RAM

CREDIT RATING RATIONALE

December 2011

UNION BANK OF COLOMBO PLC

- Financial Institution Ratings

RAM Ratings (Lanka) Ltd
No. 9, Arthur's Place
Colombo 4
Sri Lanka
T +94 112 553089
F +94 112 553090
www.ram.com.lk

RAM RATINGS

RAM RATINGS

CREDIT RATING RATIONALE

FINANCIAL INSTITUTION RATINGS

DECEMBER 2011

Analysts:
Harshani Kotuwegedara
ACMA, ACIM
(9411) 2503551
harshani@ram.com.lk

Senila Jawfer ACMA
(9411) 2553089
senila@ram.com.lk

Principal Activity:
Commercial banking

Ratings:
Long-term: BBB
[Reaffirmed]

Short-term: P3
[Reaffirmed]

Rating Outlook:
Stable

Last Rating Action:
January 2011

UNION BANK OF COLOMBO PLC – Rating Review

■ Summary

RAM Ratings Lanka has reaffirmed the respective long- and short-term financial institution ratings of Union Bank of Colombo PLC ("Union Bank" or "the Group") at BBB and P3; the long-term rating has a stable outlook. The ratings are premised on the Group's healthy capitalisation but tempered by its small stature, moderate asset quality, performance, funding and liquidity.

Incorporated in 1995, Union Bank is one of the smallest licensed commercial bank ("LCB") in Sri Lanka. As at end-December 2010, the Group accounted for only 0.63% of the local banking industry's assets. In February 2011, it was listed on the Colombo Stock Exchange ("CSE"), raising LKR 375 million of capital. That same month, Union Bank acquired 51% of National Asset Management Limited ("NAMAL" or "the Fund") for LKR 331.50 million, thereby venturing into unit-trust management. Established in 1991, NAMAL is the pioneer unit-trust management company in Sri Lanka. Meanwhile, Union Bank had also acquired 81.27% of The Finance and Guarantee Company Limited ("TF&G" or "the registered finance company ("RFC")") for LKR 600 million, as a medium-to-long-term investment.

Union Bank's asset quality is deemed moderate, albeit with an improving trend since fiscal 2010. The Group concentrates on second-tier corporates that are more susceptible to economic fluctuations. Supported by the more conducive macroeconomic climate, the Group's non-performing loans ("NPLs") have been easing since fiscal 2010. The value of its NPLs improved to LKR 572.73 million as of end-September 2011 (FYE 31 December 2010 ("FY Dec 2010"): LKR 796.51 million), translating into a gross NPL ratio of 3.53% (end-FY Dec 2010: 8.11%). That said, our concerns hinges upon the possible NPLs that could arise when new loans season. As at end-September 2011, the Group's top 20 loans accounted for a smaller 26.65% of its lending (end-September 2010: 38.85%), although still a high level.

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings Lanka. The credit rating also does not reflect the legality and enforceability of financial obligations, transfer and convertibility risks, repatriation risk, currency risk or any other risk apart from credit risk.

Union Bank's performance is deemed moderate, albeit with an improving trend since fiscal 2009. Supported by its robust loan growth that had diluted the effects of low-yielding deep discounted bond ("DDB"), the Group's interest income surged in 9M FY Dec 2011, thus pushing its net interest margin ("NIM") up to 4.79% year-on-year ("y-o-y"). Nevertheless, its NIM remains weaker than those of its banking peers due to DDB. Meanwhile, Union Bank's cost-to-income ratio also eased in fiscal 2010 and 9M FY Dec 2011, backed by its rising top line, but still weaker than its peers' owing to its small stature. That said, the Group achieved a record pre-tax profit of LKR 307.99 million in FY Dec 2010, followed by LKR 324.04 million in 9M FY Dec 2011 (+40.28% y-o-y).

Union Bank's funding profile is perceived to be moderate due to the Group's weak franchise and lack of geographical reach in comparison to larger LCBs. Due to the Group's aggressive loan growth and enlarged shareholders' funds, its loans-to-deposits ("LD") ratio weakened to 92.82% as at end-September 2011 (end-FY Dec 2010: 72.48%). At the same time, the Group's historically better-than-peer statutory liquid-asset ratio dipped from 36.33% as at end-FY Dec 2010 to 22.42% as at end-September 2011 amid its aggressive loan expansion. This level of liquidity may constrain its loan growth.

Following a rights issue in 2010, the Group's capitalisation levels are deemed healthy. Its respective tier-1 and overall risk-weighted capital-adequacy ratios ("RWCARs") improved to 34.82% and 35.11% as at end-FY Dec 2010. By end-September 2011, however, the ratios had declined to 27.46% and 27.76% amid its aggressive loan expansion, despite further capital infusions following its initial public offer ("IPO") this year. That said, the ratios are still healthy relative to its peers', leaving ample room for growth. Furthermore, the Group's ratio on net NPLs to shareholders' funds is one of the lowest among the industry, providing an adequate cushion against unfavourable movements in its asset quality.

■ Company Background

Relatively new bank

Incorporated in 1995, Union Bank is registered as an LCB under Banking Act No. 30 of 1988 and is regulated by the Central Bank of Sri Lanka ("CBSL"). Meanwhile, as at end-September 2011, 18.5% of the Group is owned by Vista Knowledge Pte Limited while 7.5% is held by Sampath Bank PLC ("Sampath Bank"); the remaining shares are widely dispersed among the public.

