (iii) General Provision should not exceed 1.25% of Risk Weighted Assets.

As at 31 December	BANK		GROUP	
	2015	2014	2015	2014
<b>Core Capital Ratio ( Minimum Ratio - 5% )</b>				
Core Capital (Tier 1) x 100	1,545,805,972	1,548,555,643	1,470,927,765	1,475,201,467
Total Risk-weighted Assets	63,335,071	37,136,361	70,216,022	41,035,524
<b>Total Capital Ratio ( Minimum Ratio - 10% )</b>				
Capital Base x 100	1,517,762,748	1,519,954,112	1,470,927,765	1,474,643,161
Total Risk-weighted Assets	63,335,071	37,136,361	70,216,022	41,035,524
<b>Core Capital (Tier 1) Ratio ( % )</b>	<b>24.41%</b>	<b>41.70%</b>	<b>20.95%</b>	<b>35.95%</b>
<b>Total Capital Ratio ( % )</b>	<b>23.96%</b>	<b>40.93%</b>	<b>20.95%</b>	<b>35.94%</b>

**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 principals, 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.

**Amortisation**

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Amortised Cost**

The amount of 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.

**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**

Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

**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.

**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.

**Collectively Assessed Impairment**

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

**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 utilized by the clients as at the Reporting date.

Consolidated Financial Statements  
Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

**Contingencies**

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

**Corporate Governance**

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

**Correspondent Bank**

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

**Cost 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 as a percentage of net income.

**Country Risk**

The risk that a foreign government will not fulfill 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 is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment debt securities.

**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.

Collective bargaining agreements  
Binding collective bargaining agreements include those signed by the organization itself or by employer organizations of which it is a member. These agreements can be at the sector, national, regional, organizational, or workplace level.

**D****Dealing Securities**

These are marketable securities acquired and held with the intention to resale over a short period of time.

**Deferred Tax**

Sum set aside in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

**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'.

**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), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

**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)**

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

**Earnings Per Share (EPS)**

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share Dividend.

**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 excluding deferred tax divided 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.

**Events after the Reporting Period**

Transactions that are not recognised as assets or liabilities in the Statements of Financial Position, but which give rise to contingencies and commitments.

**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 between a knowledgeable, willing buyer and a knowledgeable, willing seller 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 lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

**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 Asset or Financial Liability at Fair Value through Profit or Loss

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

**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.

**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.

**Foreign Exchange Contract**

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

**Foreign Exchange Income**

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income 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****General Provisions**

General provisions are established for loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

**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.

**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.

General Standard Disclosures  
General Standard Disclosures offer a description of the organization and the reporting process.

**H****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

**I****Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impaired Loans**

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

**Impairment Allowances**

Management's best estimate of losses incurred in the loan portfolios at the reporting date.

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.

**Interest Cover**

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

**Interest in Suspense**

Interest suspended on non-performing loans and advances.

**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.

Impairment Allowance for Loans and receivables

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

**K****Key Management Personnel**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the bank. Such KMPs include the Board of Directors of the Bank and key employees of the bank holding directorships in subsidiary companies of the bank.

**L****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 Loan Losses and Provisions Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

## GLOSSARY

### Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

### 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

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

### 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

## N

### Net Asset Value Per Share

Shareholders' Funds divided by the number of ordinary shares in issue.

### Net-Interest Income (NII)

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and inter-bank borrowings.

### Non-Performing Loans (NPL)

All loans are classified as non-performing in accordance with CBSL direction.

### NPL Ratios

Non-performing loan ratios are computed in accordance with CBSL direction.

### Non Controlling Interest

Non controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

## 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 of the Bank.

### Probability of Default ('PD')

The probability that an obligor will default within a one-year time horizon.

### Provision for Bad and Doubtful Debts

A charge to income statement which is added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realisable values.

### 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, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

### Return On Average Equity (ROE)

Net income, less preferred share Dividend if any, expressed as a percentage of average ordinary shareholders' equity.

### Revenue Reserves

Reserves set aside for future distribution and investment.

### 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.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

### Risk Weighted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in Commitment and Contingencies is also recognised, first by adjusting notional values to Statement of Financial Position (or credit) equivalents and then by applying appropriate risk weighting factors.

