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INTELLIGENCE & INSIGHT FOR CA SRI LANKA MEMBERS

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Arabian port prospects and pointers

P.40

People's Bank's 65% challenge

P.44

The Outsider

Beggared and beaten, HNB was in perilous state when Theagarajah took over as CEO. The challenge stretched him to the limit

SMALL SIZE, BIG IN NUMBERS | CRIME FIGHTER | ENTICING VALUATIONS FOR BANKS

School of Accounting and Business

BSc. (Applied Accounting)

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Thank you for making Bank of Ceylon Sri Lanka's No: 1 Brand

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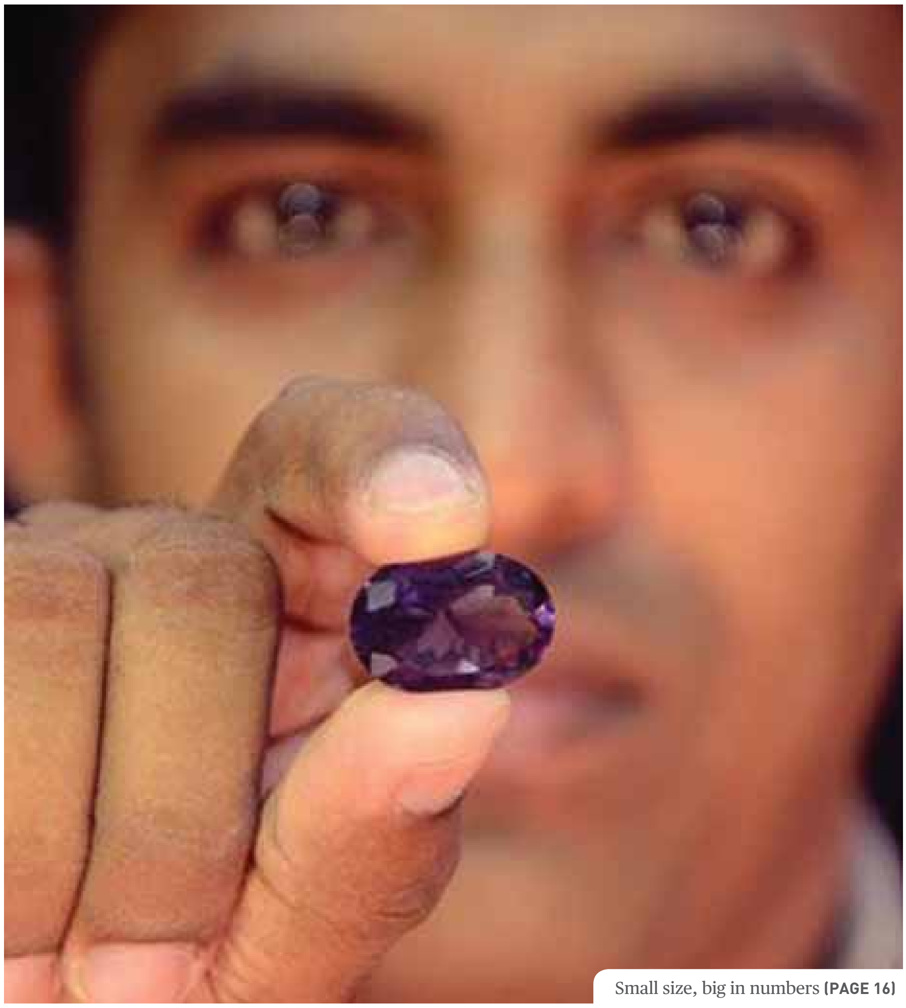
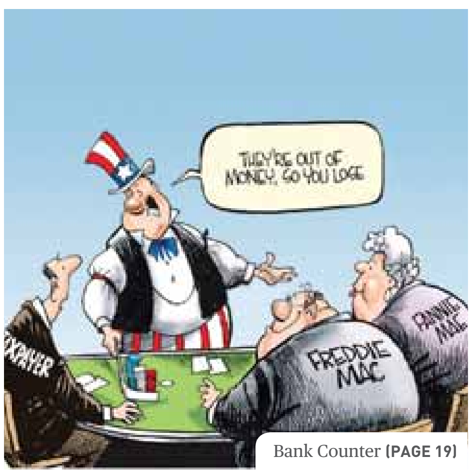


Small size, big in numbers **(PAGE 16)**



Bank Counter **(PAGE 19)**

Turrets, minarets and magic carpets **(PAGE 58)**

Intelligence & Insight for CA Sri Lanka members

Tough times require tough minds

Taking over an organisation whose size gave it systemic importance, such as a bank the failure of which would affect the entire financial system itself, at a time it was in trouble would have been a formidable task - and not for the faint-hearted.

That was the task faced by Rajendra Theagarajah, an accountant turned banker, when he took over as Chief Executive of HNB. The ethnic war had battered investor confidence while some of HNB's own key performance indicators were in tatters.

Not only did Theagarajah fix the numbers, as any good accountant would do, but he changed corporate attitudes as well, getting the team to let go of an ego-centric obsession with looking good by having the biggest market share to improving the bank's financial health. He also began engaging more with shareholders, like introducing quarterly conference calls with institutional investors, underscoring the importance of a more open attitude.

Our cover story in this maiden issue of The Abacus, the official magazine of CA Sri Lanka, is about this remarkable turnaround of a banking behemoth.

The magazine also portrays the work of another accountant, Jagath Perera, who heads KMPG Sri Lanka's forensic practice. Their services are sought by a corporate sector facing a growing incidence of fraud.

These and other stories in The Abacus, including one about an international crackdown on multinational tax dodgers, we hope would provide enlightening reading for the tired eyes and brains benumbed by numbers of CA Sri Lanka members. And we round it off with a tale of travel from a modern-day Arabian Nights adventure for those members who want to take time off and get on their magic carpets.

CA
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) is one of the largest professional organizations in Sri Lanka that supports over 4,300 chartered accountants. The Institute provides insight and leadership to the accountancy and finance profession in Sri Lanka as well as globally.

Our well qualified members are trained to provide financial knowledge and guidance based on the highest professional, technical and ethical standards, thereby assisting communities and organizations gain long term sustainable economic growth.

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A word from the President

Improving qualifications to suit an evolving role

Accounting is undoubtedly one of the world's most successful professions. But with success comes challenges and constant changes. The magnitude of changes witnessed in our profession is dramatic; from new regulations to changes in policies and the constant challenges of globalization, our profession is facing immense trials despite continued accomplishments.

Like any profession, change is compulsory for renewed motivation. Without change we face the risk of fading away. Change also helps us adapt to newer challenges, situations, and market needs.

In a long and illustrious journey spanning over five decades, the Institute of Chartered Accountants of Sri Lanka, now more commonly known as CA Sri Lanka, is no stranger to change. We understand the concept and we understand the importance of change. But while maintaining our age - old traditions and beliefs, we have constantly endeavored to transform in our continuing aim to be bigger and better.

Our chartered accountancy qualification is of global standing, but as the world becomes complex and businesses become more competitive, we need to be able to cater to current and future demands. We need to ensure our professionals will continue to command the impressive standing they enjoy in the years to come. With this visionary objective in mind, CA Sri Lanka embarked on yet another landmark venture early this year, by being the first professional institute in the country to offer both a professional qualification and a degree of immense recognition.

The Bachelor of Science in Applied Accounting is the first of its kind to be offered in Sri Lanka by a recognized tertiary educational institute which has also been approved by the University Grants Commission.

To be a degree awarding institute has been a long standing dream of CA Sri Lanka, and to realize this dream is a bigger achievement and fortifies our standing in the higher education sector as a leading tertiary education provider in the country.

The role of a chartered accountant is fast changing. Accountants play an integral part in an organisation's success and sustenance. They sit close to the nerve centre of the organization they serve in. But, despite the standing we enjoy today, we cannot afford to be a stagnant profession. We need to keep up with changing times and demands and hence the degree in applied accounting is one such timely initiative, which will help elevate the profession further, while also ensuring our nation possesses a skilled workforce for strong, sustainable and balance growth in all areas.

Globalization is no longer just a mere concept. Today it's a reality and we are all facing it, and it comes with implications as well as opportunities. As a developing nation, we have understood the importance of this concept, and to ensure we are not left out of this process, we have also adopted the International Financial Reporting Standards which enable a common global language for financial reporting.

We will continue to make vast strides in the accounting field, both at a local level as well as globally. Our legacy is our prestige. No frontier is final for us and our search for excellence will always remain high on our agenda.

Sujeewa Rajapakse

The role of a chartered accountant is fast changing. Accountants play an integral part in an organisation's success and sustenance.


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A word from the Vice President

A professional communications tool

The Institute of Chartered Accountants of Sri Lanka, during its existence of over 50 years, has provided exceptional and innovative leadership to the professional realm by being the driving force in helping uplift professional standards in the country. Today with the inauguration of The Abacus, the Institute fulfills a long felt need for a good communication platform within the accounting and finance profession and between its stakeholders. It will be a firm platform on which we will further integrate with all our stakeholders providing very valuable insights and sharing expectations with each other.

We believe innovation is key to success, and transformation is important in today's constantly changing world. The birth of The Abacus from our more archaic Chartered Accountant Journal is one among many steps in our continuing journey to provide our members and all our stakeholders with the latest and the best.

Packed with an exciting line up of reader-friendly material consisting of features, current affairs, thought leadership articles, technical updates and even travel pieces, The Abacus promises to be a refreshing reading experience for the benefit of all professionals.

The journal will be the driving force for the expression of independent and critical thought on matters of current academic and professional interest in accounting, finance and business. The journal will be used as an important platform to increase awareness among all stakeholders, including CA Sri Lanka members and others from accounting, finance and business on matters pertaining to their professional interest.

As representatives of a leading professional organization in the country, we understand and value the importance of professionalism. Having been recognized as a catalyst for change in the professional realm, CA Sri Lanka has always taken on the responsibility to provide guidance to help uplift the professional standards practiced in Sri Lanka both within and outside the accounting sphere. The Abacus will be yet another important initiative to ensure that these high standards are further propagated among all stakeholders.

Every year we take exceptional effort to improve our standing. We understand the concept of being relevant and we ensure every effort is being taken to be in line with global changes, whilst maintaining our local heritage. The Abacus is one such initiative in our continuing journey to be on par with global players.

I hope you will find The Abacus to be a refreshing reading experience!

Arjuna Herath

We believe innovation is key to success, and transformation is important in today's constantly changing world. The birth of The Abacus from our more archaic Chartered Accountant Journal is one among many steps in our continuing journey to provide our members and all our stakeholders with the latest and the best.

Periscope

SMART DOTS ON MAPS

This interactive map produced by GIS can be used to explore the mechanisms of global trade, such as the 50 largest ports in the world by volume and the shipping lanes that connect continents. It has clickable markers for ports, with data on volumes and embedded satellite maps.

Private sector organizations like banks and plantations are getting more interested in using GIS or Geographical Information System applications, geographically referenced data for mapping and visualization that helps manage resources and assets more effectively. "People don't want just 'dots on maps'," says Ashani Jayasinghe, CEO of GIS Solutions Private Ltd. "They want them to become 'smart dots on maps'- data coupled with analysis that solves problems through understanding.

"Despite the increasing consumption of mapping technology, we need to remember that spatial analysis is what makes GIS a truly powerful solution and that analysis is what solves REAL problems." GIS Solutions is the distributor for ArcGIS software developed by ESRI (Environment Systems Research Institute - Redlands, California USA). ESRI technology has been in use locally for over 20 years, mainly by government agencies and departments for infrastructure development, utilities sector management and even during the tsunami to help speed up relief operations. GIS has traditionally been used in the nation's large scale development initiatives and infrastructure projects. The Surveyor General's Department uses GIS to update maps on tea, rubber and oil palm lands. Plantations firms like Finlays are also using the technology to manage their commercial forestry resources, among the largest in the sector. Even banks can use GIS to say, more completely analyse distribution of customer home locations to better understand impacts on nearby branch openings. For example, banks can use GIS in promotional campaigns. Rather than mailing letters randomly to customers in certain cities, they can identify postal codes that are within a 10 minute drive of a branch. ■

WORTHLESS WARRANTS

Warrants issued by several listed firms on the Colombo bourse some of which have been the subject of controversy are now worthless at current valuations of the underlying shares. Asia Wealth Management Company's research department has analysed the performance of the listed instruments of Ceylon Leather Products, Environmental Resources Investment, Nation Lanka Finance and Citrus Leisure.

These company shares were trading below the conversion rates of the warrants at the time of the analysis in May. Nation Lanka Finance CSF-W-0021 warrant, set to expire on July 31, 2013 with a conversion price of Rs12, was trading at Rs10.30 at the time. Share warrants give holders the option to buy new shares in companies at a predetermined price at a future date. The analysis compares the trading price of the warrants with their intrinsic value, which is derived from the current value of the underlying stock price, its volatility, period to maturity and the risk free rate of government securities. Any changes in these indicators would change the warrant values.

Last year, the markets regulator, the Securities and Exchange Commission, imposed trading restrictions on ERI warrants after the company announced plans to delay their conversion to shares. ■

A BRAND NEW DEEP-WATER CONTAINER TERMINAL BUILT BY THE CHINESE-CONTROLLED COLOMBO INTERNATIONAL CONTAINER TERMINALS IS SET TO OPEN IN JULY, MAKING COLOMBO PORT ACCESSIBLE TO A NEW GENERATION OF CARGO SHIPS AND ENHANCING CAPACITY

▲ 3.3 Mn
CONTAINER-HANDLING CAPACITY BEFORE THE PROJECT (IN 2006)

▲ 8.1 Mn
CONTAINER-HANDLING CAPACITY BY 2015

▲ 10.5 Mn
CONTAINER HANDLING CAPACITY BY 2024

IMF STRESSES TAX REFORMS

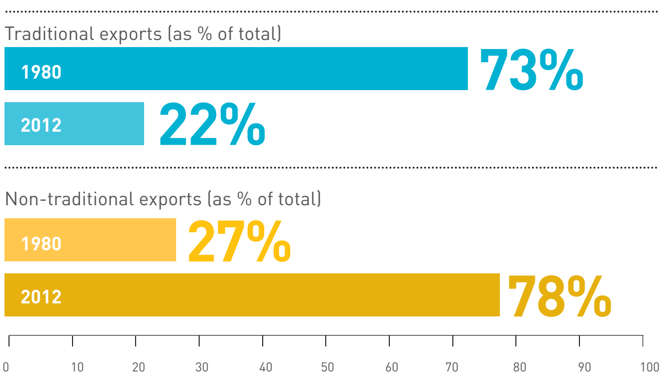
The International Monetary Fund has pressed for more tax reforms to improve state revenue, calling for value added tax to be extended fully to the retail and wholesale sectors. An IMF review in early May said the agency welcomed government efforts toward fiscal consolidation, particularly on recurrent spending, given a high public debt ratio. However, they noted that revenues have fallen to very low levels, placing the burden of adjustment on expenditure, notably capital spending.To enhance space for infrastructure and critical social spending, the IMF stressed the need to broaden the revenue base and improve tax administration, including by extending the VAT fully to the retail and wholesale sectors. It also suggested reforming the VAT refund system and revising tax holidays and exemptions. ■

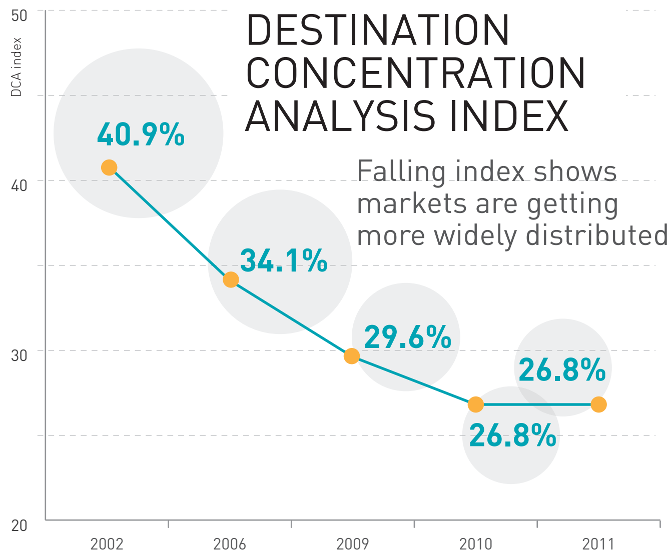
OVERSEAS MARKETS GETTING DIVERSIFIED

Although exports have been falling in recent months, Sri Lanka has managed to diversify markets and increase the share of non-traditional or new product shipments. There has been a "steady improvement" in the Destination Concentration Analysis (DCA) of the island's exports while new products show promise but face supply constraints, the Ministry of Industry & Commerce said.

EXPORT FLIP

Changing composition





The DCA index, developed by the Export Development Board, is a statistical parameter which serves as a measure of how dispersed a country's exports are. The higher the index value, the less distributed are the export markets, and the lower the index, the more widely distributed are a country's markets. The DCA of Sri Lanka's export markets shows that over the years Sri Lanka has diversified its markets 'gradually', with the index improving from 40.9 in 2002 to reach the 26.8 levels in both 2010 and 2011.

The composition of traditional and non-traditional exports has also virtually reversed since the 1980s. Traditional exports that were 73% of total exports in 1980 had fallen to 22% in 2012. This means 78% of total exports in 2012 were non-traditional exports. EDB research shows that the total number of regular Sri Lankan exporters had fallen by 27% in 2012 from 2008.The EDB has also identified much scope for exports of ships, boats and floating structures, along with tea, coffee, seafood and rubber, demand for which was rising globally. ■

HIGH INFLATION, EXPORTS LOW: ADB

Inflation, although coming down, will remain high in Sri Lanka this year too while exporters will have to wait at least another year for a stronger recovery, according to the Asian Development Bank. Average inflation in 2013 is expected to be around 7.5%, little improved from a year earlier, despite government policy measures and anticipated lower global commodity and energy prices and a stable exchange rate. Although the government has raised fuel and electricity prices, further price increases are required to reduce current operating losses of the Ceylon Electricity Board and repay debts to banks that funded previous years' losses. Exporters will find 2013 also a difficult year because economic conditions in key overseas markets remains weak, with only a slow recovery in the euro area. ■

ENERGY LOSSES Impact on Economy, 2012

CPC LOSS

Rs89 bn = 1.2% of GDP

CEB LOSS

Rs65 bn = 0.9% of GDP

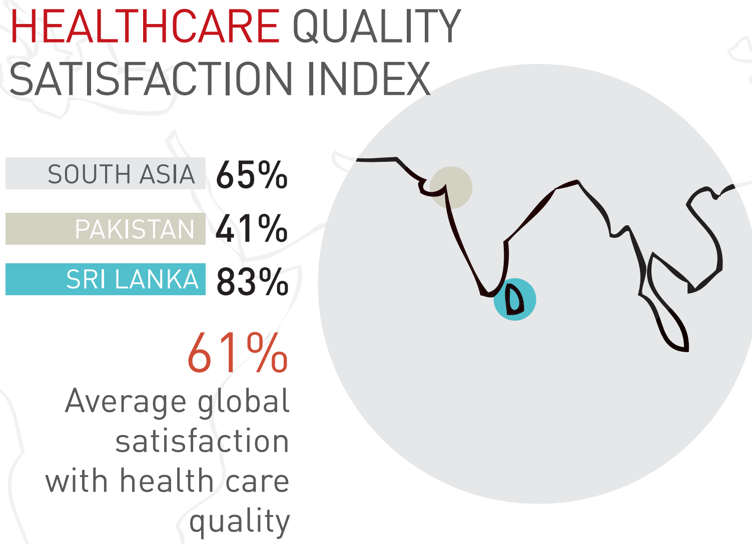
Periscope

HAPPY WITH HEALTH

There are long queues to see doctors in both private and state hospitals, and medicines are expensive, but Sri Lankans seem happier than many other nationalities about the quality of their health care. The island scores high in health care satisfaction, according to a survey quoted by the Human Development Report 2013. Published by the United Nations Development Programme, the new report says there is now increased acceptance in thinking and policy about subjective indicators of human well-being such as satisfaction with the quality of health care and education.