Sampath Bank stepped in to aid recovery of once-insolvent Union Bank

Weighed down by the harsh economic environment and the subsequent weakening of its lending portfolio, Union Bank became insolvent in 2002. As such, a group of investors led by Sampath Bank (rated AA/P1 by RAM Ratings Lanka) had stepped in to revitalise the financially distressed bank. To facilitate the recovery, Union Bank had transferred LKR 978 million of bad debts and LKR 600 million of cash to a special-purpose vehicle ("SPV"). In return, the Group had received a DDB with a relatively low yield (based on the market rates in 2003) of 4%, with a 20-year maturity and guaranteed by Sampath Bank; upon maturity, the DDB will be valued at LKR 3.46 billion.

Still small bank

Subsequent to the restructuring, the Group had begun demonstrating commendable improvements in its asset quality and financial performance. That said, Union Bank remains a small player in the local banking industry, accounting for only 0.63% of its asset base as at end-December 2010. At the same time, it only had a limited geographical presence with 27 branches.

Acquired 51% of NAMAL...

The Group acquired 51% of NAMAL for LKR 331.50 million in February 2011. Established in 1991, NAMAL is the pioneer unit-trust management company in Sri Lanka, with a track record of investing in equity and fixed-income instruments. The Fund had launched the first unit trust to be licensed in Sri Lanka (i.e. National Equity Fund) and also owns the domestic industry's first unit trust to be listed on the CSE (NAMAL Acuity Value Fund). NAMAL has 7 unit trusts within its portfolio. That said, the Fund only accounted for 0.49% of Union Bank's total assets as at end-September 2011, and 5.95% of the Group's pre-tax profit for 9M FY Dec 2011.

...and 81.27% of financially distressed TF&G

In October 2011, Union Bank acquired 81.27% of financially distressed TF&G for LKR 600 million. The rest of the shares had been acquired by Shorecap II Limited. The RFC had been acquired as a medium-to-long-term investment. Incorporated in 1961, it had previously belonged to the Ceylinco Group; approximately 40% of TF&G's assets had comprised real estate. Following the acquisition, Union Bank had converted about 80% of its customer deposits (or about LKR 1.4 billion) into shares (at LKR 7.00 apiece) as part of TF&G's restructuring.

■ Management & Strategies

Spearheaded by vastly experienced professionals

The Group is led by Director/Chief Executive Officer ("CEO") Anil Amarasuriya and Chief Operating Officer ("COO") Nilantha De Silva. They have more than 25 years' experience each in the banking industry, although they have not been with Union Bank very long.

Loan books dominated by SMEs

The Group focuses on the working-capital requirements of second-tier corporates because of the more lucrative margins from this segment, which currently accounts for approximately 60% of its loan base. In fiscal 2011, the Group opened another 6 branches, thereby increasing its geographical presence to 27 branches; Union Bank expects to increase its network to 45 branches by 2013. The management expects the new branches to break even within 1.5 years on average.

Capital gains expected from TF&G while venturing into unit-trust management through NAMAL

Union Bank's primary objective of acquiring TF&G is to generate capital gains over the medium to long term. As such, the Group intends to maintain an arms-length relationship with the RFC, and is appointing a new management team to restructure the company. While approximately 80% of the RFC's deposits had been converted to equity following a direction by the CBSL, TF&G will also be listed on the CSE next year. Union Bank also aims to provide loans for the RFC's real-estate sales; roughly 40% of TF&G's assets comprise real estate..The land will be kept as security, thus mitigating our concerns on related-party transactions. On another note, the Group's objective of acquiring NAMAL is to venture into unit-trust management. At present, this does not contribute significantly to its asset base and profits. We note that Union Bank does not have any further acquisitions in the pipeline.

■ Risk Management

Well-regulated risk-management committee

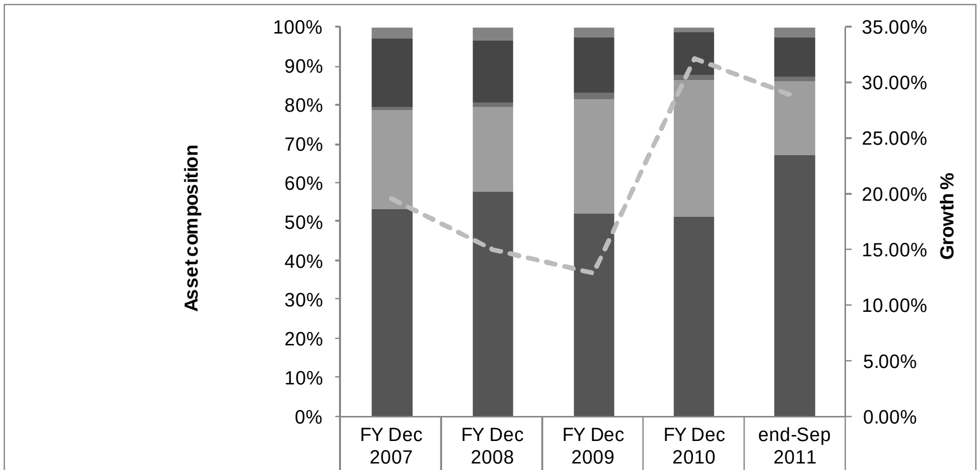
The Group has 3 separate processes for loan approval. Loans of between LKR 10 million and LKR 15 million are vetted at branch level while those up to LKR 75 million require the approval of the CEO and COO. Any loan exceeding this requires the approval of the credit committee. Notably, all loans are collateralised. Union Bank's integrated risk-management committee independently evaluates all credit proposals over LKR 50 million.