### Reporting Principle

Concepts that describe the outcomes a report should achieve and that guide decisions made throughout the reporting process, such as which Indicators to respond to, and how to respond to them.

## S

### Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

### Single Borrower Limit

30% of Tier II Capital.

### Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

### 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 organization's activities, products, and services; and whose actions can reasonably be expected to affect the ability of the organization 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 organization.

## T

### Tier I Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

### Tier II Capital (Supplementary Capital)

Supplementary Capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

### Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

### Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

## U

### Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

## V

### Value Added

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

## Y

### Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

**BRANCH  
NETWORK**

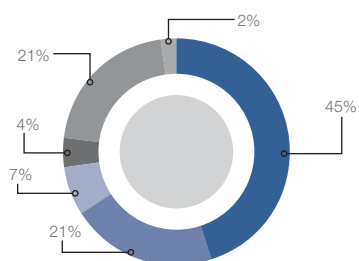
Name of the branch	Address	Telephone No	Fax
Head Office	No. 64, Galle Road, Colombo 03.	0112374100	0112370593
Akuressa	No. 50A, D.C. Wanigasekara Mawatha, Akuressa.	0412284672	0412284671
Ambalangoda	No. 118, Galle Road, Ambalangoda.	0912256420	0912256883
Ambalantota	No. 133/1 Hambantota Road, Ambalantota.	0472225642	0472225641
Angunakolapelessa	Hungama Road, Angunakolapelessa.	0472228500	0472228547
Anuradhapura	No. 38, Main Street, Anuradhapura.	0252224889	0252224890
Atchuvvely	Pathameny, Sannadhy Road, Atchuvvely.	0213215447	0213215447
Attidiya	No.126, Main Street, Attidiya.	0112761291 - 2	0112761293
Badulla	No. 81, Bank Road, Badulla.	0552224657	0552224697
Balangoda	No. 29, Rest House Entry Road,Balangoda.	0452289455	0452289457
Batticaloa	No. 3, Station Road, Batticaloa.	0652228512	0652228514
Chilaw	No. 50, Colombo Road, Chilaw.	0322224556	0322224557
Chunnakam	No. 118, Sir P.Ramanathan Road, Chunnakkam.	0212240930	0212240932
Dambulla	No. 723, Anuradhapura Road, Dambulla.	0662285511	0662285512
Elpitiya	No. 40, Ambalangoda Road, Elpitiya.	0912291695	0912291696
Embilipitiya	No. 58, Main Street, Pallegama, Embilipitiya.	0472230761	0472230763
Galle	No. 66, Matara Road, Pettigalawatta, Galle.	0912247307	0912247256
Gampaha	No. 6, Asoka Gardens, Colombo Road, Gampaha.	0332248812	0332248814
Gampola	No. 121, Kandy Road, Gampola.	0812353785	0812353783
Ganemulla	No. 367/B3, Kadawatha Road, Ganemulla.	0332250170	0332250171
Horana	No. 41, Panadura Road, Horana.	0342263156	0342263178
Horowpathana	Rest House Junction, Trincomalee Road, Horowpathana.	0252278558	0252278557
Ibbagamuwa	No 48, Aluth Mawatha, Ibbagamuwa.	0372057177	0372057157
Ja-Ela	No. 151B, Colombo Road, Ja-ela.	0112228573	0112228575
Jaffna	No. 398, Hospital Road, Jaffna.	0212224568	0212224569
Kadawatha	No. 315 F, Kandy Road, Kadawatha.	0112927716	0112929916
Kandy	No. 165, D.S. Senanayake Veediya, Kandy.	0812224500	0814472103
Kebithigollewa	Padaviya Road, Kebithigollewa.	0252298111	0252298110
Kegalle	No. 340, Kandy Road , Kegalle.	0352223605	0352223603
Kekirawa	No. 21D Yakalla Road, Kekirawa.	0252265350	0252265351
Kohuwala	No. 96B, Dutugemunu Street, Kohuwala.	0112813693-4	0112813695
Kollupitiya	No. 51/A, Ananda Coomaraswamy Mawatha, Colombo 03.	0112565476	0114717463