"Survey results indicate that high-quality health care and education can be delivered at a wide range of income and human development levels," it says.

Average global satisfaction with health care quality was 61%, with a low of 19% in Ethiopia and a high of 90% in Luxembourg. In South Asia, 65% of respondents indicated satisfacwtion with health care quality, with Pakistan at 41% and Sri Lanka at 83%, "the latter showing that even at comparatively low levels of income it is possible to reinforce social perceptions about community and the state," the report says. By contrast, health care satisfaction is 45% in Europe and Central Asia. And South Asians scored the highest (73.3%) on satisfaction with the quality of education, even higher than East Asia and the Pacific (68.2%) and Europe and Central Asia (51.8%).



CFO CHALLENGES AND ROLE AS VALUE INTEGRATOR HIGHLIGHTED

In the face of growing challenges and complexities, the evolving role of the Chief Financial Officer (CFO) was the focus at the CFO Forum jointly organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and IBM Sri Lanka. Guest speaker, Sachin Seth, Director/Partner, GBS Enterprise & Geo Expansion Leader of IBM Global Services (India/ South Asia) gave insights from the global CFO study carried out by IBM, the world's largest IT and consulting services company.

Seth told a full house of top financial professionals in the country including CFOs of leading corporates in Sri Lanka at the Cinnamon Grand Colombo that the IBM 2010 CFO study showed that value integrators excel at two capacities, namely finance efficiency and business insights which in turn lead to outperformance.

Sri Lanka was chosen as the first country in South Asia to launch the CFO Forum on Value Integrators, and a series of such forums has already been held in other parts of the world.

The CFO Study indicates that the demands on CFOs are consistently rising and has extended well beyond traditional financial responsibilities.

60% ► *of top 50 listed companies have a CA Sri Lanka member on their boards*

1,900 ► *CFOs and senior finance leaders worldwide gave input for the study*

CA Sri Lanka President Sujeewa Rajapakse emphasized that the financial and business landscape is constantly changing throughout the world, amidst greater uncertainty in the global economy, and under such circumstances hardly any role has changed as much as the CFO's during the recent past. "There is no CFO short of tasks right now and their role has been expanding significantly in recent years amidst a multitude of developments both at corporate and global levels."

Rajapakse said that amidst fluctuating energy costs and currencies, price increases in commodities, and cost cutting, the role of a CFO has always been a demanding one. But with rapid developments in regulation, information technology and a changing economy, a new era is also being witnessed in the progression of the CFOs today.

"There is no doubt that financial professionals including CFOs face a multitude of challenges in today's context, and they have no choice but to face these challenges. But also among the challenges there is also an equal amount of opportunities and CFOs must identify them and embrace the opportunities to achieve long-term success and to ensure their organization becomes successful." Country Manager of IBM Sri Lanka Chrishan Fernando told the forum that IBM will continue to pioneer in various technological advancements in its efforts to create a smarter planet consisting of smarter businesses and smarter systems.

TACKLING CORPORATE TAX TRICKS

A worldwide crackdown on corporate tax avoidance is gathering momentum, led by European countries whose citizens, forced to put up with austerity measures, are angry at the way multinationals reduce their tax bills by camouflaging profits. The initiative aims to address tax base erosion and profit shifting, known as BEPS, a practice that can give multinational corporations an unfair tax advantage over domestic companies and citizens.

The fight against the use accounting methods by multinational corporations to make profits disappear for tax purposes is spearheaded by the Organisation for Economic Co-operation and Development (OECD). The BEPS tax planning strategies of MNCs exploit loopholes in tax rules to shift profits to locations where there is little or no real activity but where they are lightly taxed, resulting in little or no overall corporate tax being paid. BEPS strategies are not illegal in most cases with many simply exploiting double taxation agreements (DTAs) between countries and tax havens but they undermine tax revenues and the fairness of the tax system.

These strategies mostly exploit the fact that current tax rules are still grounded in a ‘bricks and mortar’ economic environment stemming from the industrial era, rather than today’s environment of global players, with increasing importance of intangibles and risk management. An action plan to address BEPS is to be developed by June 2013. The OECD has strengthened its work to put an end to what’s known as ‘international double non-taxation’ whereby neither country taxes the income, and to neutralise use of tax havens and set up a mechanism that measure the amount of money untaxed.

Corporate tax avoidance has been spotlighted in OECD countries where it is hard for politicians to explain why some profitable companies pay small levels of tax at a time when taxes on individuals or SMEs have dramatically increased. Value added tax rates have increased in 25 out of 33 OECD countries. Apart from BEPS, the initiative includes efforts to strengthen automatic exchange of information among countries and the Global Forum on Transparency and Exchange of Information for Tax Purposes. The latter rates tax jurisdictions’ compliance with the Global Forum’s standards on exchange of information on requests. ■

‘WE WILL FIND YOU’

The Global Forum on Tax Administration meeting in Moscow in mid-May issued a call for public information on tax avoidance by companies. “We would encourage any party that holds such information to share it with the relevant tax authorities,” they said in a statement.

“The message to tax evaders and those who facilitate tax evasion is simple: however hard you try to hide, we will find you.” The forum, which consists of the heads of tax administrations from 45 economies, says it is dedicated to securing high levels of voluntary tax compliance and effectively addressing tax evasion and aggressive tax avoidance.

BEPS BEHAVIOUR

There’s no hard data yet on how much tax revenue is lost to BEPS (base erosion and profit shifting) but studies provide plenty of circumstantial evidence that such behaviours are widespread.The OECD says there are several studies and data showing that profits are reported for tax purposes in locations different from where the actual business activities and investment takes place.

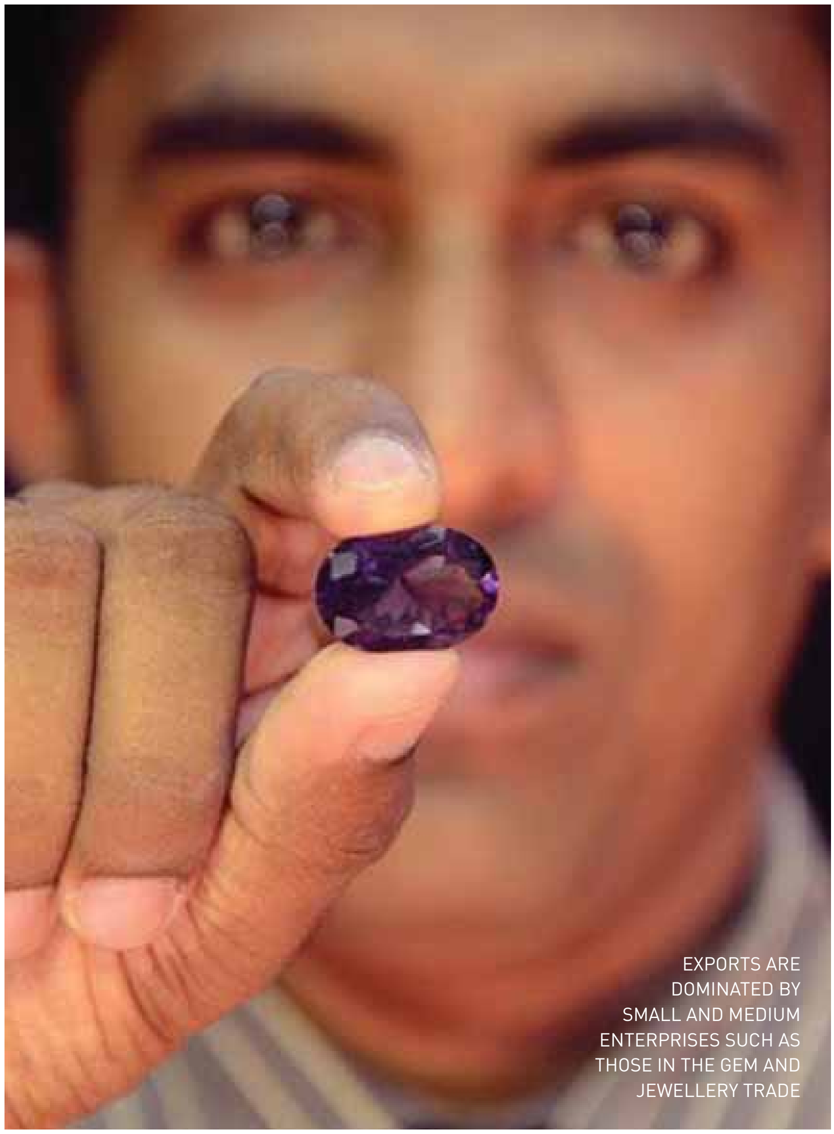
Recent news reports have highlighted how Google takes advantage of double taxation agreements (DTAs) between Ireland, where the Internet search firm has its European base, and other countries, to hide billions of dollars each year from tax.

Using these DTAs, Google ensures most of its European income flows to Ireland untaxed, and then sent to an untaxed Google entity in Bermuda. Google maintains it follows the tax rules that apply in every country where it operates.Companies are also known to avoid tax by placing intellectual property, like brands or work processes, with a subsidiary registered in a tax haven, which then charges affiliates in major markets hefty fees for their use. ■

By
Rohan Gunasekera

Small size, big in numbers

After being shunned as risky borrowers, small business are now actively courted by lenders keen to take advantage of the growth of SMEs as the economy expands. Conducive lending and tax policies are falling into place but only a more coherent approach will truly support the large number of small firms making up a big chunk of the economy


EXPORTS ARE DOMINATED BY SMALL AND MEDIUM ENTERPRISES SUCH AS THOSE IN THE GEM AND JEWELLERY TRADE

In the past year or so many banks, including the local branches of multinationals, have rolled out new products or services aimed specifically at small businesses or dusted off old ones and re-launched them in fresh packaging. The increased attention given by lenders to small companies indicates not only the growing interest in supporting entrepreneurship to revive or accelerate economic growth but also their prospects as profitable borrowers. Having a coherent support system that enables entrepreneurs with bright business ideas and a willingness to risk their reputation and money is critical to a country's economic and social progress. This means having not only appropriate government policy but also developing an eco-system and culture supportive of entrepreneurship.

In India SMEs are given separate credit ratings and also government support to obtain them

Most countries define SMEs as those with roughly between 10 to 250 employees. Definitions among countries differ. What's an SME in India might be considered a big company in Sri Lanka. A clear definition is required to pro-

Perspective

vide tax incentives and other facilities for SME development. In Sri Lanka, over 80% of all businesses are SMEs. A turnover-based criteria is adopted under the Inland Revenue act to identify SMEs but they are defined differently for tax incentives.

The annual sales threshold for small businesses to apply for the concessionary income tax rate of 10% was raised in this year's budget to Rs 500 million from Rs 300 million previously. But a turnover threshold of not exceeding Rs 100 million is applied to those firms given an amnesty for writing off of default taxes due to the conflict environment or financial crisis.

Sri Lanka is largely an SME economy, says Ranjith Hapuarachchi, deputy commissioner of the Inland Revenue Department. "They account for around 80% of all businesses, 35% of employment generation and 20% in value addition of industries," he says. "SMEs are spread throughout the island and form the backbone of the economy with about 75% of agriculture enterprises being small businesses."

South Korea's approach, to emerge an industrial and export powerhouse, was selective. Instead of aiming for balanced growth, the Korean government selected promising industries and companies and supported them heavily so they can lead the country's economic growth, says Dr. Jinsoo Yoo of South Korea's Sookmyung University and the Center for International Economic Studies who is on a government industrial and export policy advisory team.

Selecting promising SMEs was a lengthy process. But once a firm was selected, it got strong financial and marketing assistance. Tax incentives for SME exporters included reduced corporate tax and a preferential interest rate half that applied to other, non-export firms. "So exporting SMEs received a huge incentive to export," says Dr. Jinsoo. These firms also got export credit insurance and export credit guarantees, one measure that has worked well in Sri Lanka, he notes. "Export credit insurance in Sri Lanka is performing pretty well." Korean small exporters got more favourable financing terms if they used more locally made parts in their export products. "There are two ways to reduce the trade imbalance," says Dr Jinsoo. "You have to increase exports and reduce imports. But if you connect the two - export promotion with localization - you can raise exports and reduce imports at the same time." Having market-friendly institutions, policies and regulatory frameworks might help more than size-focused public policies, like SME subsidies. One example is better credit reporting.

The absence of reliable credit information on SMEs hinders not only their own development and borrowing ability but creates difficulties for banks and other lenders to loan money to them. Tax compliance difficulties of small firms have been addressed by the adoption of IFRS (International Financial Reporting Standards) for SMEs, a separate version of the new global accounting rules, with the recognition that their tax and accounting requirements are different to those of bigger firms. But lending remains a tricky area.

An approach that might help small business borrowers is one adopted in India where SMEs are given separate credit ratings and also government support to obtain them. Small businesses with credit ratings have been found to be able to access cheaper funding. Indian rating agency CRISIL says ratings enhance access to funding for SMEs and help reduce borrowing costs.

Banks tend to prefer lending to large companies because of the higher risks associated with giving loans to SMEs and the high transaction and monitoring cost of such lending activities. There's not merely a shortage of funding but a shortage of bankable business propositions as well. Those banks that have succeeded in building and increasing SME loan portfolios have done so by adapting their approach to suit different borrowers without deviating from the principles of good credit. This means not only simply giving loans, but transferring skills as well and is radically different from traditional corporate banking. This 'hand-holding' approach involves giving SMEs training in management, business and strategic planning, marketing, accounting and technology upgrading.

Rs 500 mn

TURNOVER THRESHOLD BELOW WHICH COMPANIES ARE CONSIDERED SMES TO BE ELIGIBLE FOR TAX INCENTIVES

12%

TAX RATE FOR FIRMS WITH TAXABLE INCOME OF LESS THAN RS5MN

40,000

NUMBER OF SMES IN SRI LANKA (INDUSTRIAL SURVEY OF 2003)

80%

PERCENTAGE OF SME SUPPLIERS AMONG 4,700 EXPORTERS

CA Calendar

Seminar Series on IT Governance Risk and Compliance
06th,13th, 20th, 25th & 27th June at CA Sri Lanka IT Training Division.
Contact Kaushala

Information Security Management
13 June at CA Sri Lanka IT Training Division from 5.00 pm to 7.30 pm.
Resource person Wasantha Perera - CSE.
Contact Kaushala

IT Governance & Strategy
20 June at CA Sri Lanka IT Training Division from 5.00 pm to 7.30 pm.
Resource person Janindu De Silva - Manager IT Security, Technology Advisory Services division of PwC, Sri Lanka.
Contact Kaushala

Strategic Level I and II
22-23-29-30-June at CA Sri Lanka conducted by Examination Division.

Business Continuity Management
25-June at CA Sri Lanka IT Training Division from 5.00 pm to 7.30 pm.
Resource person Parakum Pathirana - Head of IT Security & Compliance/ Principal Consultant @ LOLC Technologies. *Contact Kaushala*

IT General Controls, Application Security and Vulnerability Management
27 June at CA Sri Lanka IT Training Division from 5.00 pm to 7.30 pm.
Resource person Buddhika De Alwis - Manager, IT Advisory & Mahendiran Prashanthan – Senior Manager, IT Advisory KPMG.
Contact Kaushala

Microsoft Office Excel 2010 Business Modelling (Advanced User Programme) (4)
1st & 2nd July at CA Sri Lanka from 8.30am to 5.00 pm. Fee: Members Rs10,000, Non Members Rs12,000. Resource Person - Sumudu Sekarage.

Business English II paper
18 July at CA Sri Lanka by Examination Division.

Colombo by Night
20 July at Galle Face from 7.00pm onwards. Fee Rs. 2,500.
Contact Indunil

Chartered Accountants Ball 2013
10 August at Cinnamon Lakeside (King's Court).
Contact Indunil

Annual Convocation 2013
10 September at Water's Edge from 3.30 pm onwards. By Invitation.
Contact Indunil

Certificate Level II and I Examination
14, 15, 21, 22 September at CA Sri Lanka by Examination Division.

Indunil - 2502077 Kaushala - 2352013

Among the problems highlighted by small businesses is the proliferation of government agencies they have to deal with

The Ministry of Industries and Commerce is trying to work across business chambers and arrive at a common definition of SMEs as different definitions are givin by different organisations, says Rohantha Athukorala, Head of National Portfolio Development - Sri Lanka & Maldives at the UN Office for Project Services. Athukorala, a ministry advisor who also is a board member of the EDB and Industrial Development Board, wonders how effective the many small business support schemes in the last 10-15 years have been.

Among the problems highlighted by small businesses is the proliferation of government agencies they have to deal with. There are half-a-dozen ministries alone - ranging from the Ministry of Economic Development and the Ministry of Industry and Commerce to the Ministry of Rural Development and Self-Employment, Ministry of Science and Technology and Ministry of Traditional Industry and Small Enterprise Development. A government SME policy has remained in draft form for 5 - 6 years.

A more active role by business chambers, in improving managerial capabilities of small firms, business plans and market access, could help. Chambers could also promote closer ties with India, through partnerships with regional chambers in Calcutta or Mumbai or Chennai, rather than looking at the whole country. "Maybe certain products from Jaffna could be targeted at Tamil Nadu," suggests Athukorala There's also the sub-contracting option with SMEs tying up with larger exporters, as done effectively in India. One issue larger firms face in sourcing from smaller ones is that while they have orders, the supply chain is not geared to fulfil them. And sometimes specifications are not up to standard, nor is basic packaging that could be a useful tool for branding and promotion. SMEs could also focus on small markets and on building relationships with buyers. "Even if you are not competitive, if your relationship's strong, you can hold the market," says Athukorala.

Small businesses, while growing in number and sophistication, now face far more uncertainties than before, given wildly fluctuating commodity prices, exchange rates and interest rates. Their requirements are also changing as many venture abroad or deal directly with overseas customers or suppliers.