■ Asset Quality

Asset base dominated by loans and advances

Backed by capital infusions, Union Bank's asset base augmented 32.20% y-o-y in FY Dec 2010, before advancing another 28.72% y-o-y to surpass LKR 20 billion as of end-September 2011. Driven by better demand for credit in a favourable economic climate, the Group's loan base also accelerated 75.36% y-o-y in 9M FY Dec 2011 (9M FY Dec 2010: 29.16%). Following the robust loan growth, Union Bank's asset composition had tilted more towards credit assets, which constituted 67.20% of its asset base as at end-September 2011 (end-FY Dec 2010: 51.26%). Concurrently, its exposure to liquid assets receded from 35.14% to 18.81% (refer to Chart 1). Meanwhile, the 20-year DDB accounted for 10.32% of the Group's total assets as at end-September 2011.

Chart 1: Union Bank's asset composition



	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010	end-Sep 2011
Other assets	3.03%	3.39%	2.49%	1.05%	2.34%
Deep discounted bond	17.30%	15.63%	14.40%	11.33%	10.32%
Property, plant & equipments	1.05%	1.30%	1.43%	1.22%	1.33%
Liquid assets	24.96%	21.61%	29.46%	35.14%	18.81%
Net loans	53.65%	58.07%	52.22%	51.26%	67.20%
Asset growth y-o-y	19.64%	15.07%	12.87%	32.20%	28.72%

Source: Union Bank

Lending dominated by manufacturing loans; also exposed to concentration risk

Union Bank's chief focus had been the working-capital requirements of second-tier corporates, which are more susceptible to economic conditions. The largest exposure had been to the manufacturing sub-sector (end-FY Dec 2010: 21.44%), followed by trading and pawning (refer to Table 1). On a separate note, the Bank's loan-concentration risk is still viewed to be high, although it had eased to 26.65% by end-September 2011 following its aggressive loan growth (end-September 2010: 38.85%).

Table 1: Union Bank's sectoral loan exposure

Sector	FY Dec 2009	FY Dec 2010
Agriculture	11.09%	11.75%
Manufacturing	14.26%	21.44%
Tourism	0.30%	0.56%
Transport	1.27%	1.40%
Construction	7.12%	9.03%
Traders	31.93%	18.50%
Pawning	20.16%	19.43%
Other	13.87%	17.89%

Source: Union Bank

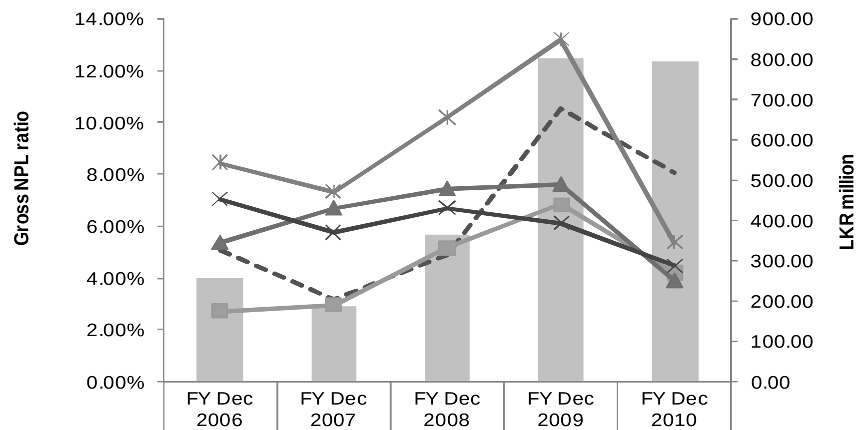
Lower gross NPLs through better underwriting and recoveries

The Group's NPLs have been easing since fiscal 2010, receding from LKR 796.51 million in end-FY Dec 2010 to LKR 572.73 million as at end-September 2011 (end-FY Dec 2009: LKR 803.46 million). The management's initiatives to strengthen underwriting standards and the better economic backdrop had resulted in slower accretion of new NPLs, which shrank to LKR 292.41 million as at end-FY Dec 2010 (end-FY Dec 2009: LKR 541.08 million). Meanwhile, the management has also strengthened its recovery procedures, as reflected by the stronger recoveries during the same period.

Gross NPL ratio weaker than peers'

As at end-FY Dec 2010, Union Bank's gross NPL ratio of 8.11% was weaker than its peers' (end-FY Dec 2009: 10.57%) (refer to Chart 2). That said, the ratio had been improving on the back of reduced NPLs coupled with aggressive loan growth (end-September 2011: 3.53%). Nevertheless, the lack of seasoning in the Group's loan books remains a concern given its rapid growth. At the same time, its top 20 NPLs accounted for 74.01% of its total NPLs, reflecting the Group's relatively high level of loan-concentration risk.