Name of the branch	Address	Telephone No	Fax
Kotahena	No. 16A, Kotahena Street, Colombo 13.	0112448825	0112440232
Kuliypitiya	No. 203, Hettipola Road, Kuliypitiya.	0372284446	0372284447
Kurunegala	No. 11, Rajapihilla Road, Kurunegala.	0372225422	0372225423
Maharagama	No. 140, High Level Road, Maharagama.	0112088800	0112088803
Mannar	No. 66, Main Street, Mannar.	0232251344	0232251345
Marawila	No. 44, Chilaw Road, Marawila .	0322252522	0322252523
Matara	No. 17, Station Road, Matara.	0412228444	0412228440
Matugama	No. 121B, Agalawatta Road, Matugama.	0342248555	0342248699
Medawachchiya	No. 40, Kandy Road, Medawachchiya.	0252245580	0252245590
Minuwangoda	No. 68, Veyangoda Road, Minuwangoda.	0112299277	0112299275
Monaragala	No. 48, New Bus Stand Road, Monaragala.	0552055456	0552055457
Moratuwa	NO. 729, Galle Road, Moratuwa.	0112642502	0112642504
Narammala	No. 64, Kuliypitiya Road, Narammala.	0372248710	0112248733
Nawala	No. 232, Nawala Road, Nawala.	0112806986	011440417
Nawalapitiya	No. 21, Dolosbage Road, Nawalapitiya.	0542050722	0542050711
Negombo	No. 387, Main Street, Negombo.	0312238299	0312238208
Nugegoda	No. 114, Stanley Thilakaratne Mawatha, Nugegoda.	0112832323	0112832301
Old Moor Street	No. 343, Old Moor Street, Colombo 12.	0112399994	0112399996
Panadura	No. 495, Galle Road, Panadura.	0382237098	0382237072
Pelawatte	No. 966, Pannipitiya Road, Pelawatte.	0112785337	0112785339
Pettah	No. 212/53, Bodhiraja Mawatha, Colombo 11.	0112321139	0114627664
Pilimathalawa	No. 211/A, Colombo Road, Pilimathawala.	0812575901	0812575902
Piliyandala	No. 71, Moratuwa Road, Piliyandala.	0112606152	0112660170
Rajagiriya	No. 115, Old Kotte Road, Rajagiriya.	0112075566	011 2075545
Ratmalana	No. 143C, Mount City, Galle Road, Ratmalana.	0112730860	-
Ratnapura	No. 109, Main Street, Ratnapura.	0452224422	0452224424
Trincomalee	No. 306, Central Road, Trincomalee.	0262226505	0262226506
Vavuniya	No. 124, Bazaar Street, Vavuniya.	0242225612	0242225614
Warakapola	No. 238B, Kandy Road, Warakapola.	0352268226	0352268227
Wattala	No. 258, Negombo Road, Wattala.	0112980731	0112980732
Wellawatta	No. 605, Galle Road, Colombo 06.	0112553223	0112553225
Wennappuwa	No. 33, Colombo Road, Wennappuwa.	031 2253543	0312253545

# ECONOMIC VALUE ADDED STATEMENT

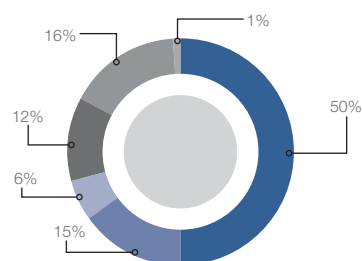
	2015 Rs.	2014 Rs.
<b>Direct Economic Value generated</b>		
Interest Income	4,155,483,612	3,972,061,828
Net Fee and commission income	180,597,935	153,638,388
Net Other operating income	359,130,551	281,104,393
Non-banking income	278,040,868	96,053,799
	<b>4,973,252,967</b>	<b>4,502,858,408</b>
<b>Economic Value Distributed</b>		
To Depositors and Lenders as a interest	2,133,781,611	2,209,487,241
To Employees as a salaries and other benefits	993,195,427	660,125,648
Depreciation and Amortization	337,160,633	270,764,611
Impairment provision for loans and advances	176,729,299	541,164,792
To Providers of supplies and services	1,004,249,186	708,618,748
To Government as Taxation	122,142,851	51,894,352
	<b>4,767,259,007</b>	<b>4,442,055,392</b>
<b>Economic Value Retained</b>	<b>205,993,959</b>	<b>60,803,017</b>