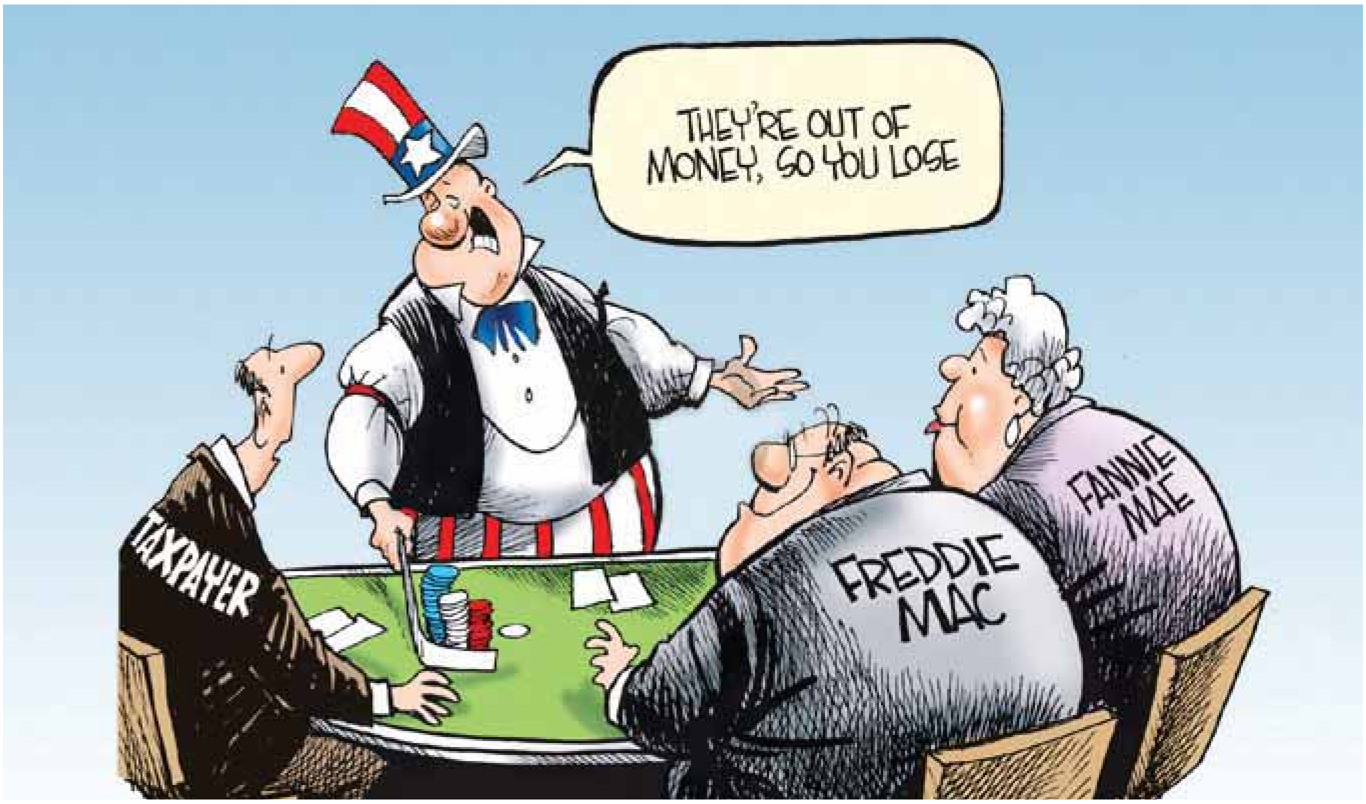
These businesses may be small but they are important enough to be taken seriously by banks which are rolling out specially tailored products and services. SMEs will be pleased to know that they are indeed becoming bankable customers.

By
Mark Hager

Perspective

Bank Counter

A proposed new US law that aims to prevent banks gambling with other people's money could mean higher interest costs for households and companies. But that might be worth the price to pay if it prevents financial system meltdown and tax payer-funded bailouts.



What should be done about the banks? Many focus on the 'too big to fail' (TBTF) problem, spotlighted harshly by the massive taxpayer bailouts of 2008. While it may be wise to limit bank size, we should not imagine this would by itself eliminate risks of financial crises and bailout scenarios. Reckless management and financial interconnectivity can produce credit meltdowns even without huge firms. One need think back no further than the 1980s to find a crisis/bailout episode–among local 'savings and loan' banks–where the object of taxpayer rescue was an entire subsector rather than individual behemoths. One critical function banks perform, 'commercial' banking, is to channel pooled savings into enteprise productive enough to repay loans with interest while still making a profit. Bank scrutiny of potential borrowers helps ensure that scarce capital is deployed wisely rather than sitting idle or being wasted on harebrained endeavours. Banks can also usefully help firms raise capital in equity markets–'investment' banking–earning fees for implementing public offerings.

Incentives all push toward the risky end of the spectrum

In principle at least, no sensible observer should begrudge bank earnings from interest on productivity-enhancing loans or fees on capital-pooling public offerings. But what Wall Street has gotten heavily into over the past couple of decades is a third, far more dubious, way of making money: speculating massively in securities, essentially gambling with borrowed funds, which does nothing for the economy and is not one of your wiser business models.

The biggest risks yield the biggest gains and therefore the biggest bonuses for traders and desks that hit winners. Lack of success carries no financial penalty to offset the lucrative up side, so incentives all push toward the risky end of the spectrum. Of course, you could get fired and have to go work for someone else, but that can happen not only to the big-time losers but also to the modest-return play-it-safers. Worse, bank equity is only a fraction of what Wall Street bets with. Also on the table are depositor funds and loans from outside creditors. The first puts ordinary bank accounts in jeopardy while the second transmits risk through the interlocking financial sector.

Lenders financed the latter-day Wall Street casino because the big houses were deemed–you guessed it–TBTF. Your money was safe there so long as taxpayer purses could be pinched for a bailout, keeping the Street above water and able to pay debts. In fact, Wall Street can borrow at premium low rates, keeping capital costs below what smaller rivals face, precisely because of the implied taxpayer guarantee. Hazardous to the financial system and taxpayer alike, TBTF is also deeply anti-competitive. Therein lies a strong argument for size limitations even if this is no panacea for crisis and bailout prevention. Size limits might inject greater competition and might reduce drain of loan capital from productive to speculative investment.

Then again, they might not. If size-limited banks nevertheless remain TBTF, markets will continue to believe that the government will bail them out of a crisis. The big banks will continue to enjoy preferential borrowing rates and will continue to enjoy skewed incentives toward risky gambles where the upside is huge and big losses bring bailouts from the taxpayer.

Wall Street has been essentially gambling with borrowed funds, which does nothing for the economy and is not one of your wiser business models.

Consolidation in the financial sector has never been greater. As of 2009, the big four–Bank of America, Citicorp, JP Morgan Chase and Wells Fargo–held some 40% of total deposits. Market share of the ten largest stood at 60%, up from 25% in 1990. Post-meltdown passage of the Dodd-Frank reform act may inadvertently make things worse because its heavy new regulatory and paperwork requirements may burden smaller banks disproportionately. Some experts contend it will drive 1,000 lesser banks out of business within a decade.

Much attention has focused on possible legislation to limit bank size directly. Out of the fog have come competing criteria for maximum bank size. Just to list some of them is to grasp the thorniness of the issue: no more than 10% of total national deposits; no more than 10% of total national loans; no more than 10% of risk-adjusted liabilities; assets no more than 10% of GDP; non-deposit liabilities no more than 10% of GDP; and - last but not least - assets no more than 5% of the current targeted value of the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation! The exact criterion may matter less than the sheer existence of a maximum. But a maximum legal size raises tricky issues. What sanctions apply for non-compliance and what steps does a non-compliant bank take to get into compliance? Would size limits undermine performance incentives for banks near the line?

More important than maximum size is changing the way banks do business: risky trading and high leverage. Dodd-Frank's most pivotal reform may be the Volcker Rule, named for its leading advocate, the Reagan-era Federal Reserve chairman. The Rule bans banks from 'proprietary trading': buying and selling securities for their own profit rather than on behalf of clients. Like all gambling, proprietary trading delivers no aggregate benefit: every gain means someone else's equivalent loss. The point is to stop banks from gambling, especially with other people's money. Volcker Rule proponents contend that it will ensure a more stable and secure credit system, while levelling the playing field between big houses and their smaller competitors.

One difficulty is that the Rule could threaten beneficial activity that looks like proprietary

Perspective

DODD-FRANK
WALL STREET REFORM & CONSUMER PROTECTION ACT

Introduced on 12/02/2009 with **223,783 words.**

Passed by the house on 12/11/2009 with **299,585 words.**

Passed by the senate on 05/20/2010 with **283,985 words**

Signed into law by President Obama on 07/21/2010 with **383,013 words.**

16 number of titles

67 number of studies of conduct

243 new rules created

22 number of periodic reposts

WHAT

A financial reform bill created to change and reform the US financial system. These changes will affect how many industries do business.

HOW

Creation of a **Consumer Financial Protection Bureau** within the Federal Reserve. Its mission will be to oversee consumer financial products offered by banks, mortgage companies, credit cards, debt-settlements firms, loan providers and payday lenders.

Allows consumers to access a **free copy of their credit report** and credit score if they learn of an adverse action

Requires lenders to document a borrower's **income based on IRS data.**

Gives favourable treatment to plain vanilla **qualified mortgages.**

Prevents mortgage brokers from collecting income from the lender and the borrower on the same loan.

Bans abusive lending practices on the basis of **race, ethnicity, gender or age.**

Requires lenders to **keep a 5% stake in the mortgages they originate** unless the loans meet certain criteria

Low bank equity encourages risky investment by shifting loss exposure to creditors

trading but isn't: banks buying and selling instruments for purposes other than securing a profit. Accordingly, Dodd-Frank itemizes 'Permitted Activities'- two key ones are market making and hedging - not covered by the ban on proprietary trading.

Fine, but how can a regulator or prosecutor tell whether a given trade or set of trades is proprietary or permitted? How can a bank be sure that permissible trades won't be wrongly punished? Dodd-Frank directs both bank and securities agencies to draft regulations delineating permissible from impermissible trades. When adopted, these regulations will be the real Volcker Rule.

This drafting task was supposed to be done within a year but is still unfinished nearly three years after Dodd-Frank's enactment. Banks protest that the Rule's sheer complexity will gum up their operations, while reformers worry that the final product will be a Swiss cheese of loopholes. A new reform bill hit Congress in May, designed to curtail leverage among the biggest banks. Co-sponsored in the Senate by Democrat Sherrod Brown and Republican David Vitter, the bill would require banks with assets over $500 billion to maintain equity - shareholdings or retained earnings - equalling at least 15% of total assets. This would force the big houses to reduce their use of loans to finance themselves.

Brown-Vitter could eliminate some of the borrowing-cost advantage TBTF banks enjoy, while cutting their insolvency risks and reducing both the likelihood and magnitudes of taxpayer bailouts. It would also confer an incentive for banks to stay small. Low bank equity encourages risky investment by shifting loss exposure to creditors. It heightens dangers and fears of insolvency when bank asset values decline and makes it harder for stressed banks to raise emergency loans. By forcing banks to sell assets when liquidity tightens or loans come due, it creates cascades of declining asset prices, transmitting danger and fear through the financial system in a vicious circle. By contrast, a high 'equity cushion' allays fears of loan defaults and depositor ruin by pushing losses onto shareholders with only 'soft' claims on bank wealth.

Critics of Brown-Vitter claim that restricting bank finance options will raise operating and capital costs such that firms and households will face higher interest rates for business loans and mortgages. Not everyone agrees, but even if that's true, it might well be worth the price for a system that won't crash.

Focus On

High returns, enticing valuations for banks

Banks are posting attractive returns, much better than most regional peers, and their shares are attractively priced as well

Sri Lanka's listed banks are doing very well indeed compared with most peers in the South and South East Asian region. Return on equity in the banking sector is as high as 20% on average versus 16% for regional peers, according to a new research report by Capital Alliance Ltd., an investment bank.

In fact, ROEs of Sri Lankan banks are the highest among banks in the region except for banks in Indonesia. And Sri Lankan bank stocks are the cheapest when measured on price-to-book value - the ratio of a company's share price over its book value of equity. In 2013, Capital Alliance said it expects banking industry ROEs of 20% and ROAs (Return on Assets) of 1.9% (versus 16% and 1.5% respectively in the region).

And net interest margins (NIMs) will remain stable, averaging around 4.2% compared with the region's 3.5%. Indonesia has the region's highest NIMs, even higher than those of Sri Lankan banks. The report noted that less volatile and improving NIMs are the key to sustainable ROEs.

Cost-to-income ratios of banks, which are higher than regional peers, are likely to improve as industry-wide branch additions slow. Commercial Bank, Hatton National Bank and Sampath Bank have all expanded their branch networks rapidly over the last two years and are now in the phase of consolidation. In 2013, CAL expects a total of 12 branches to be added by these three banks.

The smaller banks had delayed branch expansions and may see an increase in cost-to-income ratios as branches are added this year as they try to keep up with the competition. The CAL report said bank earnings have more scope to grow especially outside the traditional lending business. "Fee income from credit cards, remittances and e-banking still have vast scope for growth," it said, noting that these account for only 7% of income compared with 15% for the region's banks.

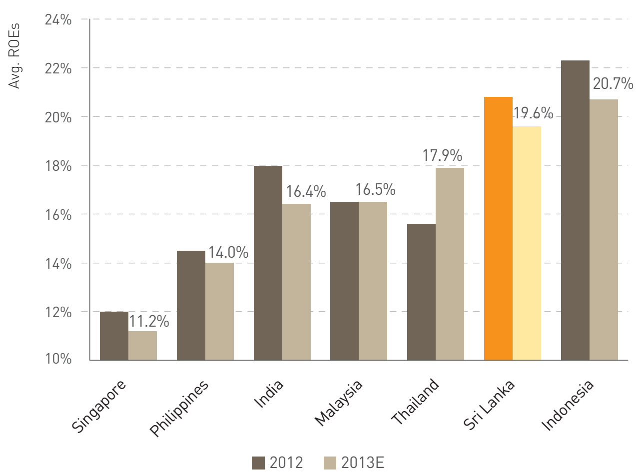
In fact Sri Lanka's credit card penetration is the lowest among peers in a country comparison done by CAL - 4.7% compared with 52% for Singapore and 28% for Malaysia.

Sri Lankan banks are attractively valued compared to peers, Capital Alliance's research analysts found. The average price-to-book value of Sri Lankan banks is estimated at 1.2x in 2013, the same as Singapore's while in India and Malaysia it is 1.8x and in Indonesia 2.0x.

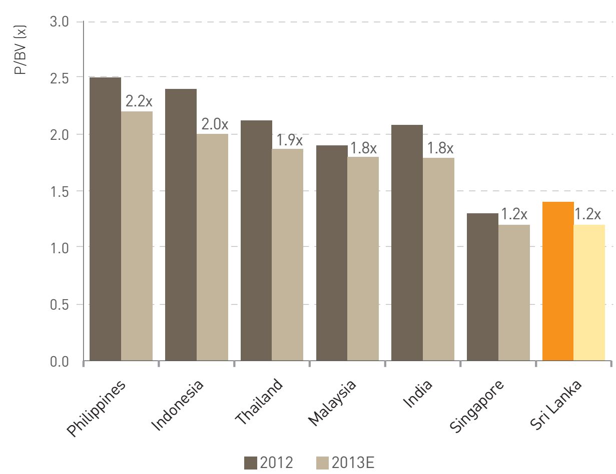
The price-to-earnings (PER) ratio of Sri Lanka's banking sector was the lowest in the region - at 7.0x in 2013 - compared with 10.5x in Indonesia and 16.6x in the Philippines, the highest.And Sri Lankan banking sector dividend yields are also more attractive than those of regional peers.

In 2013, bank dividend yields are likely to average 5.2% in Sri Lanka compared with the region's average of 2.8%.

Regional comp arison of banking sector ROEs



Regional comparison of banking sector P/BVs

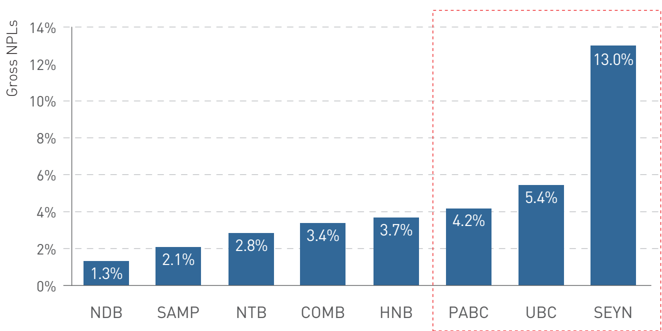


Focus On

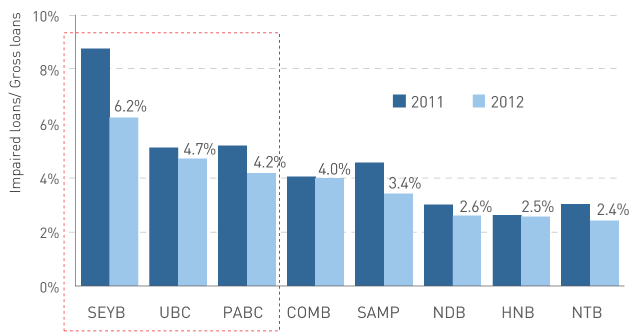
Low provisioning to boost profits not sustainable

Smaller banks have been lending aggressively but may no longer be able to maintain high net interest margins

2012 Bank NPLs



Impaired loans as a percentage of gross loans



Although core profits of the banking sector have been improving, Sri Lanka's smaller banks may not be able to continue to maintain profitability by lower provisioning for bad loans, says Capital Alliance in a new research report. Core profits are defined as net interest income plus fee-based income minus operating expenses. Yield on assets of smaller banks are higher than those of big banks and these smaller banks maintain high net interest margins by lending to high yield but riskier customers.

Smaller banks like Pan Asia Banking Corporation, Nations Trust Bank, Union Bank and Seylan Bank have higher yield on assets than bigger ones like HNB, Commercial Bank, National Development Bank and Sampath Bank .

But NIMs are coming down and such lending may be unsustainable over the long run for aggressive banks, says the report. With the introduction of International Finance Reporting Standards (IFRS) accounting from 2013, loan loss provisioning was replaced with impairment accounting. Under this, a loan asset is impaired (reduced in value) if the carrying value of the loan exceeds the future expected cash flows from the customer. "Smaller, aggressive banks maintain higher NIMs by providing loans to higher risk clients in the SME, pawning and personal loan segments," the report said. An exception is NTB whose higher yields are attributable to higher interest on credit card loans and providing value added services to high yield corporate clients.

As credit quality deteriorates smaller banks like PABC, Union Bank and Seylan Bank could have higher NPLs than bigger banks. Union Bank, Seylan Bank and PABC all reported lower provisioning cover under SLAS in 2012 compared with 2011. "Providing lower impairment charges for bad losses to boost profitability may not be sustainable over the long run," CAL's research report said.

"Maintaining profitability via lower provisioning is unsustainable at a few smaller banks."

Interest rates to rise again

Although interest rates are coming down in the short term as the central bank cuts bench-mark lending rates, borrowing costs are likely to rise again in the medium term driven by the government's own borrowing needs. Capital Alliance Ltd. says it expects interest rates to rise by 1.5% - 2% by year-end as inflation kicks in and government debt financing continues. "The government may need to finance the budget deficit via borrowings from the local market which may spike interest rates in the medium term," CAL said in a research report. High inflationary pressure will also kick in owing to recent energy price hikes.

Focus On

Automation, information availability seen improving trade

A bigger dose of transparency and technology will make it easier to trade across borders

Sri Lanka is doing better than most Asian and other developing countries in international trade facilitation which helps improve access to the global marketplace, but more information availability and automation could improve its performance further.

This will help increase trade flows and reduce costs for the island which depends greatly on imports and exports, according to a new report on trade facilitation indicators by the Organisation for Economic Co-operation and Development.

"Sri Lanka could draw considerable benefits in terms of trade volumes and trade costs from significant improvements particularly with respect to information availability and automation," the report says. "Continued efforts in the areas of streamlining of procedures and governance and impartiality would bring further benefits."

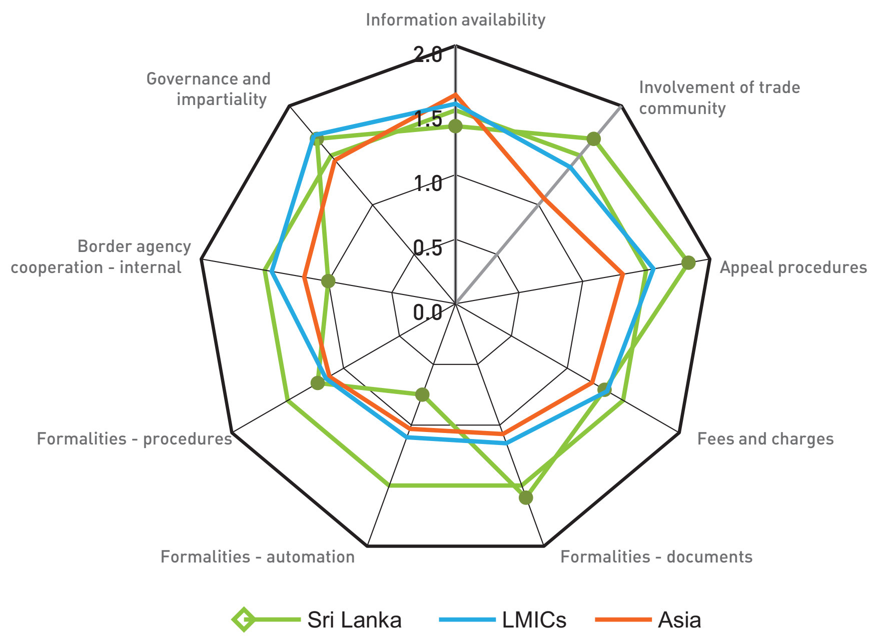
Information availability measures refer to publication of trade information, including on internet, and enquiry points for those engaged in cross-border trade. These are among a set of indicators developed by the OECD to assess trade facilitation policies and highlight areas for policy action and reform that could increase trade flows and reduce costs. Estimates based on these indicators provide a basis for governments in developing countries to prioritise trade facilitation actions and get technical assistance.