Chart 2: Union Bank's gross NPL ratio vs banking peers'



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Absolute NPLs	258.21	190.14	366.42	803.46	796.51
Union (BBB)	5.09%	3.18%	4.91%	10.57%	8.11%
ComB (AA+)	2.74%	2.96%	5.19%	6.85%	4.21%
SAMP (AA)	5.41%	6.72%	7.47%	7.63%	3.95%
HNB	7.07%	5.78%	6.73%	6.16%	4.51%
PABC	8.47%	7.35%	10.20%	13.20%	5.40%

Source: Company annual reports, Union Bank
ComB = Commercial Bank of Ceylon PLC, SAMP = Sampath Bank PLC, HNB = Hatton National Bank PLC, PABC = Pan Asia Banking Corporation PLC

Better provisioning, but lower than peers'

On a separate note, Union Bank's gross NPL coverage improved to 46.80% as at end-September 2011, from 32.54% as at end-FY Dec 2010 (end-FY Dec 2009: 29.24%). This is lower than those of its banking peers as the Group's loans are fully collateralised; the value of collateral is taken into account when calculating provisioning, as allowed by the CBSL.

Moderate asset quality

Looking ahead, the Group intends to further expand its loan books. While a significant portion of its lending has yet to be seasoned; we remain concerned about the possible influx of NPLs in future. Furthermore, the Group caters to a relatively high-risk segment. That said, Union Bank has demonstrated significant improvements in its credit quality in the recent past. Historically, the Group's gross NPL ratio has been weaker than its peers', but is now more in line with the industry. At the same time, Union Bank's top 20 loans are still lumpy despite having moderated as at end-September 2011. Based on these factors, RAM Ratings Lanka opines that the Group has moderate asset quality.

■ Performance

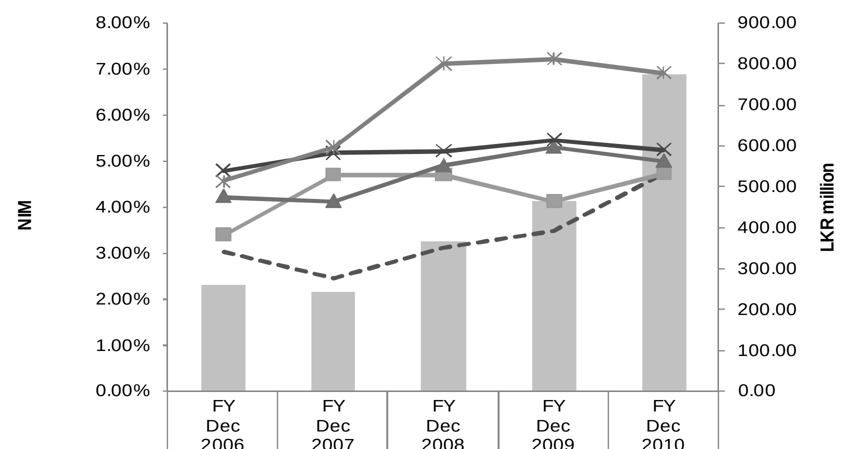
Interest income surged amid loan growth

On the back of its aggressive loan growth, the Group's interest income ascended 12.68% y-o-y in 9M FY Dec 2011, in contrast to a 4.52% contraction in FY Dec 2010; its net interest income amounted to LKR 742.66 million in 9M FY Dec 2011. The better showing was also a result of its lower interest expenses amid receding interest rates. As such, despite the growth of its deposits interest expenses only edged up 0.86% in 9M FY Dec 2011 – as opposed to a 28.36% contraction in FY Dec 2010.

Stronger net interest income, but NIM lower than peers'

RAM Ratings Lanka notes that the bulk of Union Bank's deposits comprise relatively expensive fixed deposits. This, coupled with its low-yielding DDB (4% yield), had pressured the Group's NIM, which remained weaker than its banking peers' at 4.72% in FY Dec 2010 (refer to Chart 3) (FY Dec 2009: 3.48%). The Group's NIM stayed relatively unchanged at 4.79% in 9M FY Dec 2011. On a more positive note, we envisage Union Bank's NIM to broaden along with the expansion of better-yielding credit assets, which will dilute the impact of the DDB. Excluding the low-yielding DDB, its NIM would currently be in line with those of its banking peers.

Chart 3: Union Bank's NIM against banking peers'



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Net interest income	260.01	242.39	363.33	462.91	774.14
Union (BBB)	3.02%	2.43%	3.11%	3.48%	4.72%
ComB (AA+)	3.39%	4.71%	4.69%	4.11%	4.73%
SAMP (AA)	4.23%	4.12%	4.89%	5.30%	5.00%
HNB	4.78%	5.16%	5.19%	5.44%	5.23%
PABC	4.56%	5.29%	7.10%	7.20%	6.90%