**ECONOMIC VALUE DISTRIBUTED - 2015**



- ▶ To Depositors and Lenders as a interest
- ▶ To Employees as a salaries and other benefits
- ▶ Depreciation and Amortization
- ▶ Impairment provision for loans and advances
- ▶ To Providers of supplies and services
- ▶ To Government as Taxation

**ECONOMIC VALUE DISTRIBUTED - 2014**



- ▶ To Depositors and Lenders as a interest
- ▶ To Employees as a salaries and other benefits
- ▶ Depreciation and Amortization
- ▶ Impairment provision for loans and advances
- ▶ To Providers of supplies and services
- ▶ To Government as Taxation

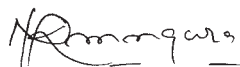
Notice is hereby given that the 21 Annual General Meeting of UNION BANK OF COLOMBO PLC will be held on 31 March 2016 at 2.00 p.m. at the "Auditorium" of Sri Lanka Foundation of No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 for the following purposes;

## NOTICE OF MEETING

### ORDINARY BUSINESS

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31 December 2015 together with the Report of the Auditors thereon.
2. To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Priyantha Damian Joseph Fernando who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director
3. To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Gaurav Trehan who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director
4. To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Ranvir Dewan who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director
5. To re-elect in terms of Article 89 of the Articles of Association of the Bank Mr. Puneet Bhatia who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director
6. To re-elect in terms of Article 89 of the Articles of Association of the Bank Dr. Pangal Jayendra Nayak who retires in terms of Articles 88(i) read together with Article 89 of the Articles of Association of the Bank, a Director.
7. To authorise the Directors to determine donations for the year ending 31 December 2016 and up to the date of the next Annual General Meeting.
8. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors and authorise the Board of Directors to determine their remuneration.
9. To consider any other business of which due notices has been given.

By order of the Board.



Nirosha Kannangara  
Company Secretary

Date: 24 February 2016

### Notes:

1. A Shareholder unable to attend the Meeting is entitled to appoint a Proxy to attend and vote in his/her/its place.
2. A Proxy need not be a Shareholder of the Bank.
3. A Shareholder wishing to vote by proxy at the meeting may use the Form of Proxy enclosed.
4. In order to be valid, the completed Form of Proxy must be lodged at the registered office at No. 64, Galle Road, Colombo 03 not later than 36 hours prior to the meeting.



I/We, ..... of .....  
 ..... being a Shareholder / Shareholders of Union Bank of Colombo PLC  
 hereby appoint ..... (or failing him)

Dr. Pangal Jayendra Nayak	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Alexis Indrajit Lovell	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Bodahandi Asoka Keerthi de Silva	of No. 4/1L, Gemunu Mawatha, Attidiya, Dehiwala 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. 127 A, Campbell Place, Colombo 08 or failing him
Mr. Hussain Imtiaz Muhseen	of No. 3, Stamboul Place, Colombo 03 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, Baudhaloka Mawatha, Colombo 07 or failing him
Mrs. Ayomi Aluwihare Gunawardene	of No. 11/4, Park Lane, Rajagiriya or failing her
Mrs. Sow Lin Chiew	of No. 64, Galle Road, Colombo 03.