The OECD analysis shows that trade facilitation measures can benefit all countries, as exporters as well as importers, allowing better access to inputs for production and greater participation in the international trading system. Sri Lanka performs better than the averages of Asian and lower middle income countries (LMICs) in the areas of involvement of the trade community, appeal procedures and simplification and harmonisation of documents, according to OECD trade facilitation indicators. But it noted: "Sri Lanka's performance for information availability, automation and internal border agency co-operation is below the averages of Asian and lower middle income countries."Identifying areas for action in trade facilitation, the OECD says the areas with the greatest impact on increasing bilateral trade flows and lowering trade costs are formalities (documents, procedures, automation), governance and impartiality and information availability. "The indicators involvement of the trade community, advance rulings and appeal procedures also have a significant impact on trade flows," it says.

"These indicators have a strong impact at the manufacturing trade level as well.

Sri Lanka's trade facilitation performance: OECD indicators

LATEST AVAILABLE DATA, WHERE 2 = BEST PERFORMANCE



Streamlining of procedures and governance would bring further benefits

Advantage

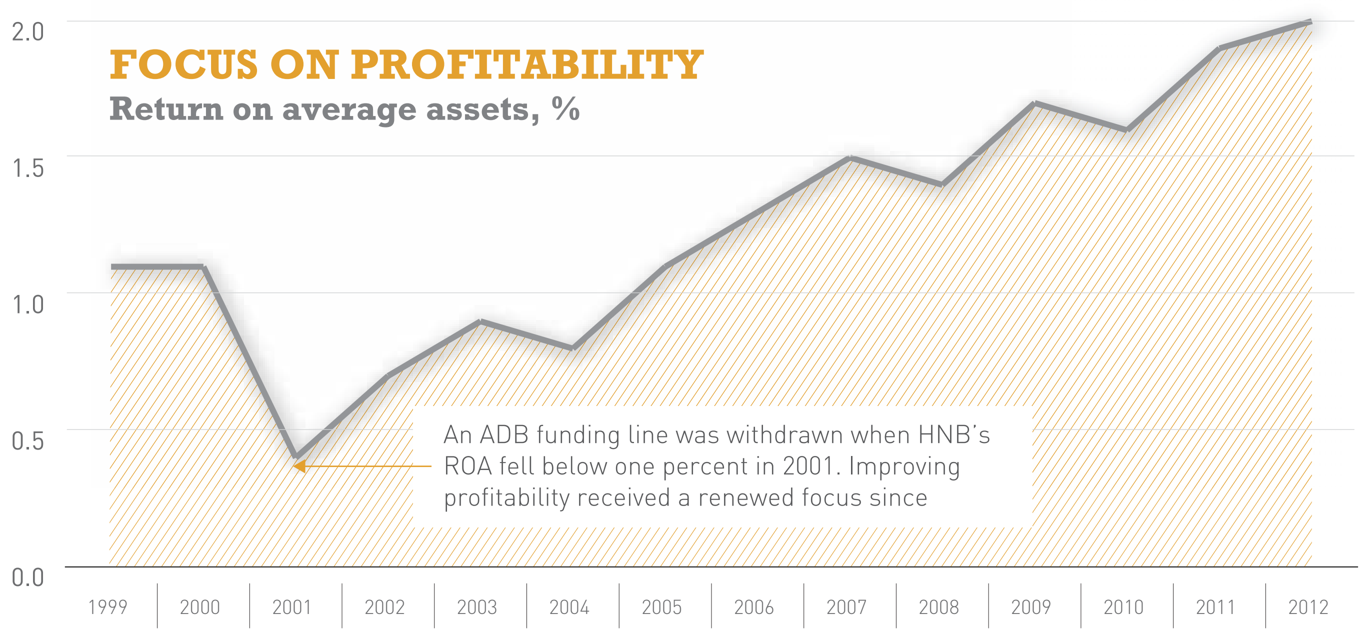
The Outsider

BY: SHAMINDRA KULAMANNAGE

Beggared and beaten, HNB was in perilous state when Rajendra Theagarajah took over as Chief Executive. As a relative outsider he had a different perspective and the challenge stretched him to the edge of his wits and fortitude

"How does it feel like to be a beggar?" was Theagarajah's challenge, veiled as a question, to HNB's beleaguered management in January 2005. Investors had just paid half the value of assets backing each new share at a rights issue. The largest private bank in the country, with a gleaming new & over-budget head office and extensive branch network, had somehow lost the confidence of investors. HNB didn't have enough capital to take more risk and fund loan book growth. "How does it feel to sell the family silver at 55 cents to a rupee, when your main competitor is doing it at double that? How does it feel?" he challenged the senior staff.

RAJENDRA THEAGARAJAH'S FIRST SIX YEARS WAS PERHAPS THE TOUGHEST TENURE OF ANY OF HNB'S CHIEF EXECUTIVES' ON THE JOB. BESIDES ANAEMIC ECONOMIC GROWTH AND A RAGING CONFLICT HNB ALSO HAD TO DEAL WITH ITS OWN DEVILS; A DUD IT SYSTEM, A CHRONIC CAPITAL DEFICIT AND OUT OF CONTROL COSTS



"That is why I will leave with the satisfaction that we did everything in our control to have attempted to embrace change"

Rajendra Theagarajah

Rajendra Theagarajah only months before had moved to the corner office on the 21st floor of the shiny HNB Tower, as Chief Executive and Managing Director. The sheer opulence of its marble clad executive floor is dominated by the Chief Executive's office where a semicircular, almost double height glass wall presents one of the most spectacular vistas of Colombo. In June 2013 Rajendra Theagarajah quits HNB after nine years at the helm to head NDB Bank, which has a balance sheet only a little more than a third the size of HNB's Rs446 billion. In Theagarajah's nine years leading HNB, income grew four fold, profits by seven times and dud loans declined to 3.3% of the loan book from 8%.

"I looked at myself and asked, 'can I put the same degree of energy for five more years with the wisdom I have and take an organisation from where it is today to a different level?'" Theagarajah is certain he is up for the challenge. "There is a probably another good five years of energy left in me for executive leadership. So do I continue and how much more can I do here? Should I be settling for the comfort of a decent salary and benefits?" he asks.

Theagarajah was a relative outsider, having joined HNB only seven years before he was appointed Chief Executive. He joined when HNB acquired Banque Indosuez's Sri Lankan commercial banking unit, where he was the senior most Lankan employee. For the HNB board to appoint an outsider as chief executive before 2004 would have been sacrilege.

By 2001 however HNB's key financial indicators were at levels probably a third of what's expected of a bank with its balance sheet might. Profitability was marginal at Rs303 million, return on equity was 5% and return on assets 0.3%. A high cost structure (cost income ratio topping 80%) - compounded by a wildly over budget new head-office building -, an ineffective IT system, higher than industry levels of dud loans, low profitability and inadequate capital were the principle maladies. "Let's be honest enough to admit that we have made mistakes," he challenged the heads of divisions and branch managers in a town hall type meeting.

The sheep-dip approach was effective. He challenged managers to get things together.

"Let's not talk about cutting but managing costs. Let's relook at portfolios and get a good one together," Theagarajah urged his rather stunned audience.

Anaemic returns had an immediate impact, when ADB funding - available to contracted banks that meet performance criteria including minimum 1% Return on Assets (ROA) - was withdrawn. For four years starting in 2001, HNB's ROA dipped below this benchmark. "That hit us very badly," admits Theagarajah. Other banks like Sampath, Commercial and Seylan were able to access this low cost funding which they used to grant lower than market interest loans due to the concessionary line of credit, which HNB didn't qualify for due to low ROA. "Nobody pointed a gun at me and demanded turnover ahead of ROA," Theagarajah contends. So the ultimate aim was to first crack 1% ROA.

The odds were stacked against outsiders trying to change HNB. The banks inbred senior managers then were suspicious of change that might undermine their power bases. "You've got to understand that this bank was different, and Thea (as Theagarajah is often referred to by colleagues) would have known he has to either dismantle or get the backing of the many power bases," confides a former senior manager who is no longer at the bank. An imperious former Chief Executive, Rienzie Wijetilleke, who had grown the bank to be the behemoth that it was, was Chairman of the board.

A desire to improve governance and foster greater independence at boards has driven financial sector regulation over the last five years. This is a revolution because banks' boards largely comprised of controlling shareholders and their friends. The regulator purging the old guard, with a nine-year limit on a board seat, however has thrown up a couple of challenges at some banks.

The first is the government's muscling in former central bankers to bank board's, some of whom are now Chairmen or poised to take up that position. Critics of the policy argue that governments should stay out of directing private sector businesses. At HNB former Central Bank Deputy Governor Ranee Jayamaha is Chairman.

Secondly, new appointments at some banks have led to conflict. A board intent on being disciplinarian can be as damaging as one that is supine. Clearly it's a board's job to manage egomaniacal tendencies of chief executives, but it must balance this with its role as a sage counsel and strategy determinant. Confusing these roles leads to conflict and undesirable standoffs in organizations which rightfully expect leadership from their management and the board.

Theagarajah has led the bank through two

"I think people will remember me for that focus on getting the

Key Performance Indicators right"

Rajendra Theagarajah

periods of boardroom change. The first in 2006 when - after years of continuity during bleak years - board composition changed to include a majority of independent non-executive directors. The more recent change he admits has been challenging. "When Rienzie stepped down in 2011 there was a change of a different magnitude. It was a change because of new thinking and relatively new people, whom I think, engaged a lot of my time," he says. The management team embraced the change rather than resisted it. "It was trying to engage newcomers and also to get them to understand the business as quickly as possible," Theagarajah says outlining the challenge but is cagey about discussing any change in his relationship with the board.

"That is why I will leave with the satisfaction that we did everything in our control to have attempted to embrace change," he adds.

Theagarajah contends his open style of management may be part of his HNB legacy. Theagarajah's steely charm reinforces his open style that persuaded others to help achieve HNB's goals. "He gives an incredible amount of autonomy when he trusts someone, which suited me fine," confesses HNB's Head of Retail Banking and Chief Operating Officer Dilshan Rodrigo who joined a year after Theagarajah

DILSHAN RODRIGO, SOMEONE RAJENDRA THEAGARAJAH HIRED SEVEN YEARS AGO, WAS RECENTLY PROMOTED TO CHIEF OPERATING OFFICER AT HNB

was appointed Chief Executive. "When I go to him for support he gives it."

However, it takes more than smiles and open doors to turn around an institution of HNB's size that was only marginally profitable and had deep structural issues. HNB's then new, core banking system wasn't meeting expectations, its shareholders were disappointed about returns, dud loans had risen above the industry average, it faced a growth crunch due to inadequate capital and it's high cost structure made competitive loan pricing challenging. For all their gravitas HNB's management and its board had dropped the ball.

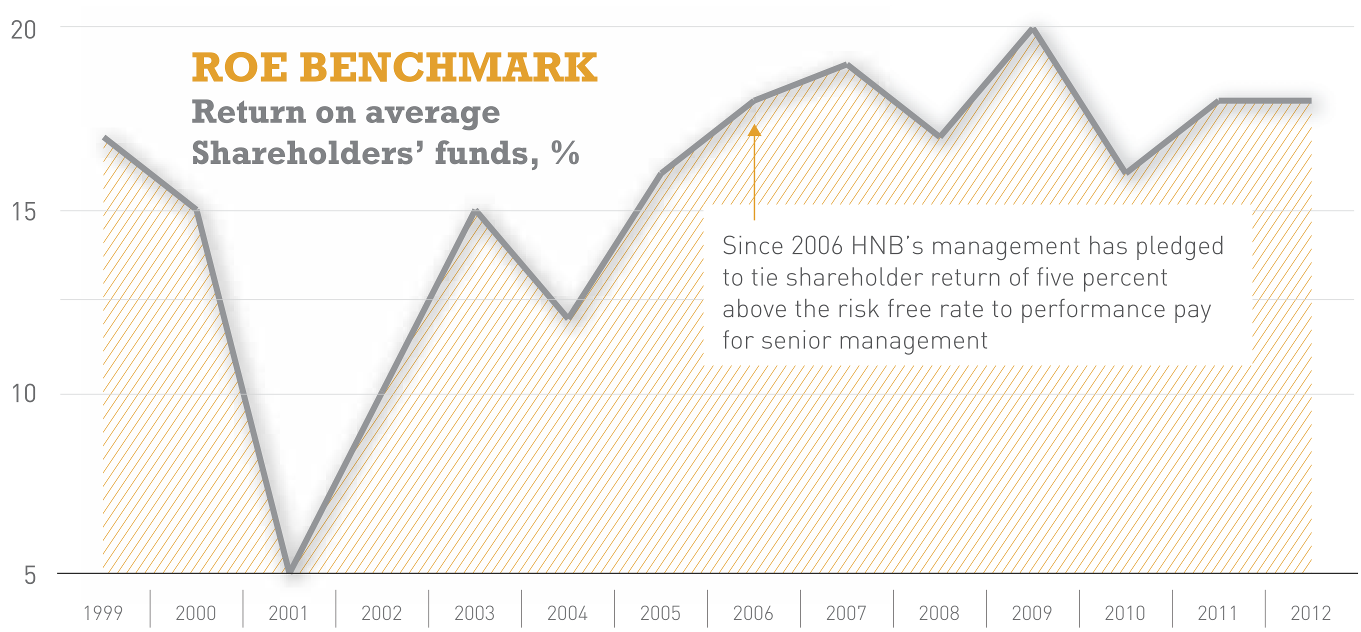
Even during the best of times a chief executives needs a remarkable intellectual ability to create clarity in complex organizations. When the chips are down and conflicting demands are greater those skills that help decipher the challenge, break it down to parts that can be managed by the teams and prioritize the response, come in to focus.

Theagarajah was anchored by strong values, showed remarkably good judgment and didn't shirk from making tough decisions. Soon after becoming chief executive he had to face down two challenges to overcome HNB's debilitating crisis.

The first was to meet minimum regulatory capital requirements which required asking shareholders to step in; something the bank hadn't done in decades. It started months before Theagarajah's appointment as chief executive, when he was put in charge of the proposed rights issue of shares to raise Rs1.47 billion. However, since the bank hadn't engaged them, shareholders were ambivalent.

"Frankly, it was like fighting a war," Theagarajah says of the three weeks before the rights issue was concluded. HNB's shareholder structure and it not having paid sufficient attention to retail investor management were proving to be unanticipated challenges. Being a bank with beginnings in the plantation sector, many shareholders resided in the Central Province and others in Colombo. Some had migrated and others had no idea where their share certificates were. More than anything, HNB's many shareholders in 2004 were bemused why the bank was asking them for money as they were only used to receiving dividends and bonus shares but never called to cough up cash. Some spurned the unanticipated request to invest.

An unexpected cash call can challenge any shareholder, even large institutional ones. "This brought in to focus the importance of shareholder management," admits Theagarajah, who has since taken to doing quarterly conference calls with institutional investors. During the 2004 rights issue he established a command room in Colombo and he also joined teams that fanned out to convince shareholders to take up the rights.



But institutional investors won't be satisfied with mere pander. HNB's position as a large and systemically important bank required returns that matched investor risks. HNB announced its management had to deliver 5 or 6% over the one-year risk free rate. "The likes of Templeton and Ruffer love us because they can understand a benchmark," Theagarajah says about the investment funds. HNB's senior staff bonuses and stock options are also tied to the achievement of these return premiums over the risk free rate.

Theagarajah was proactive. He asked large local shareholders like Harry Jayawardena - who owns 18.3% of HNB through firms he controls, but whose voting rights have been limited to 10% by the regulator - to help him manage the dividend payout, so that HNB has enough resources to invest in systems, growth and capital adequacy. "If we get that model right we will never come to you," he told large shareholders. The bank next asked shareholders for equity only seven years later in 2011 - in a rights issue that was only partially taken up - raising Rs7.1 billion.

The capital had to be the cornerstone of a turnaround at HNB. Ratings agency Fitch observed in 2002 that an improvement in profitability is expected over the next couple of years, but warned the bank's capital position is unlikely to improve dramatically through

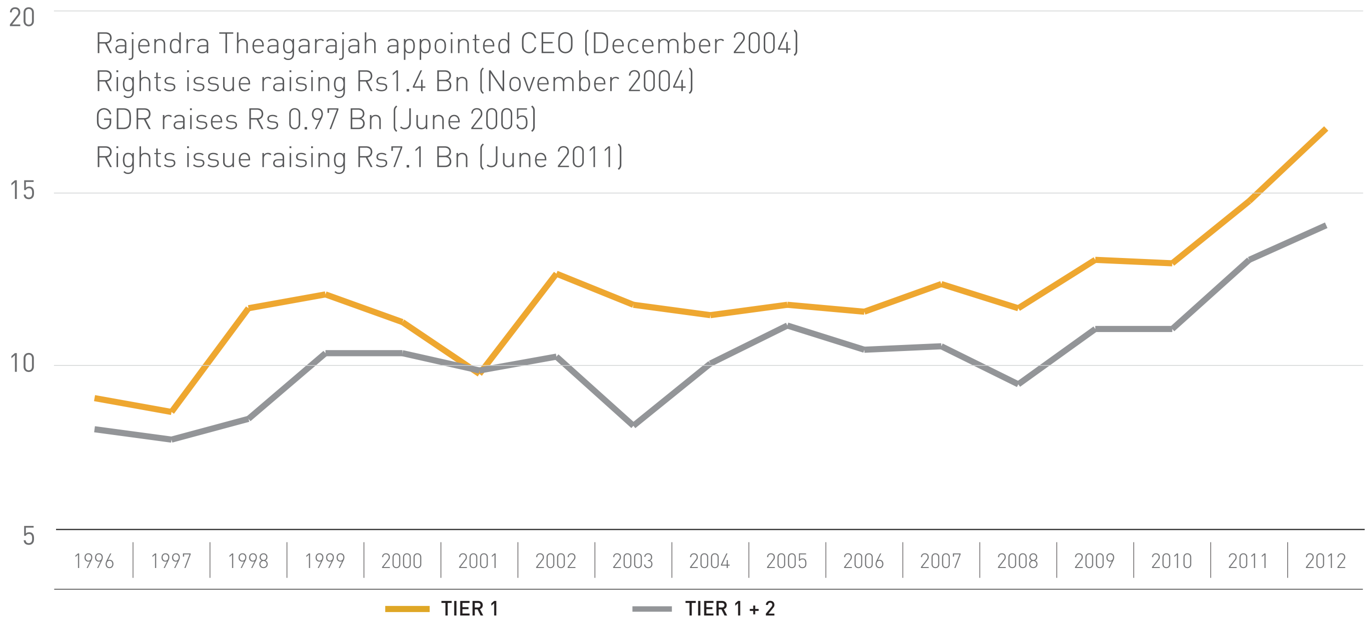
> **"He gives an incredible amount of autonomy when he trusts someone which suited me fine"**
> *Dilshan Rodrigo*

retained profits alone. Its capital at 11.2% of risk weighted assets in 2004 was only marginally above the regulatory minimum and was adequate to neither expand lending nor grow profitability.