Source: Company annual reports, Union Bank

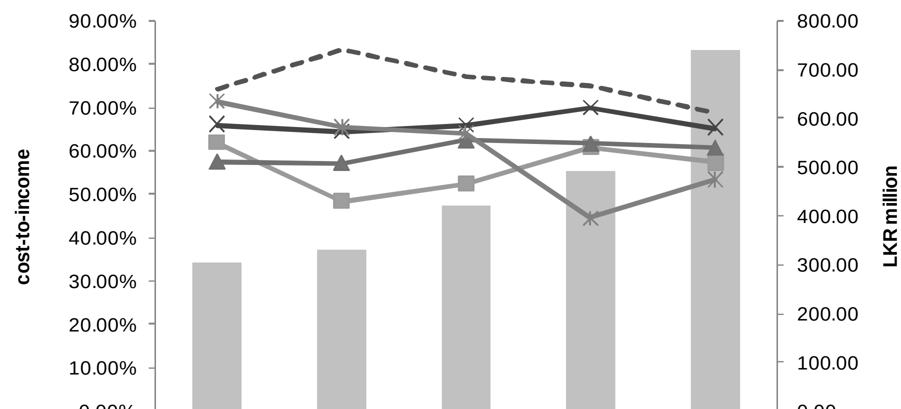
Non-interest income affected by losses of equity portfolio

The Group's non-interest income is dominated by fee income; the former accounted for 26.53% of its gross income as at end-September 2011 (FY Dec 2010: 28.34%). Union Bank's equity portfolio suffered a LKR 29.11 million loss in 9M FY Dec 2011 amid the weakening of the stock market (FY Dec 2010: LKR 18.65 million gain). Prospectively, the Group does not intend to increase its exposure to equity and will instead rely on safer investment options such as government securities.

Cost-to-income ratio eased, but still worse than peers'

Supported by the sturdy growth of its gross income, the Group's cost-to-income ratio eased to 68.69% in FY Dec 2010 (FY Dec 2009: 74.91%) (refer to Chart 4). That said, we note that absolute operating expenses had risen along with its branch expansion. The ratio remained relatively unchanged at 68.33% in 9M FY Dec 2011. We note that the Group's cost-to-income ratio is still weaker than those of its banking peers due to its small stature and lack of scale efficiencies. In the short to medium term, we envisage the ratio to hover around the current levels owing to its expansion plans.

Chart 4: Union Bank's cost-to-income ratio in comparison to peers'



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Total overheads	304.39	332.55	424.00	494.85	742.10
Union (BBB)	74.20%	83.56%	77.33%	74.91%	68.69%
ComB (AA+)	61.95%	48.55%	52.56%	60.96%	57.50%
SAMP (AA)	57.57%	57.28%	62.51%	61.72%	60.80%
HNB	66.11%	64.59%	65.87%	69.92%	65.45%
PABC	71.43%	65.51%	64.14%	44.60%	53.50%

Source: Company annual reports, Union Bank

Surge in pre-tax profit

Backed by its healthier performance, Union Bank's pre-tax profit surged 129.87% to LKR 307.99 million in FY Dec 2010 (FY Dec 2009: LKR 133.98 million). This jumped another 40.28% y-o-y to LKR 324.04 million in 9M FY Dec 2011. Meanwhile, its return on assets and return on equity improved to 2.09% and 8.92%, respectively, as at end-September 2011 (end-FY Dec 2010: 1.88% and 10.03%) albeit still lower than its peers'.

Financial performance to remain moderate

Union Bank's financial performance is tempered by the low-yielding DDB and hefty overheads. While its NIM has improved, it is still weaker than its peers', as is its cost-to-income ratio. While we anticipate the Group's performance to improve, it is still envisaged to stay moderate in the near term.

■ Funding & Liquidity

Moderate funding profile

RAM Ratings Lanka opines Union Bank's funding to be moderate owing to the Group's weak franchise and lack of geographical reach, compared to larger LCBs; making it relatively difficult to garner deposits. As at end-FY Dec 2010, deposits dominated the Group's funding base, accounting for 72.75% but declined from 87.62% in the previous year following the capital infusion in fiscal 2010. As such, its shareholders' funds accounted for 25.04% of its total funding as at the same date (end-FY Dec 2009: 11.71%). The Group's funding composition remained largely unchanged as at end-September 2011 (refer to Chart 5). Looking ahead, the Group aims to increase its reliance on borrowings to fund loan expansion.

Chart 5: Union Bank's funding composition

	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010	end-Sep 2011
Borrowings	0.30%	0.77%	0.68%	2.21%	2.24%
Deposits	86.78%	86.96%	87.62%	72.75%	74.42%
Equity	12.92%	12.27%	11.71%	25.04%	23.35%

Source: Union Bank

Healthy deposit growth

Meanwhile, the Group's deposit base advanced 32.57% y-o-y to LKR 16.41 billion as at end-September 2011, stronger than the 10.28% increase as at end-FY Dec 2010 supported by its wider geographical reach amid branch expansion. That said, most of the loans had been funded via capital as its deposit base was still too small despite the expansion to fund its aggressive loan growth. This is reflected by Union Bank's higher-than-peers LD ratio of 92.82% as at end-September 2011 (end-FY Dec 2010: 72.48%). At the same time, its deposit base was dominated by more expensive fixed deposits, which accounted for 69.08% of its total deposits. Meanwhile, the Group is also exposed to concentration risk as its top 10 depositors accounted for 17.55% of its total deposits as at end-September 2011.

Moderate liquidity

Union Bank's liquidity is viewed to be moderate. As at end-September 2011, its statutory liquid-asset ratio had fallen to 22.42% amid aggressive loan expansion, from 36.33% as at end-FY Dec 2010. These liquidity levels are expected to limit the Group's loan growth. That said, the ratio is currently in line with those of its peers.