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 31 March 2016 at 2.00 p.m. at the "Auditorium" of Sri Lanka Foundation of 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 Accounts for the year ended 31 December 2015 together with the Report of the Auditors thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect in terms of Article 89 of the Articles of Association of the Bank, Mr. Priyantha Damian Joseph Fernando who retires in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 2 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect in terms of Article 89 of the Articles of Association of the Bank, Mr. Gaurav Trehan who retires in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 3 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect in terms of Article 89 of the Articles of Association of the Bank, Mr. Ranvir Dewan who retires in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 4 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect in terms of Article 89 of the Articles of Association of the Bank, Mr. Puneet Bhatia who retires in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 5 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect in terms of Article 89 of the Articles of Association of the Bank Dr. Pangal Jayendra Nayak who retires in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Bank, a Director as set out in Clause 6 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine donations for the year ending 31 December 2016 and up to the date of the next Annual General Meeting as set out in Clause 7 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors and authorise the Board of Directors to determine their Remuneration as set out in Clause 8 of the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this ..... day of ..... Two Thousand and Sixteen.

.....  
 Signature

**Notes:** Instructions as to completion appear overleaf.  
 Please indicate with 'X' in the space provided, how your proxy is to vote on the Resolutions.  
 If no indication is given, the proxy in it's discretion will vote as it thinks fit.

## FORM OF PROXY | INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and date and by signing on the space provided.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company, No.64, Galle Road, Colombo 03 not less than 36 hours before the time appointed for the holding of Meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (above the names of the Board of Directors) on the Form of Proxy.
4. If the Form of Proxy is signed by an Attorney, the relative notarially certified copy of such Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. If the appointor is a Company or Corporation this Form must be executed as depicted in the Articles of Association of the Company by person/s authorised to do so on behalf of the Company or either under the Common Seal of the Company when applicable.
6. Please indicate with an 'X' in the space provided how your Proxy is to vote on the resolution. If no indication is given, the Proxy will vote as it thinks fit.

Please fill the details:

Share Certificate No. / CDS Account No.	:
Name	:
Address	:
Jointly with	:
National Identity Card No/s. Passport No/s of the shareholder/s	:

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 –

**STAKEHOLDER  
FEEDBACK  
FORM**

**Chief Financial Officer**  
Union Bank of Colombo PLC  
No. 64, Galle road,  
Colombo 03,  
Sri Lanka

Name : .....

Permanent Mailing Address : .....

Contact number – (Tel) : .....

(Fax) : .....

E-mail : .....

**Queries / Comments**

.....

**Recommendations**

.....

Thank You







**NAME OF THE COMPANY**  
Union Bank of Colombo PLC

**LEGAL FORM**

A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 17 of 1982. Re-registered under the Companies Act No. 7 of 2007. Listed as a public quoted Company at the Colombo Stock Exchange. A Licensed Commercial Bank under Banking Act No. 30 of 1988.

**DATE OF INCORPORATION**

February 2nd 1995

**COMPANY REGISTRATION NUMBER**

PB 676 PQ

**REGISTERED OFFICE**

No. 64, Galle Road,  
Colombo 03,  
Sri Lanka.

Tel : +94 11 2374100  
Fax : +94 11 2370971  
E-mail : [ubc@unionb.com](mailto:ubc@unionb.com)  
Website : [www.unionb.com](http://www.unionb.com)

**SWIFT CODE**

UBCL LK LC

**VAT REGISTRATION NUMBER**

134005610-7000

**AUDITORS**

Ernst & Young,  
Chartered Accountants  
No. 201, De Saram Place,  
Colombo 10.

**BOARD OF DIRECTORS**

Dr. Pangal Jayendra Nayak - *Chairman*  
Alexis Indrajit Lovell, MBE - *Deputy Chairman*  
Bodahandi Asoka Keerthi de Silva - *Senior Director*  
Indrajit Asela Wickramasinghe - *Chief Executive Officer*  
Priyantha Damian Joseph Fernando  
Mohamed Hisham Sabry Ghouse  
Hussain Imtiaz Muhseen  
Ranvir Dewan  
Gaurav Trehan  
Puneet Bhatia  
Michael J O'Hanlon  
Ayomi Aluwihare Gunawardene  
Sow Lin Chiew

**ALTERNATE DIRECTORS**

Yoke Sun Woon  
Sumedh Jog

**BOARD SECRETARY**

Mrs. Nirosha Kannangara [LLM (Sri Lanka)]



Union Bank of Colombo PLC

Head office: 64, Galle Road, Colombo 03, Sri Lanka.

T: +94 11 2374100 | [www.unionb.com](http://www.unionb.com)