Capital adequacy was also overstated because up to 2002, HNB, like most other domestic banks, didn't include Foreign Currency Banking Unit (FCBU) risk assets in the capital adequacy computation. FCBU assets then accounted for around 14% of HNB's total assets.

Following the 2004 rights issue the bank also pursued a $10million (the equivalent of Rs970 million, then) Global Depository Receipt, an instrument representing an underlying number of HNB shares. However, it failed, coming only days after a Tsunami had devastated two-thirds of the island's coastline and had to be abandoned. Theagarajah had a backup plan, calling up investors in East Asia - in this case the Chairman of Malaysia's 2nd largest

RETAINING EARNINGS
Capital adequacy as % of risk weighted assets



insurer which sent a team to Colombo and in three days pledged to take up the entire issue. Theagarajah counts as a trait his grace under pressure.

Theagarajah's raising Rs2.4 billion through a rights issue and then a private placement of shares made it possible for HNB to meet the enhanced 10% risk capital the central bank mandated including risk assets of FCBU units in the calculation. Importantly, it allowed the bank to focus on profitable growth instead of having to reduce lending; the only other alternative hadn't Theagarajah succeed in raising 31% more equity by June 2005, than the bank had at September 2004.

The impact of new equity on the bank's capital adequacy ratio was also lower because HNB had to set aside additional equity of Rs900 million into its property development subsidiary (Sithma Development which built the head-office), as well as funding Rs147 million for its employee share option scheme, highlights a Fitch Ratings report of 2005.

"I think people will remember me for that focus on getting the KPI's (Key Performance Indicators) right," Theagarajah muses during the last days at his spectacular office at the HNB Tower head office building. The last of those performance indicators to be aligned was the one tracking costs. Skilful discussions with the employees and unions had resulted in a cap to and an end to the defined benefit pension scheme. Costs from around 72% percent of income have now declined to just over 50% helped by sharp management and skilful negotiation. "I may not be here but I have set a target of 47%."

"His strength was strategy, networking and marketing," Rodrigo, who was hired by Theagarajah to head the relatively new risk management division at the bank, contends. "He brought a lot of business to the bank and built its profile locally and globally."

The second urgent challenge, requiring clear judgment, was the bank's ineffective IT system. Theagarajah decided to chuck the relatively new flashy bit of software that was to transform the bank, but had failed due to its visionless implementation. Dilshan Rodrigo uses the analogy of 'open heart surgery' to describe how crucial it was to succeed with the implementation of a second core-banking system in as many years. HNB's first attempt had been compromised by its unwillingness to adapt process, taking on board best practices and efficiency a new IT system brings. A similar second failure would be catastrophic, and realizing this Theagarajah appointed himself project champion and chaired the steering committee. The new supplier, a unit of India's Infosys, was urging the bank to minimize the number of changes or enhancements it proposed for the system.

To get one approved it had now to be approved by the CEO. "If someone comes with a proposal, I will get back and say, 'why don't you do it this way'," he says about the communication-centric approach. "Then let them come back and demonstrate why it can't be done that way. If they can, I'll accept it." Compared to the thousands of modifications to the old ineffective system the new one only had two dozen over the year or so it took in implementation.

Rienzi Wijetilleke - chief executive before Theagarajah - was famously expressive. During a candid interview, Theagarajah admits he too is emotional but unlike Wijetilleke he masks it. "When I assumed leadership of HNB, I was very clear in my mind that I will be simply me and not pretend to be somebody I am not. Showing emotion, to me, is a sign of weakness. It also shows your hand. The second thing is you are able to respond; you have that slight edge when you don't show your hand," he says about the approach which has generally worked, except with his kids.

Theagarajah's first six years was perhaps the toughest tenure of any of HNB chief executives'. Besides anaemic economic growth and a raging conflict HNB also had to deal with its own devils, a dud IT system; a chronic capital deficit and out of control costs. "He probably didn't go through what I went through in these nine years," Theagarajah contends about Wijetilleke's tenure. "Because the first five or six years of those nine years, in my opinion, were the worst in the 30 years of a war." During those relatively lean years HNB built intellectual capacity, talent and systems. It anticipated the war will end and was the fastest to roll out a network in former war-torn areas, due to its greater preparedness.

"Emotions are important but they have to be backed by numbers," he contends. He came at a time when the bank was focused on market share which he thinks overshadowed other priorities. Although the board - which understood the scale of the challenge - relented to the argument that profitability then was more crucial than size, for some in the bank it was tough climb-down. The skill of a new leader- with sound judgement and ability to deftly handle challenges - didn't at first shine through at HNB where market share and the large branch network were the proudest achievements.

"During those nine years, from an organisation point of view, the focus was on numbers," he argues. That was clear in the otherwise ego bruising relinquishing of its private sector financial institution market leadership to rival Commercial Bank. "It was a tough call, I went to the board and said 'let it go, and let us become the most profitable, we can catch up'," he says about that 2006 contention. Theagarajah says his only regret is not having been able to reclaim the crown of Sri Lanka's largest private bank. Commercial Bank's assets topped Rs512 billion in 2012 versus Rs446 billion at HNB.

> **"Emotions are important but they have to be backed by numbers"**
> *Rajendra Theagarajah*

Although a relative outsider, by HNB standards - snagging the CEO's job after just seven years at the bank - Theagarajah had spent long enough there to know what the bank looked like in its underwear. That combination, an uncensored view and un-HNB like perspective of experience and approach made it possible to deal with boards beholden to powerful private interests and management power bases built over decades of group think.

Banking is a serious business where ultimately more depositors' money is at stake than are shareholders' funds. Vigilant boards have to guard against chief executive excesses and extravagant personal rewards while allowing a CEO to lead the business. HNB's turnaround under Theagarajah stands out for the balance struck between a board and a chief executive, in HNB's case, during perhaps the most crucial years for the bank in its recent history.

JAGATH PERERA SAYS FORENSIC ACCOUNTING PROBES ARE LIKE A JIGSAW PUZZLE

Advantage

Crime Fighter

Companies that suddenly find a hole in their accounts turn to forensic professionals to find out what happened and prevent fraud which can hurt not only their bottom line but brand as well. The incidence of white-collar crime is on the rise as businesses get bigger and more complex.

BY: ROHAN GUNASEKERA

70% of senior executives surveyed said they had encountered fraud in their own organisations

is no ordinary accountant. His mild demeanour, slow, measured manner of speech, and typical executive attire - long-sleeved shirt and tie - might give the appearance of a normal number-cruncher in a corporate finance department. But at 50, Perera has seen more than any individual's fair share of the darker side of human behaviour. He's the expert companies turn to when they find their numbers don't add up and the ugly truth dawns that they've been had - that the flawed figures in their accounts were not just caused by genuine error but instead, are a result of fraud.

As Head of Risk Consulting of KPMG Sri Lanka, Perera is a crime fighter, in charge of forensic accounting at the Sri Lankan unit of the international audit firm. His team is called in when corporate managements find a big hole in their accounts and given the task of tracking the disappearing digits and who took them. A forensic professional who led the first fraud survey done in Sri Lanka - a study of perceptions of fraud among leaders - Perera's interest in forensic accounting was kindled when he was involved with internal audits, in addition to normal audit work. He has been with KPMG for almost 25 years, having started as an audit trainee, then becoming a manager and a partner. While in internal audit he saw a lot of fraud happening. "That was the point when I started taking a little more interest in the subject and how to stop it," Perera recalled in an interview.

The sample-based survey, completed last year, was among senior executives from organisations in both the private and public sectors with annual turnover of Rs 50 million to Rs 10 billion and employing 100 to 5,000 people. It covered a range of sectors - agriculture, industry, consumer markets, financial services, NGOs, and information, communications and entertainment. Its finding were startling. Out of 90 senior executives surveyed from 102 industry segments, 70% said they had encountered fraud in their own organisations. Not unexpectedly, the incidence of fraud was greater among respondents from the public sector. The single biggest loss reported by respondents was Rs 3 billion from the industrial sector. The smallest was Rs2.5 million and came from the agriculture sector. Globally, KPMG surveys indicate companies lose 3-5% of revenue annually owing to fraud. Similar figures were not available for Sri Lankan firms.

An intriguing finding of the Sri Lanka survey was that in financial statement fraud, one of four areas of exposure categorised in the survey, 27% of respondents said motivation for fraud stemmed from pressure faced by employees to show higher performance figures. This is significant given the fact that more and more organisations are now using performance indicators to decide on employee incentives and remuneration. Here, the involvement of top management was noted in 60% of frauds. And more than half of the respondents (56%) believed that financial reporting fraud was a major issue in Sri Lanka - a statistic capital markets and accounting regulators would undoubtedly find interesting. Tax evasion was given as the reason for financial statement fraud by 23% of respondents and 18% on the need to meet market expectations. “Fraud has severe consequences to the economy, the corporate sector and individuals,” Perera told a forum earlier this year where the findings of the survey were unveiled. “It’s a silent crime - because there may not be gunfire, smoke or blood - but it costs you money and is invisible.”

Perera has been handling forensic accounting at KPMG Sri Lanka for about five years now, focusing more on proactive fraud mitigation, not only investigations themselves - “proactively how we help clients to minimise fraud or avoid it,” as he puts it. He got himself a qualification in the specialised subject and is now a member of the Institute of Certified Fraud Examiners of the United States. The exam can be done from here. That led him to think about starting a forensic services division within KPMG Sri Lanka. Once the parent firm gave the green light to set up a forensic

Forensic accountants are trained to look beyond the numbers and deal with the business reality of the situation using a combination of accounting, auditing and investigative skills

practice in Colombo, he set about training people, and getting the tools and techniques for the job. KPMG globally has an extensive forensic services practice which helped the local unit put the people and technology in place and also learn from investigations in other countries. Its services now include investigations, fraud risk management, forensic technology like data analytics and digital evidence recovery, and corporate intelligence. They also provide advice on anti-bribery and corruption, anti money laundering and the Foreign Account Tax Compliance Act (FATCA) and Foreign Corrupt Practices Act (FCPA), US laws covering American firms with businesses abroad.

Forensic investigations are done by skilled professionals who delve deeper into an organisation’s transactions than would normal accountants. The latter, in their own investigations, in most cases confine themselves to just verifying the financial numbers. Forensic accountants, on the other hand, are trained to look beyond the numbers and deal with the business reality of the situation using a combination of accounting, auditing and investigative skills. Their work is called forensic because the outcome of an investigation has to be of a standard where it is usable in a court of law. Probing fraud is only one aspect of their work which includes civil disputes.

“Most accountants looking at investigations basically check and see how much the loss is, whether it happened by way of loss of a cash, inventory or debtors,” explains Perera. “But forensic investigations are different. We use forensic methodologies and investigation techniques to acquire the proof - not only to establish fraud but prove you’ve done it through a proper investigation if and when it comes to litigation. If you just look at only numbers it will not be enough. You need to look at the people involved, methods used to take the money. Legally, you have to prove it is ‘A’ who has done it instead of ‘B’.”

A key difference is that instead of one accountant getting involved, KMPG deploys teams of people with different skills and expertise. “We have the accountants, of course,” explains Perera. “But also certified fraud examiners, retired police officers, someone who has a legal background, people with an IT background - all in one team - so you can go into an investigation and capture more areas rather than only looking at the financials." The investigations do not always start with the financials. Sometimes violations of company best practice policy or code of conduct can be the trigger. This could be, say, a pharmaceutical company's policy of dealing with healthcare professionals - if that's violated then the probe stems not directly from finance, although of course finance is involved if they have bribed the doctor.

Broadly, there are three types of investigations. One is when, proactively, management wants to see whether there is a fraud. This could be like the above-mentioned case involving the pharmaceutical industry, considered a sensitive sector with health care compliance policies being introduced by organisations, covering areas like distribution of samples or dealings with health care professionals. The second is when management suspects fraud but are not sure if it is a fraud or a normal mistake. The third is when a fraud has actually taken place but the management wants to know what actually happened and how, the exact loss and who did it.

"The easiest type of investigation is when you get a tip off and start from that," explains Perera. "Because if proper systems are there, you can get the employees to report about the fraud - that's the easiest method. Definitely you will get garbage but in that garbage you will find very important real cases." The pharmaceutical company investigation he did was based on such a tip off - that someone was violating their business policy.

In fact, in the survey nine percent of respondents said fraud was detected through whistle-blowing hotlines and a further 17% through anonymous calls and letters.

In other cases, management suspicions aroused by accounting differences can lead to forensic accountants being called in. Perera recalled a credit card fraud investigation where the client, a bank in a South Asian country, suspected a few people to have committed fraud. "We took all the suspicious documents into our custody to understand what was in them. Then we collected all the electronic media, especially the hard discs of the servers and computers connected with this particular operation. Our aim was to see if there were any discrepancies in the computer itself because in credit cards most things happen electronically, rather than manually. The team analysed the digital devices to find out how records were deleted, who had done it, under whose log in. Most of the information came through the digital evidence because it was not available on

POSITION: PARTNER - HEAD OF FORENSIC AND RISK CONSULTANCY, KPMG SRI LANKA

Jagath Perera

QUALIFICATIONS

Fellow Member of the Institute of Chartered Accountants of Sri Lanka
Certified Fraud Examiner - USA
Member of Institute of Internal Auditors – USA
Bachelor of Science degree in Business Administration, University of Sri Jayewardenepura.

RESPONSIBILITIES AND MAJOR PROJECTS

Heads the Forensic, Governance, Internal Audit, Financial Risk Management and Sustainability services for KPMG in Sri Lanka and the Maldives. He is frequently asked to speak on various industry forums on the subject of forensic accounting. Under his leadership, KPMG Forensic has investigated most of the large white collar crimes, besides assisting in litigation.

He has conducted a number of forensic services assignments in leading multi national companies with regard to theft of inventory and cash, manipulation of sales records and data in information systems.He has also undertaken investigations into matters of public interest for the Attorney General's Department.

Perera led a team to conduct a forensic investigation into the activities of implementing partners to establish the existence of fraud-misconduct relating to funds granted by foreign diplomatic mission.He undertook a forensic investigation to establish possible irregularities in community-based projects implemented in several districts by an international donor and also similar engagements to review irregularities in procuring and distribution of school kits to several district level schools sponsored by an INGO. He was also the engagement partner for a forensic investigation of two licensed finance companies which crashed and were taken over by the regulator under the Finance Companies Act. He led a team to investigate the value of fixed deposits and other irregularities in another licensed finance company.

paper, the transactions being mainly electronic. Then the investigators talked to the people involved to establish what happened. "In some case you first collect evidence; in others you do the confrontation with the suspect."

KPMG's team discovered that the bank's computer records had been manipulated so that certain transactions were not captured in customer statements although they did appear in controlling accounts as outstanding balances. While credit card transactions are mostly electronic, at banks there is some amount of manual intervention when records are reconciled that allowed the fraudsters room to manoeuvre. The credit card operation and general accounting system go as independent processes with the records from the former uploaded manually to the latter. The fraudsters were bank employees with the authority to intervene and change the records. They had changed the numbers when uploading the records manually.

"They used that opportunity and deleted some of the spending of their friends so that in normal customer analysis the customers were shown as settling their bills. Once deleted, the spending does not get captured in the record," Perera explained. "Most credit card systems have some amount of manual intervention - the issue is to what extent you control that manual intervention and what type of reporting you have so that if there is any misuse that would have triggered an alert to the management - that wasn't there in this particular case."

Another case involved employees of a donor agency and bogus suppliers. The complaint was about products not being delivered by the suppliers but when KPMG's team went in, they found the fraud was much bigger than anticipated. "It was not just that they had not supplied some people. It was much more organised than that. We found the fraud was organised at the procurement level - with suppliers not existing at all in most of the cases or suppliers being some of the employees of the organisation."

Forensic accounting investigations can involve 'raid and seize' operations where the team seizes records of suspects, including computers and phones if they are company property, especially if speed is critical. "We did a particular case where some suspicious indications about a person had come in at the same time he had given his resignation," recalled Perera. "So management wanted us to get activated and investigate before he left. It was a fight to complete and prove case while he was still on their payroll. The management sent him on compulsory leave during the period we did the investigation. It was a 'raid and seize' operation - for the first six hours we were sitting there collecting records and ceiling them into boxes. We took all records he had and his computer." The investigation led to the discovery of irregularities and the suspect agreed to pay some money to settle the case before he left the firm.

Given the rising incidence of fraud as businesses get bigger

"This whole thing is like a jigsaw puzzle. Until you reach the end, you don't see the links"

DIGITAL DETECTIVE

With computers and smart phones being ubiquitous nowadays, forensic accounting involves much digital detective work. Company telephone exchanges are useful in checking with whom suspects have talked to. And digging up evidence in cyberspace in a way is easier than in the real world because nothing gets erased permanently, whether on a computer hard drive or emails.

"Modern phones have email and SMS. We copy data available on the devices into one of our devices and then do a search of those documents to see if there are suspicious communications. Most importantly, there are digital evidence recovery techniques available. So even if someone has deleted messages there are methods of recovering that data," says Perera. "Most people think that once files are deleted, the information is gone. That's not the case. There are techniques available to unearth those buried things now. There are certain techniques, without changing the set up of the computer, to copy the image of the hard disk into a separate device and then do the data recovery, to unearth the deleted data or files."

This gives investigators an advantage - they can use data analytics techniques to see the integrity of the data and identify any unusual transactions or any 'red flags'. Also, they can view email communications to find links. Usually, they go into the data bases and run key word searches using what are considered suspicious words. Then they select and study those communications to find the links. Says Perera: "This whole thing is like a jigsaw puzzle. Until you reach the end, you don't see the links."

TECHNIQUES TO DETECT FRAUD

- Vet employees thoroughly
- Implement a whistle-blower policy
- Control access to buildings and systems
- Restrict and closely monitor access to sensitive information
- Impose clear segregation of duties
- Consider job rotation
- Regular reconciliation
- Promote a culture of fraud awareness among staff
- A zero tolerance policy towards fraud

and more complex and pressure on employees to perform increases, Perera is worried by the lack of awareness and preparedness in the corporate sector. In fact, half the respondents in the KPMG survey said there was no fraud risk management plan in their workplaces.

"We don't talk enough about mitigating fraud nor take adequate action," says Perera. "If companies think fraud is on the rise, as shown by the survey of senior executives, they should find mechanisms to proactively stop it. For that every company should have a fraud prevention policy. That will cover a lot of areas - whistle blower policy, whistleblower protection, ethics, hotlines, code of conduct for employees, investigation guidelines." Very few Sri Lankan companies have such policies. But the local units of multinationals invariably do, being more serious about the risk, following the practice of their parent firms.

"There are bits and pieces (of guidelines) which is usually part of corporate governance," says Perera. "The governance part is there but not enough emphasis is given to fraud prevention policy. In our survey 51% indicated no fraud risk management plan was available in their organisation."

Most company managements seem to think that fraud prevention is part of the auditor's or internal auditor's job. This may be why 15% of survey respondents said that in their organisations fraud was identified by accident, a figure considered high when compared with global surveys. Changing accounting rules can also raise the risk of fraud. "Today we're moving from historical cost to fair value accounting. I'm not sure if organisations have done enough to prevent fraud regarding fair value - whether they have introduced fraud check lists and enough internal controls to mitigate fraud risk," says Perera.

"This is important. You may need to change processes and structures within the organisation. Because in the past, in historical cost accounting, you have the historical record to prove transactions such as vouchers to establish value. But in fair value, you move to a different dimension."

Sri Lanka also does not have a fraud data sharing system, the absence of which means fraudsters can repeat their crimes without much difficulty. Company managements usually simply sack employees guilty of fraud without pursuing legal action or exposing the individual. "If you find fraud and simply sack the employee, he can join another organisation," noted Perera. But awareness is growing following some high-profile cases that led to the arrest of company executives. "In the last couple of years interest has been growing," says Perera. "At least they talk about it, so action will likely follow. A few major frauds have happened. That may be one of the reasons."