■ Capital Adequacy

Healthy capitalisation

The Group's capitalisation levels are perceived to be healthy. Following its LKR 1.94 billion rights issue, its respective tier-1 and overall RWCARs improved to 34.82% and 35.11% as at end-FY Dec 2010. Given its aggressive loan growth, however, these ratios dropped to 27.46% and 27.76% as at end-September 2011 despite the LKR 375 million IPO. That said, the ratio remains stronger than its peers', thus leaving ample room for growth. On a more positive note, the Group's ratio on net NPLs to shareholders' funds is one of the lowest in the industry at 7.21% as at end-September 2011; this provides enough cushioning against unfavourable NPL movements.

■ Corporate Information – Union Bank of Colombo PLC

Date of Incorporation:	1995	
Commencement of Business:	1995	
Major Shareholders (as at 30 September 2011):	Vista Knowledge Pte Limited Sampath Bank PLC	18.50% 7.50%
Directors as at 30 September 2011:	Mr Ajita de Zoysa	Chairman
	Mr Alexis Lovell	Non-executive Director
	Mr Asoka de Silva	Independent Director
	Dr Harsha Cabral	Independent Director
	Mr Ananda Atukorala	Independent Director
	Mr Ajith Wijeyesekera	Non-executive Director
	Mr Jit Warnakulasuriya	Non-executive Director
	Prince Faisal Al Abdullah Al Faisal Al Saud	Non-executive Director
	Mr Toh Yui Joe	Non-executive Director
	Mr Gerard Lim Ewe Keng	Non-executive Director
	Mr Chong Kin Leong	Non-executive Director
	Mr Anil Amarasuriya	Director / Chief Executive Officer
Auditor:	Messrs Ernst & Young	
Listing:	Main Board of the Colombo Stock Exchange	
Key Management:	Mr AN de Silva	Chief Operating Officer
	Mr UAC Obeysekere	Vice President – Human resources, administration and business support
	Mr BJ Labrooy	Vice President – International and Business development
	Mr AG Ranawake	Chief Internal Auditor
	Nr KD Perera	Assistant Vice President – Finance
	Mr MMR Munasinghe	Assistant Vice President – IT
	Mr AER Candappa	Assistant Vice President – Treasury
	Mr K Chandradasa	Assistant Vice President – Corporate Credit
	Ms LU Ranwala	Assistant Vice President – Risk Management
Major Subsidiaries:	National Asset Management Limited The Finance & Guarantee Company Limited	51.00% 81.27%

Capital History:

Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
2006	Brought forward	-	1,060.00
2007	New share issue	570.00	1,630.00
2008	New share issue	127.50	1,757.50
2009	New share issue	55.67	1,813.17
2010	New share issue	2,760.65	4,573.82
2011	New share issue	405.97	4,979.79

FINANCIAL SUMMARY
Union Bank of Colombo PLC – Group

BALANCE SHEET (LKR million)	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	Unaudited 30-Sep-11
ASSETS					
Cash & Money At Call	1,143.73	1,494.52	630.51	1,285.53	852.16
Deposits & Placements With Financial Institutions	0.00	0.00	0.00	0.00	0.00
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00
Securities					
Securities Held For Trading	703.65	166.66	1,947.56	3,967.59	1,244.25
Securities Available-For-Sale	2,035.76	2,351.88	2,848.26	2,667.41	3,198.41
Securities Held-To-Maturity	0.00	0.00	0.00	0.00	0.00
Gross Loans & Advances	6,029.32	7,542.07	7,760.03	10,037.35	15,710.34
Interest-Income-In-Suspense	48.00	78.80	155.71	215.73	217.42
General Loan Loss Reserves	19.47	48.37	61.13	77.99	79.88
Specific Loan Loss Reserves	131.79	155.21	173.83	181.20	176.40
Net Loans & Advances	5,830.07	7,259.69	7,369.37	9,562.43	15,236.65
Statutory Deposits With BNM	709.44	643.49	763.84	749.89	1,310.55
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Other Assets	329.19	423.58	351.38	195.39	530.86
Property, Plant & Equipment	114.24	163.03	201.58	227.85	302.21
TOTAL ASSETS	10,866.09	12,502.85	14,112.50	18,656.09	22,675.09
LIABILITIES					
Customer Deposits					
Demand	1,036.90	841.84	1,179.44	1,709.82	1,442.97
Savings	1,460.62	1,492.68	1,683.49	3,012.14	3,632.10
Fixed	6,435.02	8,157.56	9,101.07	8,471.60	11,340.90
Negotiable Instruments of Deposits	0.00	0.00	0.00	0.00	0.00
Interbank Deposits	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	0.00	0.00	0.00	0.00
Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00
Other Borrowing	30.54	92.98	92.40	401.13	493.14
Subordinated Debt & Hybrid Capital	100.00	0.00	0.00	0.00	0.00
Recourse Obligation on Loans Sold to CAGAMAS	0.00	0.00	0.00	0.00	0.00
Other Liabilities	472.64	436.83	457.33	521.21	615.57
TOTAL LIABILITIES	9,535.72	11,021.89	12,513.73	14,115.90	17,524.69
Paid-up Capital	1,630.00	1,757.50	1,813.17	4,573.82	4,979.79
Minority Interest	0.00	0.00	0.00	0.00	81.37
Share Premium & Other Reserves	0.00	0.00	0.00	30.97	67.01
Statutory General Reserve	10.48	11.64	14.74	22.23	22.23
Retained Profits/(Accumulated Losses)	(310.12)	(288.17)	(229.14)	(86.83)	0.00
TOTAL SHAREHOLDERS' FUNDS	1,330.36	1,480.96	1,598.77	4,540.19	5,150.41
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	10,866.09	12,502.85	14,112.50	18,656.09	22,675.09
COMMITMENTS & CONTINGENCIES	2,810.13	4,805.90	6,905.79	0.00	0.00
TIER 1 CAPITAL	1,241.25	1,340.20	1,559.59	4,476.56	4,721.56
CAPITAL BASE	1,282.86	1,388.58	1,620.72	4,514.31	4,772.85