"Employees are more aware of fraud than those outside an organisation."

The absence of proper procedures both within the corporate sector as well as in the legal system makes fraud prevention and detection difficult. Whistle-blower hotlines and protection systems such as ensuring anonymity to those making complaints can improve the confidence of people that reporting fraud will cause them no harm. "There's not much legal cover for protection of whistleblowers which is important to detect and mitigate fraud," said Perera. "Employees are more aware of fraud than those outside an organisation."

Employees are unsure how to tackle fraud if discovered, such as to whom they should report, or if they do report it what protection they will get. "Those are the biggest issues we have," says Perera. "First we need to create enough awareness of what is fraud. In certain businesses and industries, there are perceptions that if you want to get things done, this (fraud) is how to do it. That mindset has to go."

Unravelling criminal puzzles and catching fraudsters and helping mitigate corporate crime has been interesting and rewarding work. "In audit, you know where you start and where you stop. Whereas in forensic, most of the time you don't know where you start and where you end - you figure out every now and then the next step and keep adjusting your work plan. That's what keeps us enthusiastic - so you don't feel bored. Otherwise, in accounting and audit you do the same thing over and over again and after some time you feel bored. That's the reason I got into forensic."

For Jagath Perera, that switch from internal audit to forensic accounting has been an interesting journey.


ADPC
شركة أبوظبي للموانئ

The Interview

Arabian port prospects and pointers

BY: ROHAN GUNASEKERA

The US$7.2bn Khalifa Port and industrial zone is Abu Dhabi's way of combining petroleum riches, technology and customer service to emerge as the cargo hub for the Middle East and Africa region.

CAPTAIN MOHAMED AL SHAMISI HEADS THE ABU DHABI PORTS COMPANY. HIS INSIGHTS ON PORT OPERATIONS OFFER LESSONS FOR SRI LANKA WHICH ITSELF IS BUILDING AND MARKETING MASSIVE HARBOUR INFRASTRUCTURE AND TRYING TO KEEP CUSTOMERS HAPPY.

Somewhat similar in concept to Hambantota port, albeit on a much bigger scale, the brand new deep-water 'mega-port' that opened last December is meant to handle the latest 'mega-ships' - the giant cargo vessels capable of carrying 15,000 or more containers now being deployed by shipping lines. Located halfway between Abu Dhabi and Dubai, it is the only semi-automated container terminal in the region.

Automated gates and quay cranes have optical character recognition ability and wireless technology, ensuring accurate tracking and faster movement of cargo. Automated, remotely-operated stacking cranes fitted with lasers enable optimum positioning and container detection when moving and storing boxes in the terminal's yard. These, along with a computerised 'port community system' electronically linking all user including Customs, mean improved container handling times and lower costs. In this interview, Captain Mohamed Al Shamisi, Acting Chief Executive Officer of the Abu Dhabi Ports Company, who visited Colombo for a ports forum organised by Seatrade, talks about the opportunities provided by building and operating a world-class port and industrial zone.

Q: Abu Dhabi Ports Company recently opened a huge deep-water port in Khalifa and an industrial zone with the aim of becoming an industrial and logistics hub. This is somewhat similar, albeit on a bigger scale, to what Sri Lanka is aiming for with the new port in Hambantota. What are the prospects for such ports?

We have had a long history with Sri Lanka in terms of trade and in recent years it has been strengthened, both in the airline sector and in maritime trade. Sri Lanka's position is in the middle of the trade between Europe and Asia. Now if Sri Lanka builds the right kind of infrastructure as it is doing and with the right leadership as is happening now, I can see Sri Lanka being at the heart of the trade in the region because you are in the right location and planning to have the right connectivity. Like the UAE, Sri Lanka finds itself in a great position to take advantage of the growing shift of trade volumes being seen along the West to East seaborne trade routes. ADPC commends the Sri Lankan government for a similar and shared ambition (with Abu Dhabi) to build upon and tap into the huge maritime and logistics potential it can offer, due to its natural geographical advantages.Us, yes, we are a part of the bigger picture as well and that is why we invested in Khalifa port. The port can handle 2.5 million twenty foot-equivalent units (TEUs) of containerised cargo and up to 12 million tonnes of general cargo annually. Our container capacity can grow to five million TEUs. We want to be a preferred provider and global leader in developing world-class integrated ports and industrial zone services.

The port's built on a reclaimed island with a 16-metre depth in the harbour basin and four kilometres of quay wall. Infrastructure is now ready for investors and we've signed up almost 60% of the first phase of the industrial zone. In the next phase we will have one of the largest aluminium smelters in the region. Working together, the port and industrial zone will offer companies complete industrial solutions and logistic support. We built the port to cater to the biggest vessels, the current and the future vessels, and we are focused on opening shipping services and direct links with other ports of which Colombo is one already. We launched Khalifa port on the 12th of December last year and so far we opened 64 direct links to different ports in Asia, in Europe and in Africa.

How did you manage to get the business so fast?
We transferred to Khalifa Port the existing business from the neighbouring Mina Zayed Port which has been serving Abu Dhabi for more than 40 years. (Mina Zayed is scheduled to be closed in the future). But Mina Zayed, historically, was not a hub port. It was a feeder port or a destination port. So our main volumes used to come from Jebel Ali, Khor Fakkan and Ruwais, which is a petroleum port in Abu Dhabi. So from three, when we shifted to Khalifa, we grew it up to 64 direct destinations and this is the idea. Because what customers care about is time, value and ease of doing business. And that's our main focus.

Did you not encounter any resistance from customers when you shifted cargo?
We didn't up to that extent for a reason. Because when we were planning Khalifa Port we engaged with our customers from the beginning. So they've been with us in the decision making, in brain storming and were aware of the benefits and the services. Because you cannot do business in isolation. I mean, they (customers) are a part of the decision making even. So we consult them. We have regular workshops with the major clients and we have, since three years ago, been doing a world ports and trade summit in association with Seatrade every year. That's where we can engage with the stake holders and with the customers.

You have invested a huge amount of money in developing Khalifa Port and the industrial zone. How will you recover the cost of that investment?
We are a commercial company and we believe that Khalifa Port is serving two main purposes. One, as the gateway and the hub for Abu Dhabi as an emirate. The second is to be the gateway for the industrial zone and that is why it is attached to an industrial zone which ensures the availability of gas, availability of power and water and also a competitive price for renting the land. So both will work hand in hand, together and we see that has big potential for it to grow.

World trade is shifting from the north to the south and from west to east. Ports can play a role in this shift, especially big, deep-water ports for bigger vessels which can serve this industry as hub ports. That's why we built Khalifa - for the bigger ships in future. When we designed the port, we took into account the biggest ships coming in the next few years.

How would you describe the potential of Hambantota port?
The difference between us and Sri Lanka - Sri Lanka can play a bigger role in the transhipment trade and the re-exports by providing the right platform for industries and businesses in this port. They can be the transhipment hub for the Indian coast, for example. They can be a transhipment hub for Africa because, currently, all the ships will be passing Sri Lanka - whether they like it or not they will have to pass through Sri Lankan waters. By providing the right services in Sri Lanka and by creating infrastructure in Sri Lanka to be a stop for these ships - this is the way to go.

Your port company is expanding. Are you considering overseas investments?
Well, there is always room for opportunity but our main focus currently at this stage is to complete the development of Khalifa Port and the industrial zone we've just opened. We want to grow and focus on Abu Dhabi. But the door is always open for us to expand beyond that. We are a commercial company, and we check any possibilities.

Do you have any plans of becoming a port management company like Singapore's PSA Corporation or Hong Kong's Hutchison Port Holdings which run terminals in other countries?
Well, PSA, HPH, DPW (Dubai Ports World) - they are focusing on the container business. We do have one of our subsidiaries, which I am chairman of, Abu Dhabi Terminals. They are focusing on the container business. Currently they have a concession of 30 years in Khalifa Port to run the facility of 2.5 million TEU and through this company we are focusing on expanding the container business.

Would you be interested in operating terminals in Sri Lanka like the Colombo South harbour?
It is a possibility. We are currently reviewing all other possibilities as well. But we are just a very young company and we want to strengthen it and want Abu Dhabi Ports Company to have a solid ground in Abu Dhabi before we engage in overseas development.

Khalifa Port and Hambantota both cater to the world's biggest ships. Do you see them as competing or complementary?
Definitely they will be complementing each other because these vessels, they require the right infrastructure, the right equipment as they are sailing on fixed routes. So, having deep-water ports in Sri Lanka and having Khalifa Port on the route map of these shipping lines, definitely, is the right thing to do to serve these big, new ships and world trade.

Sri Lanka, lying between the east and west, can now play a bigger role in the shift of world trade. We can see more growth happening in the region, for example in Africa, where Sri Lanka is in the right place to support this growth. We also in the Gulf will play a huge role until we see more hub ports being developed in Africa, where most ports are small and can face congestion.

KHALIFA PORT IS BEING DEVELOPED ON AN ARTIFICIAL ISLAND AWAY FROM THE SHORE WITH A NINE KILOMETRE BREAKWATER TO PROTECT A NEARBY CORAL REEF. A CAUSEWAY AND A ONE KILOMETRE BRIDGE CONNECT IT BY RAIL AND ROAD TO THE MAINLAND. THE PORT HANDLES THE EMIRATE'S CONTAINER TRAFFIC AND CATERS TO THE NEARBY KHALIFA INDUSTRIAL ZONE ABU DHABI (KIZAD) WHICH IS ATTRACTING BILLIONS OF DOLLARS IN INVESTMENT. WHEN COMPLETED, IT WILL GROW TO 418 SQUARE KILOMETRES (161.39 SQUARE MILES) – ABOUT TWO-THIRDS THE SIZE OF SINGAPORE.

People's Bank's 65% challenge

People's Bank has a lopsided loan book. Lending to government and pawning account for nearly 65% of its loans. The bank's chief executive wants to change this but admits it's not going to be easy

BY: SHAMINDRA KULAMANNAGE

People's Bank is the island's second largest financial institution and has firmly overcome the chronic capital crisis that afflicted it a decade ago. In July 2012 credit ratings agency Fitch upgraded its rating to AA+, an indication of its balance sheet strength and systemic importance. However, the bank's lopsided loan book is glaring. Over 28% of its loans are to state-controlled businesses and another 35% of the loan book is extended to pawning. While these are generally low risk, the loan concentration means its lending to the private sector is small. People's Bank Chief Executive N Vasantha Kumar discussed this and other challenges during a wide-ranging interview.

2012

AA+

Bank ratings were upgraded - Fitch Rating AA+ and RAM Ratings AAA.

What's the bank's lending strategy for the next couple of years? I am asking this question with the context in mind that right now a lot of your lending is going to government institutions, like the CEB and the CPC?
Vasantha Kumar: Total lending to the government sector is under 30%. About 27% or 28%, so that shows the balance 72% goes to other sectors.

It used to be much less some years back?
Generally it's been over 25%, in the last five years.

Electricity prices have increased, petroleum prices are up; so do you anticipate demand for credit from government will fall?
That's right. Our strategy is also to move in to the SME sector, to retail and corporate. Gradually, exposure to the government is declining. I think it will be about 20% lending in the future.

Is that a target and a comfortable level?
We are not uncomfortable with the current level at all. When you ask this question you are implying some level of discomfort. Not necessarily. We are not uncomfortable with this level of exposure because these two (CEB & CPC) have a monopoly. There is no way the CPC or CEB will die. These two are going to be the last two standing even if there is total economic collapse. Their balance sheets, if you look at it from a very commercial, technical point of view, are not good. It's because they are performing a function associated with government policy.

Eventually the government will make good. They have not defaulted on any of these loans. They ask us for some forbearance occasionally. There is no question of default.

If you have a 10% reduction of lending that may work out to 20 billion rupees?
Our total book is 600 billion. If you reduce the state sector by 10% it will come to about 12 billion.

What areas are you aggressively looking at growing if you have that much more funds available?
SME areas.

Why is that attractive to you?
That is the area that will grow as the economy develops. This is also a lucrative area and with our branch network we are well positioned for SMEs and micro financing.

You have a large portion of your loan book in pawning. That has been traditionally a high margin, low risk business. How is that working out?
Pawning is a lucrative business for the bank but unfortunately gold prices are coming down. We are well secured. However, last year our pawning didn't grow much. We have made a strategic decision to keep pawning at current levels or even to bring it down to lower levels.

Roughly how much of your loan book is in pawning right now?
About 38%. With gold prices declining we expect there to be a natural 10% reduction in the pawning portfolio and there alone around 20 billion will come. So there is about 20% drop in new pawning.

Because gold prices have dropped the advance on gold is much lower. Naturally if you keep the number of customers static the portfolio will come down by about 10 to 15%. That will release funds for us to do other business. You see we are a state bank and generally we align our strategy with the government's development strategy. The government has a really strong focus on SME's. So we also have to align ourselves with that. In fact it's a fairly good business, small exposures spread across a diversified client base. So the risk is very diversified and you get fairly ok margins.

Your loan book is largely government lending and pawning. SMEs are a completely different ball game. Are you thinking in terms of re-equipping your bank for this type of lending?
Yes, we are opening SME centres in regional areas. We already have six. Also we are training our staff in SME banking and each branch has a target we have given for SME loans. The World Bank is funding a project to increase the capacity of SME lending.

We have also hired a set of outside consultants to help us in this process. They are working on this now. They are going to define a new SME strategy or refine the strategy, do a lot of training and capacity building to gear ourselves to these growth aspirations, on the SME side.

Gold loans and government lending accounts for about 65% of your loan book now. You will have to do a major transformation of the bank to shift away from this?
It has never been done. The necessary expertise is there. It's a question of augmenting this and continuous training.

So how does lending break down?
Corporate business must be about twenty per cent of the book. Maybe 18% is SME. Housing loans are about 8%.

Give me a sense of what you would like your loan book to look like in two or three years? Do you anticipate the allocations will change in a significant way?
Not significantly. We expect a certain reduction in the SOE (state owned enterprise) portfolio because of these price

2012
Rs. 12.3 Bn paid in taxes, dividends and levies to the Government of Sri Lanka.

hikes. Pawning we expect a reduction because of the gold price reduction and the growth will be reflected in the SME and the Corporate Banking sector.

Your margins are around 4%. What do you anticipate will happen over the next few years with margins?
They will fall to 3.2% or so.

The deposit mix is changing. The CASA ratio (current account to savings account) is down from about 45% to less than 40%. It's being replaced by higher costs, fixed deposits.

Do you have a CASA target as such?
We would like to have at least 40% in current and savings accounts.

Those days big institutions used to keep large balances in their current accounts. But now they ask for overnight repo. With technology they can manage it from their offices. They can just sweep it between the various accounts they have. They don't leave funds idle. Our strength has been retail. However, all the finance companies are offering higher rates and everybody is going to the rural areas. They know that's the lucrative market.

Over the years people have become aware of interest rates, even savings account holders which were the traditional low cost deposit base. The percentage is reducing because people are now putting money into fixed deposits. Because of this trend savings deposit growth is lower. That itself brings down margins.

Large banks like you depend greatly on a high current and savings account balance ratio. What is your strategy to deal with this pressure on the low cost deposit base?
This is a fact of life. It's going to happen and this scenario is unfolding at every bank.

Our strategy is to keep the convenience and channels to enable savers as much as possible. We are conscious of the fact that over a period of time the CASA percentage will decline. We know we have to keep boosting the other products and its going to be a volume game.

Maintain your bottom line and your margins and in the end you have to maintain higher volumes. We are going to grow deposits and improve our credit quality. SME products give us fairly good margins.

If your margins come down to 3.2%, as you anticipate, how will that impact your ability to run profitably your large network?
Cost control. We are spending a lot on improving our IT efficiency further. We have to also reduce staff. By reduce I mean when people retire we may not replace all of them. Also there will have to be non-fund income. So we have started an investment banking unit.

What would be a target on the cost to income ratio in the next one or two years?
It was traditionally around 70%. Now we bought it to below 60%. We are hoping to bring it to about 50%. Over the last five years business would have doubled but staff numbers have not increased, they have actually reduced.

As a state bank we have to be all things to all people. A foreign bank can have a niche market; they can only be doing corporate business, a low cost thing. We as a state bank cannot say I'm not doing this.

I'm just wondering whether the two numbers add up. If your margins come down and your costs stay at current levels or even increase, is it likely that your ratio may rise as opposed to fall in the short term?
Possibly. That is why we have to grow the business to make up for this.

All banks are finding it challenging to fund their businesses because of deposits not being so easy to come by. As a result they are looking at borrowing overseas. What about People's Bank? Is this an avenue you will look at?
We have not gone for any long term borrowing as such. But we are borrowing. We also have foreign borrowings but we have not issued any bonds.

Foreign currency borrowings are going to be cheaper, the interest rate is lower. But if you are going to take this money and lend in rupees then there is a huge foreign exchange risk which has to be covered and once you start covering that it takes you almost close to the rupee interest rate. You've got to pay a premium to cover forward.

That's one way of looking at it. The other way is to lend in dollars.
Then you have no cost difference. When you borrow at 5% and lend at 7%, you are not lending at 18%. Your margin is really the income - a 2% margin there perhaps. We have not been very strong in the FCB (foreign currency banking) and foreign currency. We have been able to manage that entirely with our own funds.

I'm just curious - you have these large SOE borrowers. CPC for instance pays in foreign currency for purchases. Isn't that an opportunity already available?
They are borrowing short-term, trade finance of 6 months, 7 months. Those lines are available to us. A large part of our exposure to CPC, around 90%, would be foreign currency.

Look at long term, five years plus. Banking is likely to change, don't you think, from its current model of relying so much on low cost deposits?
People are going to be more aware, technology is going to

2012
Profit after tax reached
Rs. 10.9 Bn.

develop, margins are going to contract, and we have to gear ourselves and be more efficient and improve our risk management processes.

You have a tough job. In the next two years you need to gear the bank to meet this challenge with these competing interests also in mind, of being all things to all people.
Why we are so strong today is because of the network and the presence. You go to a rural area and they talk about 'Apey bankuva Mahajana Bankuva'. So their money has come. A large part of our savings base is from the rural network. Over the years people are not going to keep such a large amount of money in their savings. They are going to start moving into fixed deposits and we have to gear ourselves to meet that challenge. That is what we are doing, growing the other areas of business.

Are you comfortable with your capital position?
We have the capital adequacy. Five or six years ago we had no capital. We have Tier One over 7.5% and Tier Two combined 14%. We are adequately capitalized.

What about the future? Over the next few years as you will naturally grow your loan book. Perhaps you can double your loan book in five years?
As a government bank we won't go into the stock market to raise capital. That's not an option available for us. We generate our own capital and we have agreements with our owner to retain capital for us to meet our aspirations. The strategic plan has the numbers. The growth numbers and the capital plan. Our capital plan is largely based at this moment on retained capital.

Do you think your agreement with the government will comfortably cover your Tier One capital requirements?
The agreement is that. Not at the 5% minimum but at 6.5%. Dividend payouts will not bring the capital adequacy ratio below this level. Our numbers are 6.5% and 12% for Tier Two. Those are the sweet spot capital adequacy ratios we are looking at. Our agreement with the Central Bank and Treasury is that dividend payouts will be at such a level that we will not jeopardize these ratios.

For Tier Two capital we can issue debentures.

There is talk that SOEs will be listed?
They are not talking to us about it. They are certainly not talking about People's Bank anyway.

There'd be a number of strategic priorities that you at your level have to manage. What do you think are the most challenging of those priorities over the next few years? Capital, lending, restructuring... what?
Growing the business safely and profitably is the overall challenge. We have a constant flow of funds from our rural and retail network. There is captive off take largely from the government side. We are pretty strong with SMEs. We would like maybe to improve our corporate presence.

It's a big bank. You will grow anyway. But in strategic management you must be having a number of priorities, things you must get right or you will have performed sub-optimally?
We would like to get our technology right. With that will come cost savings. It's pretty good but we would like it to be the best in class. We also lack a share of the remittance business.

So is it fair to then think productivity is the big strategic challenge?
When you are faced with margin pressures, productivity and risk management will have to be. When you lend the money you have to make sure you get your capital back. It's risk management and productivity that are the key challenges, the key drivers in the future. Faster, better, cheaper.

How's your relationship with the government? Is it always that easy to convince the shareholder that your priorities are the priorities they should have?
Surprisingly it's not difficult. They are on the same page. Dr Jayasundera (Treasury Secretary) is also a very smart cookie. We have no issues, it's very cordial. Political interference is minimal. There is always some kind of thing that will come here or there. But whatever happened previously does not happen. We operate like any other commercial bank.

There is a worry in financial circles that there is a lot of adulterated gold that has been pawned to the banking system. Can you give me a sense of the challenge for People's Bank?
That happens. Because one of the things we have to do is turn a pawning transaction round in 10-15 minutes. So if you want to know numbers, we would have about Rs200 million gold of a low quality. Measure that against the overall gold-backed lending of about Rs240 billion, it's something like 0 .01% of the portfolio. It's not really an issue for us. The margins on this product more than cover this. There has been a slight pick up in the number like you said.

Have you actually gone through your holdings to come at this number?
These items don't get redeemed. Then they get auctioned, which is when we find out and it's covered through insurance for us. Rs200 million is nothing compared to the margins that we have on this product.

CA | THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

HNB ASSURANCE
For a brighter future

PEACE OF MIND FOR YOUR FAMILY - PROTECTION FOR THEIR FUTURE

No one wants to think about death, but if you avoid planning for it now, would you be forcing your family to abandon their future dreams?

CA Sri Lanka Members Life Insurance Plan is designed for the purpose of providing money to keep your family's hopes and dreams for the future on track following the unforeseen events of your death or disability.

- It's simple and provides cover up to LKR 500,000 for Death & Disability without medical examinations for all ages
- Option to enhance your cover up to LKR 3,500,000
- Option to include **Critical Illness Benefit** and **Hospitalization Daily Benefit**
- Option to include **Spouse Cover**
- **Free Life Cover** for an additional 05 years if you continue for 05 years*
- As long as you are a member of CA Sri Lanka, your coverage can be continued up to age 65 even if you change jobs or retire

What you have to pay?

Age at Entry	Annual Premium Per Person for Death & Disability Covers (LKR)
18-30	1,097
31-35	1,354
36-45	2,286
46-50	4,210
51-60	8,199

For more details please contact Shashi on 077 7767704

*** Conditions apply**

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Update

4,300

CA Sri Lanka membership of fully qualified chartered accountants

"Many students spend substantial amounts on foreign degrees from foreign universities and in some cases students join foreign universities of questionable repute"

SUJEEWA RAJAPAKSE - CA SRI LANKA PRESIDENT

30% of members serve overseas

Applied accounting degree helps meet growing demand-supply gap

Sri Lanka's first ever degree in applied accounting by the Institute of Chartered Accountants of Sri Lanka has received an overwhelming response since the institute called for applications from prospective students earlier this year. CA Sri Lanka President Sujeewa Rajapakse noted that the BSc. in Applied Accounting which has been approved by the University Grants Commission is turning out to be one of the most sought after accounting degrees in the country.

It was launched at a ceremony held under the patronage of the Minister of Higher Education S. B. Dissanayake. The new degree, seen as an important landmark in the tertiary education sector of Sri Lanka, aspires to bridge the growing gap between the demand for university level education and the limited number of intakes to local universities.

"In recent times, we saw thousands of students losing opportunity to gain entry into universities due to the limited number of intakes," he noted.

He said CA Sri Lanka in its capacity as the national body of accountants is steadfastly supporting the government's vision in ensuring the country's youth are empowered with the necessary professional skills and academic exposure for their long-term success and to ensure the country has a sufficient skilled workforce.

The inaugural degree programme commencing in June this year is being conducted by the institute's fully-fledged School of Accounting and Business (SAB).

The degree is designed under two stages, namely the general degree programme which will be conducted over a period of three years covering six semesters and the special degree which will be conducted over a period of four years covering eight semesters.

Total student population

41,000

Rajapakse noted that the liberalization of the education system in Sri Lanka paved the way for many educational opportunities in the country including the CA Sri Lanka degree programme.

"We are offering a recognized degree right here in Sri Lanka which is within the budget of many."

Chief Executive Officer of CA Sri Lanka Aruna Alwis noted that throughout the institute's five-decade long existence, CA Sri Lanka has constantly assured quality education that is accessible to all in accordance with social needs and individual aspirations.

"The main objective of this degree programme is to create employable graduates with the required practical knowledge, skills and attitudes," he said.

Record numbers sit for certificate level examinations

An overwhelming number of students amounting to almost 20,000 sat for the Certificate in Accounting and Business level one and level two exams held across the country covering the Southern, Western, Central, Northern, Eastern, Sabaragamuwa and North Central provinces.

This was the highest number of students to ever sit for CA Sri Lanka's Certificate in Accounting and Business (CAB) examinations.

Exit mechanism for partly qualified students

"Students who pass CAB II are eligible to become Certified Business Accountants which is recognised by both the public and private sectors."
ARUNA ALWIS - CA SRI LANKA

"CA Sri Lanka enjoys an impressive standing in the accounting world and our qualification is our identity," CA Sri Lanka President Sujeewa Rajapakse said. "Of our members an impressive percentage play a leading role in the corporate world at top managerial level capacities. Therefore, due to our standing, we are witnessing an increased interest for our CA qualification and this latest record is very encouraging in our capacity as a leading tertiary education provider in the country."

Almost
20,000
No. of students who sat for the Certificate in Accounting and Business level 1 & 2 exams

CA Sri Lanka, Kelaniya University to develop accounting education

The Institute of Chartered Accountants of Sri Lanka and the University of Kelaniya (UoK) recently entered into a Memorandum of Understanding (MoU) which aims to develop and promote accounting education and the profession in the country.

The MoU was signed by CA Sri Lanka President Sujeewa Rajapakse and Vice Chancellor of the Kelaniya University Prof. Sarath Amunugama.

The primary objective of the agreement is to help promote and nurture the accounting education, practice and the accounting profession of Sri Lanka by capitalizing on the institutional strengths of both institutions.

CA Sri Lanka President Sujeewa Rajapakse said the Institute has a considerable number of students who are following the chartered accountancy course along with the academic degree offered through universities in the country.

"With the MoU, students from the Kelaniya University can enjoy further exemptions to follow the chartered accountancy course at CA Sri Lanka."

CA Sri Lanka Chief Executive Officer Aruna Alwis noted that apart from the chartered accountancy course, the institute also offers a range of diplomas, postgraduate qualifications and a MBA for students and professionals in the accounting and finance sectors.

The MoU will facilitate the designing and offering of a Bachelor of Business Management Accountancy (General) degree programme accredited by the UoK which will be delivered through the distance learning mode, subject to the approval of the Council of CA Sri Lanka and the Senate of the UoK.

The Department of Accounting (DoA) of the Kelaniya University will also offer placements on its Master of Business in Accounting/ Master of Business in Finance post-graduate degree programmes to CA Sri Lanka members, subject to the approval of the Council.

New curriculum review

In its continuing efforts to provide the country's youth with a relevant globally recognised accounting qualification, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has begun to review its curriculum, aiming to address market needs as far off as in 2020.

In its efforts to obtain feedback from business leaders including heads of industries and practicing firms, the Institute recently organized a series of breakfast meetings with leaders from the corporate sector giving them a platform to share their views on how the next curriculum of CA Sri Lanka should be positioned together with a visionary outlook which will address market requirements as far ahead as the year 2020.

Update

Overwhelming response from public sector accountants

The recently established Association of Public Finance Accountants of Sri Lanka (APFASL) of the Institute of Chartered Accountants of Sri Lanka has received an overwhelming response with over 700 public sector accountants registering with it. President of APFASL V. Kanagasabapathy said the association aims to enhance professional standards of public sector accountants and auditors. The association also recently conducted its first - ever certificate awarding ceremony for its newly registered members held under the patronage of Secretary to the Cabinet of Ministers, Sumith Abeysinghe. Addressing the members of the association, Abeysinghe said, “Unlike in the past, there is an acute need to improve public finance management.”

He noted that due to outdated financial regulations, there were constraints to move ahead at a faster pace but he assured that several initiatives have already been taken through the budget proposals to update the rules.

President of CA Sri Lanka Sujeewa Rajapakse said the Institute has consistently worked towards enhancing the standing of public sector accountants in the country. “CA Sri Lanka is consistently geared to promote their standing by providing them with various opportunities to advance their career at a professional level both locally and globally,” he said.

The association has also planned to strengthen the public sector financial management practices under World Bank assistance for the benefit of public sector accountants, auditors and assessors for which CA Sri Lanka has already signed an agreement with the Chartered Institute of Public Finance & Accountancy (CIPFA), London.

700

PUBLIC SECTOR ACCOUNTANTS REGISTERING WITH APFASL

THE PROGRAMME WITH CIPFA INCLUDES:

- ▲| Introduction of a Joint Qualification Scheme for Public Finance Accountants
- ▲| Developing training materials and manuals
- ▲| Training of trainers in Sri Lanka Public Sector Accounting Standards (SLPSAS)
- ▲| Developing a plan for rolling out SLPSAS in phases to Statutory Boards and Local Authorities and,
- ▲| Creating awareness of the SLPSAS among targeted Statutory Boards and Local Authorities based on the plan

In the recent past, to cater to the growing professional needs of the public sector accountants and auditors, the Public Sector Accounting Standards Committee was established with members drawn from the Ministry of Finance and Planning. The committee has already published four Sri Lanka Public Sector Accounting Standards jointly with the Ministry of Finance and Planning and is in the process of publishing six more.

Over **10,000**

student registrations for 2013

CA SRI LANKA INFORMATION CENTRES

Members Forum for Certified Business Accountants

The Institute of Chartered Accountants of Sri Lanka has launched a special forum for students who have completed the Certified Business Accountant (CBA) programme which helps give them more recognition. The inaugural ceremony of the newly launched CBA Members Forum was held at the Institute’s Colombo 7 premises in the presence of 227 students who have obtained the Certified Business Accountant (CBA) qualification offered by the Institute.

CBA is a professional qualification that gives recognition to professionals in the accountancy field employed in the private as well as the public sectors. The qualification can be obtained by any student who has completed the Certificate in Accounting and Business (CAB II), the Licentiate Examination, and Intermediate Examination of CA Sri Lanka’s accounting course along with three years of relevant work experience.

Partnership with GIZ to strengthen SMEs and SMPs

The Institute of Chartered Accountants of Sri Lanka has entered into an agreement with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, commonly known as German Development Cooperation, to support small businesses and accountancy practices

As a federal enterprise, GIZ supports the German government in achieving its objectives in the field of international cooperation for sustainable development.

Through the Small and Medium Enterprise Development programme in Sri Lanka, GIZ aims to achieve inclusive development of the SME sector. The project with CA Sri Lanka focuses on strengthening the skills and capacities of Small and Medium-Sized Enterprises (SMEs) and Small and Medium-Sized Practitioners (SMPs) in the country.

The project, which will focus on four core activities, aims to enhance SME and SMP development in the Central, Eastern, Northern, North-Western, Sabaragamuwa, Southern and Uva provinces which have been identified as 'lagging regions' of the country.

The agreement will pave the way for CA Sri Lanka and GIZ to conduct regional seminars on Sri Lanka Accounting Standards (SLFRS) for SMEs as well as training programmes on basic accounting and book-keeping for SMEs.

Through the project, a help desk will also be established to support

The project will set up a help desk to support small and medium-sized enterprises and practitioners

small and medium-sized enterprises and practitioners, while technical materials, guidance notes, application guidance and practice notes on SLFRS for SMEs will also be published for the benefit of SMEs and SMPs.

The cost of the project will be shared equally by CA Sri Lanka and GIZ.

South Asian Federation of Accountants meets in Colombo

The 26th Board Meeting and a series of high-level committee meetings of the South Asian Federation of Accountants (SAFA) were hosted in Colombo by the Institute of Chartered Accountants of Sri Lanka.

The meetings were held on the sidelines of the SAFA Best Presented Annual Report Awards Ceremony. The meetings and awards ceremony were held at the CA Sri Lanka premises in Colombo 7. They were attended by some of the most senior accounting professionals from the South Asian region.

SAFA member bodies include the institutes of chartered accountants and the institutes of cost and management accountants in the SAARC (South Asian Association for Regional Cooperation) countries, who have come together with the objective of developing the accountancy profession in the region.

CA Sri Lanka, ACCA pledge further cooperation

CA Sri Lanka, in its capacity as the national body of accountants, and the Association of Chartered Certified Accountants (ACCA), have pledged to continue cooperation between the two accounting bodies. A top level delegation of the ACCA paid a courtesy visit to the Institute of Chartered Accountants of Sri Lanka, recently, for talks on matters of mutual interest.

The ACCA delegation led by Steve Heathcote, Executive Director - Markets; Lucia Real-Martin, Director - Emerging Markets; and Nilusha Ranasinghe - Market Head for Sri Lanka and Maldives met the CA Sri Lanka President Sujeewa Rajapakse, Vice President Arjuna Herath and Secretary/CEO Aruna Alwis.

Update

Project management courses with PMI

The Institute of Chartered Accountants of Sri Lanka has signed a Memorandum of Understanding (MoU) with the Project Management Institute (PMI) Sri Lanka chapter paving the way for CA Sri Lanka to conduct globally renowned project management programmes at its Colombo 7 premises.

In addition to conducting the Project Management Professional (PMP) and Certified Associate in Project Management (CAPM) programmes of PMI, the agreement will also allow both institutes to jointly conduct seminars, CPD courses and common forums for the benefit of accountancy, finance and project management professionals in the country.

The MoU will also allow CA Sri Lanka and PMI Sri Lanka Chapter to share knowledge, provide technical inputs and also increase awareness among CA members on PMI.

"Our agreement with PMI Sri Lanka Chapter which is undoubtedly a prestigious institute in the world is one initiative in our continuing journey to provide our professionals and CA Sri Lanka members marketable and globally recognized qualifications." CA Sri Lanka President Sujeewa Rajapakse

The MoU was signed between CA Sri Lanka President Sujeewa Rajapakse and PMI Sri Lanka Chapter President and Board Chairman Aruna Kooragamage, in the presence of CA Sri Lanka Vice President Arjuna Herath, CA Sri Lanka Chief Executive Officer Aruna Alwis, CA Sri Lanka IT Faculty Chairman and Council Member Channa Manoharan, IT Faculty Alternate Chairman Ashane Jayasekera, PMI Sri Lanka Chapter Executive Vice President/Board Director Ganesh Wijenayake and PMI Sri Lanka Chapter Vice President Professional Development/Board Director Shanaka de Silva.

Project Management Institute - Colombo Sri Lanka Chapter (PMICSL) is the only accredited chartered chapter in Sri Lanka affiliated to Project Management Institute.

"The two institute will conduct globally renowned project management programmes"

PMI is one of the world's largest not-for-profit membership associations for the project management profession with more than 700,000 members, credential holders and volunteers in nearly every country in the world. PMI's worldwide advocacy for project management is reinforced by globally recognized standards and certification programme.

Big corporates at INSEAD Global Strategic Management programme

Some of Sri Lanka's leading corporates participated at the CA Sri Lanka - INSEAD Global Strategic Management programme held at the Water's Edge, Battaramulla organized by the Business School of the Institute of Chartered Accountants of Sri Lanka.

The four-day programme which concluded on January 31 saw top level managerial professionals from leading companies in the country participating in the programme which offered tips on how to take advantage of emerging opportunities, expanding business operations and responding to a challenging economic environment.

The participants at the programme represented Expolanka Holdings PLC, Central Finance Company PLC, Haycarb PLC, Commercial Bank of Ceylon PLC, Dipped Products PLC, Jagro Pvt Ltd, Dunamis Capital PLC, Gajma & Co., John Keells Holdings PLC, Diesel & Motor Engineering PLC, Lanka Marine Services (Pvt) Ltd, Mobitel, Carson Cumberbatch, Google Asia Pacific Pte. Ltd, LOLC Micro Credit Ltd, MAS Active Trading (Pvt) Ltd, Ceylon Cold Stores PLC, Chevron Lubricants Lanka PLC, KPMG Ford, Rhodes, Thornton & Co, Silvermill Holdings Limited, Lankem Ceylon PLC, John Keells Computer Services Pvt Ltd, Hayleys Advantis Limited, Lankaclear (Private) Limited, and Carsons Management Services (Private) Limited. The programme was conducted by one of INSEAD's top professors, Jasjit Singh.

▲ INSEAD is one of the world's top graduate business schools with campuses in Fontainebleau, France, Singapore and Abu Dhabi. The name is an acronym for the French 'Institut Européen d'Administration des Affaires' or European Institute of Business Administration.

9,000

NUMBER OF EXECUTIVES WHO PARTICIPATE IN INSEAD'S EXECUTIVE EDUCATION PROGRAMMES EACH YEAR

PROGRAMMES

MBA
EXECUTIVE EDUCATION
GLOBAL EXECUTIVE MBA
MASTER IN FINANCE
EXECUTIVE MASTER IN CONSULTING AND COACHING FOR CHANGE
PHD

Training alliance network strengthens with 16 top firms onboard

The strong training partnership network of the Institute of Chartered Accountants of Sri Lanka received a further boost with 16 top companies coming onboard as strategic level training partners at a special ceremony held at the Institute's Colombo 7 premises.

The 16 companies included some big names in the country's business world and represented the non-public (non-audit) sector organizations.

650
CA Sri Lanka training partners

CA Sri Lanka Strategic Level training partner recognition was granted to Ace Distriparks (Pvt) Ltd, Amba Research Lanka Pvt Ltd, Chart Consultants (Pvt) Ltd, Continental Insurance Lanka Limited, Diesel & Motor Engineering PLC, Etisalat Lanka (Pvt) Ltd, First Capital Treasuries Limited, GAC Shipping Limited, Hayleys Consumer Products Ltd, Lanka Electricity Company Private Limited, Nawaloka Hospitals PLC, North Manufacturing (Pvt) Ltd, Sanasa Development Bank PLC, Singer Industries (Ceylon) PLC, Sri Lanka Land Reclamation & Development Corporation and The Autodrome PLC.

CA Sri Lanka Vice President Arjuna Herath addressing the training partners noted that today the Institute has over 650 training partners, covering a large spectrum of industries in both public practice (audit) and non-public practice (non-audit) sectors. "Through our island-wide network of training partners, CA Sri Lanka expects to provide our students with a greater selection in finding a training partner of their choice."

He also urged the newly recognized training partners to provide more training opportunities for the rapidly increasing student base of the Institute.

John Keells Holdings lead sponsor for 2013

John Keells Holdings PLC (JKH) has once again supported the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) with a lead sponsorship for 2013.

As a lead sponsor, JKH will supports the Institute's diverse activities including its long-term educational development in the sphere of accounting which will benefit the institute's 4,300 members and over 41,000 students who are currently studying CA Sri Lanka's globally recognized chartered accountancy qualification.

John Keells Holdings has been CA Sri Lanka's lead sponsor since 2007.

JKH Group Finance Director Ronnie Peiris handed over the sponsorship cheque to CA Sri Lanka President Sujeewa Rajapakse at a ceremony held recently. Peiris said that JKH was delighted to continue its lead sponsorship of CA Sri Lanka.