FINANCIAL SUMMARY
Union Bank of Colombo PLC – Group

INCOME STATEMENT (LKR million)	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	Unaudited 30-Sep-11 9 months
Interest Income	1,155.29	1,750.33	1,855.78	1,771.98	1,497.46
Less: Accretion Of Discount/(Amortisation Of Premium)	0.00	0.00	0.00	0.00	0.00
Less: Net Interest Income Suspended	0.00	0.00	0.00	0.00	0.00
Less: Interest Expense	(912.90)	(1,387.00)	(1,392.87)	(997.84)	(754.80)
Net Interest Income	242.39	363.33	462.91	774.14	742.66
Non-Interest Income	155.62	184.97	197.68	306.14	268.18
Gross Income	398.01	548.31	660.59	1,080.28	1,010.84
Less: Personnel Expenses	(136.62)	(169.36)	(204.65)	(259.19)	(275.01)
Less: Other Operating Expenses	(195.93)	(254.64)	(290.20)	(482.90)	(415.73)
Less: Loan Loss Provisions	(24.49)	(48.86)	(31.75)	(30.19)	3.94
Less: Non-Recurring Items	0.00	0.00	0.00	0.00	0.00
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit/(Loss)	40.96	75.45	133.98	307.99	324.04
Less: Taxation	(27.55)	(52.34)	(71.84)	(158.19)	(118.47)
Net Profit/(Loss)	13.42	23.10	62.14	149.80	205.58
Less: Minority Interests	0.00	0.00	0.00	0.00	(6.97)
Less: Transfer To Statutory Reserves	(0.67)	(1.16)	0.00	0.00	0.00
Less: Transfer To Other Reserves	0.00	0.00	0.00	0.00	0.00
Less: Dividend	0.00	0.00	0.00	0.00	0.00
Post-Appropriation Profit/(Loss)	12.75	21.95	62.14	149.80	198.60

FINANCIAL SUMMARY
Union Bank of Colombo PLC – Group

KEY FINANCIAL RATIOS (%)	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	unaudited 30-Sep-11
PROFITABILITY					
Net Interest Margin	2.43%	3.11%	3.48%	4.72%	4.79%
Net Financing Margin	2.43%	3.11%	3.48%	4.72%	4.79%
Non-Interest Income Margin	1.56%	1.58%	1.49%	1.87%	1.73%
Cost To Income	83.56%	77.33%	74.91%	68.69%	68.33%
Cost Over Total Average Assets	3.33%	3.63%	3.72%	4.53%	4.46%
Return On Assets	0.41%	0.65%	1.01%	1.88%	2.09%
Return On Equity	3.94%	5.37%	8.70%	10.03%	8.92%
Dividend Payout	0.00%	0.00%	0.00%	0.00%	0.00%
ASSET QUALITY					
Gross NPLs Ratio	3.18%	4.91%	10.57%	8.11%	3.53%
Net NPLs Ratio	1.00%	2.89%	8.47%	6.38%	2.42%
3-months Past Due Ratio	3.18%	4.91%	10.57%	8.11%	2.24%
Net NPLs To Total Assets	0.54%	1.69%	4.46%	3.30%	1.64%
Specific Loan Loss Provisions For Current Period	0.44%	0.73%	0.42%	0.35%	0.13%
Gross NPLs Coverage	79.55%	55.56%	29.24%	32.54%	46.80%
Loan Loss Reserve Coverage	2.53%	2.73%	3.09%	2.64%	1.65%
General Loan Loss Reserve Coverage	0.33%	0.66%	0.82%	0.81%	0.52%
LIQUIDITY & FUNDING					
Liquid Asset Ratio	23.14%	21.73%	30.37%	36.33%	22.42%
Interbank Deposits To Total Interest Bearing Funds	0.00%	0.00%	0.00%	0.00%	0.00%
Customer Deposits To Total Interest Bearing Funds	98.56%	99.12%	99.23%	97.05%	97.08%
Loans To Deposits Ratio	65.27%	69.19%	61.60%	72.48%	92.82%
Loans To Stable Funds Ratio	56.61%	60.74%	54.53%	53.17%	69.77%
CAPITAL ADEQUACY					
Shareholders' Funds To Total Assets	12.24%	11.85%	11.33%	24.34%	22.71%
Tier 1 Risk Weighted Capital Adequacy Ratio	15.43%	12.89%	13.32%	34.82%	27.46%
Overall Risk Weighted Capital Adequacy Ratio	15.95%	13.35%	13.84%	35.11%	27.76%
Internal Rate Of Capital Generation	1.29%	1.64%	4.04%	4.88%	5.92%

FINANCIAL RATIOS
Union Bank of Colombo PLC – Group

KEY FINANCIAL RATIOS	FORMULAE
PROFITABILITY	
Net Interest Margin	Net Interest Income / Average Total Assets
Net Financing Margin	(Net Interest Income + Net Finance Income From Islamic Banking Operations) / Average Total Assets
Non-Interest Income Margin	Non-Interest Income / Average Total Assets
Cost To Income	(Personnel & Other Operating Expenses) / Gross Income
Cost Over Total Average Assets	(Personnel & Other Operating Expenses) / Average Total Assets
Return On Assets	Pre-Tax Profit/(Loss) / Average Total Assets
Return On Equity	Pre-Tax Profit/(Loss) / Average Shareholders' Funds
Dividend Payout	Dividends / Net Profit/(Loss)
ASSET QUALITY	
Gross NPLs Ratio	(Total Non-Performing Loans - Interest-Income-In-Suspense) / (Gross Loans - Interest-Income-In-Suspense)
Net NPLs Ratio	(Total Non-Performing Loans - Specific Loan Loss Reserves - Interest-Income-In-Suspense) / (Gross Loans - Specific Loan Loss Reserves - Interest-Income-In-Suspense)
3-months Past Due Ratio	3-months Past Due Loans /(Gross Loans - Interest-Income-In-Suspense)
Specific Loan Loss Provisions For Current Period	Specific Loan Loss Provisions For The Period / Average Gross Loans
Gross NPLs Coverage	General & Specific Loan Loss Reserves (B/S) / (Total Non-Performing Loans - Interest-Income-In-Suspense)
Loan Loss Reserve Coverage	General & Specific Loan Loss Reserves (B/S) / (Gross Loans - Interest-Income-In-Suspense)
General Loan Loss Reserve Coverage	General Loan Loss Reserves / (Gross Loans - Specific Loan Loss Reserves - Interest-Income-In-Suspense)
LIQUIDITY & FUNDING	
Liquid Asset Ratio	Liquid Assets / Customer Deposits & Short-Term Funds
Loans To Deposits Ratio	Net Loans / Customer Deposits
Loans To Stable Funds Ratio	Net Loans / (Shareholders' Funds + Total Interest Bearing Funds + General Loan Loss Reserves - Interbank Funding - Property, Plant & Equipment - Investments in Subsidiaries/Associates)
Short-Term Funds	Interbank Deposits + Bills & Acceptances + Securities Sold Under Repos
Liquid Assets	Cash & Short-Term Funds + Securities Purchased Under Repos + Deposits & Placements With Financial Institutions + Quoted Securities (Excluding Securities Held-To-Maturity)
Total Interest Bearing Funds	Customer Deposits + Interbank + Bills & Acceptances + Securities Sold Under Repos + Borrowing + Supplementary Capital
CAPITAL ADEQUACY	
Internal Rate Of Capital Generation	(Net Profit/(Loss) + Extraordinary Income - Dividend + General Loan Loss Provision) / Average Shareholders' Funds

CREDIT RATING DEFINITIONS

Financial Institution Ratings

A Financial Institution Rating ("FIR") is RAM Ratings Lanka's current opinion on the overall capacity of a financial institution to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take in to account the expressed terms and conditions of any specific financial obligation.

Long-Term Ratings

AAA	A financial institution rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term FIR assigned by RAM Ratings Lanka.
AA	A financial institution rated AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	A financial institution rated A has an adequate capacity to meet its financial obligations. The financial institution is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
BBB	A financial institution rated BBB has a moderate capacity to meet its financial obligations. The financial institution is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
BB	A financial institution rated BB has a weak capacity to meet its financial obligations. The financial institution is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	A financial institution rated B has a very weak capacity to meet its financial obligations. The financial institution has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
C	A financial institution rated C has a high likelihood of defaulting on its financial obligations. The financial institution is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.
D	A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

Short-Term Ratings

P1	A financial institution rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term FIR assigned by RAM Ratings Lanka.
P2	A financial institution rated P2 has an adequate capacity to meet its short-term financial obligations. The financial institution is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.
P3	A financial institution rated P3 has a moderate capacity to meet its short-term financial obligations. The financial institution is more likely to be weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category.
NP	A financial institution rated NP has a doubtful capacity to meet its short-term financial obligations. The financial institution faces major uncertainties that could compromise its capacity for payment of financial obligations.
D	A financial institution rated D is currently in default on either all or he D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

For long-term ratings, RAM Ratings Lanka applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the financial institution ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the financial institution ranks at the lower end of its generic rating category.

Published by RAM Ratings (Lanka)
Reproduction or transmission in any form is prohibited except by permission from RAM Ratings Lanka
© Copyright 2011 by RAM Ratings Lanka

RAM Ratings (Lanka) Limited
No. 9 Arthur's Place
Colombo 4
Sri Lanka

Tel: (9411) 2553089 Fax: (9411) 2553090
E-mail: ram@ram.com.lk Website: http://www.ram.com.lk

RAM Ratings Lanka receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings Lanka's credit opinions or other analytical processes. In all instances, RAM Ratings Lanka is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings Lanka reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

RAM Ratings Lanka, its rating committee members and the analysts involved in the rating exercise have not encountered and/or are not aware of any conflict of interest relating to the rating exercise. RAM Ratings Lanka will adequately disclose all related information in the report if there are such instances.