"CA Sri Lanka is a well-established institution in developing the local accountancy profession, and has produced many qualified accountants, serving both locally and internationally, who are well girded to face the challenges and exploit the opportunities of the volatile local and global economies," he noted.

"We at JKH are committed to our core values, which in essence, is to be innovative, to challenge ourselves constantly by raising the bar, to lead by example in ethical business practices, and to foster an environment which makes JKH a great place to work," he said.

Update

Top honours for Lankan firms at SAFA regional awards

Total number of awards
85

Number of awards won by Sri Lankan firms
26

Reliable financial reporting is a key element instrumental in the successful development of capital markets

Twenty-six Sri Lankan companies were accorded top honours at the prestigious South Asian Federation of Accountants (SAFA) regional awards in Colombo for their outstanding financial reports in the presence of South Asia's corporate glitterati. Sri Lanka Telecom was adjudged an overall winner along with Bangladesh's IDLC Finance Limited and Prime Bank Limited at the SAFA Best Presented Annual (BPA) Report Awards which was hosted by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in March.

Considered as the most prestigious accolade for financial reporting in the South Asian region, Sri Lankan companies together with companies from India, Pakistan, Bangladesh and Nepal were rewarded for their excellent annual reports which promoted transparency, accountability and good governance.

A total of 85 awards were given out with Sri Lanka winning 26 awards, while the remaining prizes were shared between companies from India, Pakistan, Bangladesh and Nepal. On behalf of Sri Lanka, Commercial Bank of Ceylon PLC, Hatton National Bank PLC and Sampath Bank PLC were rewarded under the private sector banks category, while in the public sector bank category, National Savings Bank, Bank of Ceylon and People's Bank won the BPA awards.

Chief Guest at the event was Dr Nalaka Godahewa, Chairman of the Securities & Exchange Commission of Sri Lanka. SAFA President Abdul Mannan was also present at the ceremony.

Union Assurance PLC, HNB Assurance PLC and Janashakthi Insurance PLC won awards under the insurance sector, while in the financial services category awards were given out to People's Leasing Co. Ltd., DFCC Bank and Mercantile Investment PLC.

In the manufacturing sector, CIC Holdings PLC, Chemanex PLC and Singer (Sri Lanka) PLC were honoured for their annual reports while Sri Lanka Telecom PLC bagged the award on behalf of Sri Lanka for the communication and information technology sector.

Hayleys PLC, Aitken Spence PLC and John Keells Holdings PLC won awards on behalf of the service sector while the Ceylon Chamber of Commerce, Association of Accounting Technicians of Sri Lanka and the Plantation Human Development Trust were honoured under the non-governmental organization sector.

In the agriculture category, SAFA BPA awards were won by Watawala Plantations PLC, Kelani Valley Plantations PLC and Namunukula Plantations PLC.

Three Sri Lankan companies, namely Union Assurance PLC, Commercial Bank of Ceylon PLC and John Keells Holdings PLC, along with three companies each in Bangladesh and Pakistan also won the SAARC Anniversary Award for Corporate Governance.

Turrets, *minarets* *and* magic carpets

GALATA TOWER (CENTRE), A MEDIEVAL STONE STRUCTURE WITH ITS HIGH CONE-CAPPED CYLINDRICAL TOWER, DOMINATES THE CITY'S SKYLINE AND OFFERS A BREATHTAKING VIEW OF OLD ISTANBUL.

The commercial capital of Turkey, Istanbul, is a treat for all the five senses of a tourist. It has the perfect synthesis of the European and Asian cultures to endear it to the world.

BY SRAVASTI GHOSH DASTIDAR

Close your eyes...transport yourself to the enchanting world of palaces with gilded turrets and spires, mosques with pencil-shaped minarets, to the world of magic carpets with Alladin and Jasmine flying over the scintillating colours and textures of the Grand Bazaar, to the tantalizing aroma of spices, “koftes” and “kebaps” ... and you will find yourself in the mesmerizing world

ISTANBUL HAS BEEN THE CAPITAL CITY FOR FOUR EMPIRES.

of the Arabian Nights. Now open your eyes, keep all the above in sight, except the flying magic carpet and the fairy tale characters, and you will find yourself in the ‘Whole New World’ of the thriving city of Istanbul, Turkey. You can still find the beautifully hand-woven wool or silk carpets ... all you will need is a little magic in your imagination to become Alladin or Jasmine, or even Rajah the tiger.

If not the magic carpet, Turkish Airlines will definitely be glad to transport you directly to Istanbul's Ataturk Airport, from the Bandaranaike International Airport. The visa can now be applied for at the newly opened Turkish Embassy, 66 Kynsey Road, Colombo 7. Turkish Airlines is, though, substantially more expensive than Qatar Airways and Emirates that operate via Doha and Dubai. The city demands your full attention for a minimum of 3 to 4 days. It has so much to offer in the way of sightseeing. Clubbing it with other cities in Turkey is definitely possible but can become hectic.

The largest city in Turkey, Istanbul is also the economic, cultural and historical heart of the country. It is the fifth most popular tourist destination in the world, competing with London, Paris, Bangkok and Singapore. It has the distinction of being a transcontinental city, founded on the shores of the Bosphoros Sea, which connects the Sea of Marmara ("marmar" in Greek means "marble") and the Black Sea. Dating back to 330 A.D., Istanbul has been the capital city for four empires. Known as Constantinople, it has been ruled by the Romans (330 to 395 A.D.), the Byzantines (395 to 1200 A.D.), the Latin (1204 to 1261 A.D.) and the Ottomans (1261 to 1923 A.D.). It held a strategic position along the historic Silk Route.

Istanbul has a heterogeneous populace. The present city is divided into three parts, the European or Rumeli or Thracian side, the old city of Constantinople (also on the European side) and the Asian side or Anatolia. The relics of the regal times are strewn all over the city, especially in the areas within the walls of Constantinople. The European side, along with Constantinople, forms the historic and economic centre, whereas Anatolia is mainly residential. However, its cultural and entertainment hub is located across the city's natural harbour, the Golden Horn (a scimitar-shaped estuary joining the Bosphoros and the Sea of Marmara, it takes on a golden hue during sunrise and sunset).

Apart from being divided into three parts geographically, it is also divided into 21 parts (or clubs) 'football-ically'. The Turkish are fanatical about this game and the best way to endear oneself to a Turk would be to start a conversation about the three main clubs, Galatasaray, Besiktas and Fenerbahce. These have legendary fan following, even internationally. Every residential neighbourhood has a net-covered astro-turf football ground, where the local boys and men play excellent football, suitably attired in preferred club colors. It is played in the lanes too, especially on Sundays, and is a treat to watch. The passion for the game is infectious. And if you feel equally infected, then make your plans for the next Turkish Super Lig or better, for the 2020 Summer Olympics.

It is the fifth most popular tourist destination in the world, competing with London, Paris, Bangkok and Singapore. It has the distinction of being a transcontinental city

If your purpose of visit is solely tourism, then it is best to park your carpet in Constantinople, between April and August. April is when the tulips bloom. Yes, you will be pleasantly surprised by the rows of intensely colored tulips arranged tastefully all over the city. Did you think tulips belonged to the Netherlands? Well, it was the Sultan of Turkey who sent the first tulip bulbs and seeds to Vienna in 1554. They were soon distributed

THE FAMOUS ISTIKLAL STREET LINED WITH SHOPS, CAFÉS, HISTORIC PUBS, WINE HOUSES AND CLUBS, AS WELL AS THEATRES, CINEMAS AND ART GALLERIES.

to Augsburg, Antwerp and Amsterdam. This flower was unlike any other in Europe and the Hollanders loved it so much that they started cultivating it and made it a status symbol. And now, tulips are popularly associated with the Netherlands!

April can be chilly if it is raining but on a bright sunny day, you will be amazed to see the colours of the blue Bosphoros. It is better to have an umbrella or raincoat handy; or else you may end up buying a transparent plastic 'Made in China' umbrella at 5 Turkish Lira (TL) and left with only the twisted frame, after 5 minutes, as the sharp wind will have carried the plastic back to China.

Magic carpets

There are ample hotels and inns (suitable to your budget) around the city centre, where most of the architectural delights are sited. Quite a few of these grand monuments are

ANOTHER VIEW OF GALATA TOWER. THERE ARE NUMEROUS RESTAURANTS UNDER THE OLD GALATA BRIDGE WHICH OFFER SEAFOOD DINNER.

within walking distance of each other. The roads have slopes as Istanbul is situated on seven hills. Many of them are cobbled, lending an-old world charm but may not be agreeable to those with knee problems or in stilettoes. Communicating can be slightly challenging, as there may be a language issue - not every local knows English. Certified guides can be booked online, at a cost. Conversely, the Turks are very warm and friendly people and are especially helpful if you are travelling with children, like in most European countries. However, not all places or modes of transport are accessible to baby strollers or wheelchairs.

The varied modes of transport and the numerous lanes and bylanes can be a little difficult to figure out, initially. You will need to buy a token for each trip you make on a tram, metro, bus, funicular (cable railway) or boat. Each small metal/plastic token costs 3 TL and can be bought at various ticket kiosks and dispensing machines at the bus, railway and metro stations. Only cash is accepted, no credit card or foreign currency. You can also buy an Istanbulcart (card) if you plan to use the public transport for more than two days. This is usable on buses, trams, suburban trains, metro and even the cross-Bosphorus ferries. Do not be surprised if a street urchin appears from nowhere and helps you with the purchase of tickets. However, like all major metropolises, do be careful with your valu-

THE NEW MOSQUE CLOSE TO WHICH IS THE SPICE BAZAAR OR EGYPTIAN MARKET WHICH HAS BEEN AT THE CENTRE OF THE SPICE TRADE IN ISTANBUL FOR YEARS.

ables especially in the crowded areas, otherwise you may become a pickpocket's delight. Taxis are also available, and like in many countries, the drivers can 'take you for a ride' which you are not prepared for but you may also be lucky to find a conscientious driver who may not take money for an extra mile, if he takes a wrong turning.

Choose your preferred carpet to navigate around town and drink in the treats of the many-splendoured Istanbul.

There are almost 2,950 active mosques but the most important ones will be the Fatih Mosque, the Blue or Sultan Ahmed Mosque, the Suleimaniye Mosque, the New Mosque, and the Laleli Mosque from the Ottoman Empire. The Fatih Mosque is one of the largest examples of Turkish-Islamic architecture, built in 1453 A.D. The Sultan Ahmed Mosque is more popularly known as the Blue Mosque for the blue handmade ceramic tiles made at Iznik, adorning the walls of its interior. The tiles are in more than fifty different tulip designs. The architecture is a fusion of Byzantine church and Ottoman mosque styles. Four little domes surround the majestic central dome (24 m high) and under them there are four smaller domes. It is the world's only mosque with six pencil-shaped minarets. Remember to cover your head before you enter these religious places.

ISTANBUL IS A SHOPPER'S PARADISE

BOSPHOROS CRUISE

In case you want to give your feet a rest, book yourself on a two- or three-hour Bosphoros cruise from the Karokoy pier, in Kabatas. On the way to Kabatas, peek in to the beautiful Sircesi Station where the legendary Orient Express terminates, after its long journey from Paris. There are various choices of cruises – day cruises, night tours, dinner cruises with belly dancing and the like. Choose the one that suits you best and view the city from the sea. Since most of the prominent structures are situated on the waterfront, you will get a good view of the monuments mentioned here, as well as the Istanbul University, the Rumeli Palace, the Hunting Palace and many more. The cheese and salami sandwiches sold on board are delectable.

BYGONE BAZAAR

Visiting the numerous monuments can be exhausting. Wish the flying carpets really existed. But how can you tour a place without shopping? Istanbul is a shopper's paradise. A trip to Istanbul is incomplete without one or more visits to the romantic Grand Bazaar and the Spice Bazaar. Even if you are not a shopper, these places fall under the 'must visit' category. Entering the markets will take you to a bygone era.

The Grand Bazaar or Kapalicarsi (covered market) is one of the largest and oldest covered markets in the world. You can walk or take a tram from the Sultanahmet and Sircesi. The Spice Bazaar or the Egyptian Market is located in the vicinity of the New Mosque and has been at the centre of the spice trade in Istanbul for years. The splendid array of colours, textures and scents of both these markets will stun you.

At the Grand Bazaar, get ready to bargain your way into buying curios, lamp shades (check if they are made of plastic or metal), pottery (fake and authentic handmade Iznik), silk and wool carpets, embroidered scarfs and shawls, embroidered shoes, traditional dresses, and even football jerseys. The blue Turkish Eyes will be staring at you from all corners. And, if you have an eye for it you may chance upon some antiques. The vibrant colours and fragrance of spices and dry fruits of the Spice Bazaar are simply amazing.

Many of the Byzantine structures were later converted to mosques by the Ottomans, of which the most famous will be the Hagia Sophia or Aya Sophiya (originally a church, now a museum). It is quintessentially Byzantine, which redefined the history of architecture. It remained the world's largest cathedral for a thousand years, till the Seville Cathedral (Spain) was built in 1520 A.D. The Zeyrek mosque, also belonging to this period, has the typical Byzantine technique of architecture of the recessed brick. It does not have minarets as it was a church before and still retains the stained glass paintings of saints on its windows.

The Hippodrome or the sporting and social centre of Constantinople, the capital of the Byzantine Empire, has a few fragments of the olden days, like the Serpent Column, the Egyptian Obelisk of Thutmosis and the Walled Obelisk. The Hippodrome is now known as the Sultanahmet Meydani. This area is right next to the Blue Mosque.

You can walk from the Blue Mosque to the Hagia Sophia in a few minutes, or relax and pamper yourself at the Hamam or Turkish Bath on the way. Or, sit on the lawns near the fountains and enjoy the aromatic flavors of street food, like the shawarma, the simit (circular bread with sesame seeds; drinking Turkish tea with simit is traditional culture), hand-churned ice-cream, the corn on the cob and roasted hazelnuts. Or cross the tramline and have the mouth-watering Doner Kebaps.

The 6th century subterranean cathedral-sized cistern is capable of holding 80,000 cubic metres of water.

THE UNDERGROUND WORLD OF THE BASILICA CISTERN OR YEREBATAN SARAYI (SUNKEN PALACE). 336 MARBLE COLUMNS, MAINLY IN IONIC AND CORINTHIAN AND SOME IN THE DORIC STYLE, SUPPORT THE CEILING.

Underground world

Crossing the tramline will also take you to the underground world of the Basilica Cistern or Yerebatan Sarayi (Sunken Palace). Buy an entrance ticket for 10 TL. You may have to carry the wheelchair or stroller for the first two flights of stairs, but there are ramps after that. This 6th century subterranean cathedral-sized cistern is capable of holding 80,000 cubic metres of water. 336 marble columns, mainly in Ionic and Corinthian and some in the Doric style, support the ceiling. The echoing of classical music, the atmospheric lighting on the columns and vaulted ceiling and the reflections on the water give it a very Hogwart look, replete with magic, mystery and eeriness, augmented by the two upturned heads of Medusa, forming the base of two columns.

While you are still submerged in the watery effect of the cistern, you may feel hungry. Have your lunch at the Tarihi Sultanahmet Koftecisi Selim Usta (since 1920), near the tramline. Queue up for a taste of the local cuisine comprising the izgara kofte (grilled meatballs), served with bread, vegetable or lentil chorba (soup) and ayran (cold yoghurt mixed with water and salt). The restaurant is best for a tight budget, yet clean and cheerful.

A scrumptious meal should be followed by a visit to the royal palace of Top Kapi, situated just behind the Hagia Sophia. This was the primary residence of the Ottoman Sultans for 400 years, from 1465 to 1856 A.D. It overlooks the Golden Horn and the Sea of Marmara. The massive Imperial gate, made of stone, leads to the First Courtyard. The former Imperial Mint and the Church of Hagia Irene are located here. Entrance tickets of 20 TL for the palace and an extra 15 TL for the Harem, are available here. The Gate of Salutation or the Middle Gate leads into the palace and the second courtyard. This crenelated gate with the two large octagonal towers will surely remind you of Shehrazade's nocturnal tales.

The Ottoman Sultans shifted to the European-styled Dolma Bahce Palace from 1856 and used it till 1922. A few years in between were spent at the Yildiz Palace. Situated on the Bosphoros, the Dolma Bahce Palace has all the modern luxurious facilities lacking in the Top Kapi Palace. The design has an eclectic mix of the Baroque, Rococo, Neo-classical and traditional Ottoman architectural styles.

TRAMS ARE PART OF THE VARIED MODES OF TRANSPORT

It has the largest collection of Bohemian and Baccarat chandeliers in the world, and one of the great staircases has balusters made of the same crystals. The founder and first President of the Republic of Turkey, Mustafa Kemal Ataturk, used this as the presidential residence and also breathed his last here. All the palace clocks are kept stopped at the time of his demise, that is, 9:05 AM, respectfully.

Have seafood dinner in one of the numerous restaurants under the old Galata Bridge, against the panoramic backdrop of the dazzlingly lit Galata Tower, New Mosque, Suleimaniye Mosque, Top Kapi Palace and the New Galata Bridge. These restaurants also have free pick-up and drop services. Do not be amazed if you find that the anglers fishing on the bridge may turn out to be the suppliers to these eateries.

You can also go on a cruise to the peaceful and pollution-free Princes' Islands, where the royalty were exiled during both the Byzantine and Ottoman periods. Lunch is usually inclusive, which you will have in one of the quaint restaurants on these islands where the only forms of transport are horse carts and cycles.

Feeling uneasy on board? Turn around and use the Tunel - the underground funicular and the world's second oldest subway - from the Karakoy station to the Galata quarter. Walk to the sturdy Galata Tower, through the cobbled streets lined with curio and music shops selling handmade Bosphoros cymbals, the stringed kabak kemane and guitars. The Galata Tower, a medieval stone structure with its high cone-capped cylindrical tower, dominates the city's skyline and offers a breathtaking view of Old Istanbul.

Feeling uneasy on board? Turn around and use the Tunel - the underground funicular and the world's second oldest subway

Spanning two continents

From Galata, stroll down to the famous Istiklal Street; jostle with pedestrians for a mile before running into the Taksim or Independence Square. Or, take the historic tram down this street which houses shops, cafés, patisseries, restaurants, historic pubs, wine houses and clubs, as well as bookshops, theatres, cinemas and art galleries. The avenue is lined with Neo-classical and Art Nouveau buildings, including the Santa Maria Draperis and the largest Roman Catholic church in Istanbul - the Church of St. Padua. Do try out the Islak hamburger here, made of garlic meatball in a tiny bun, dipped in pepper sauce.

Visit the lovely neighbourhood of Ortakoy with its shady streets, lovely villas and open markets. Indulge in the Turkish fast food - the Kumpir (baked potato filled to the maximum with a variety of toppings). Ortakoy, Istiklal, Nisantasi and Nevizade areas on the European side and Kadikoy on the Asian side are popular for their vibrant nightlife. Cross over to the populous and residential Anatolia, to the highest point of Istanbul, the Camlica Hill for a bird's eye view of the city. You will gather the unique experience of being on two continents within a span of a few minutes.

Wrap up your day with a sumptuous dinner of mouth-watering kebaps, icli koftes, salads, feta cheese and hummus over a glass of Raki (an unsweetened anise-flavoured hard alcoholic drink) at either an upmarket restaurant like the Guniadin at Etiler or some boutique restaurant-cum-hotel like the Café Kybele near the Basilica Cistern.

The Café Kybele is one of its kind, with its collection of antique furniture and showpieces, colourful rugs, old etchings and prints. Its signature style comes from the hundreds of original coloured glass lamps hanging from the ceilings. It also boasts of a small museum, a library and a peaceful shisha bar, to bring a relaxing end to an exhilarating tour of a gorgeous city.

If your carpet is not worn out yet, then roll it in and store it till your feet start itching again for the next journey.