



# Prospectus

NATIONS TRUST BANK  
Debenture Issue 2013

*Managers to the Issue :*

**Waldock Mackenzie**  
L I M I T E D  
NationsTrustBank Member

*Trustees to the Issue :*

**Deutsche Bank** 



# **Nations Trust Bank PLC**

*Issue of 20,000,000 Listed, “A(-)” Rated, Unsecured Subordinated Redeemable Five Year Debentures at an issue price of Lkr 100 each amounting to Lkr 2,000,000,000*

*(With the option to Issue a further 10,000,000 Listed, “A(-)” Rated, Unsecured Subordinated Redeemable Five Year Debentures at an issue price of Lkr 100 each in the event of an oversubscription of the initial 20,000,000 debentures)*

**Listing on the Main Board of the  
Colombo Stock Exchange**

**Rated “A-(Ika)” by Fitch Ratings Lanka Limited**

**Issue opens on 12th December 2013**

**Managers to the offering  
Waldock Mackenzie Limited**

*The Colombo Stock Exchange ("CSE") has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for the accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of the Debentures which is decided solely by the Issuer.*

*The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus.*

*If you are in any doubt regarding the contents of this document or if you require any clarification or advice in this regard, you should consult the Managers to the Issue, Investment Advisor, Lawyer or any other Professional Advisor.*

## *Responsibility for the Content of the Prospectus*

This Prospectus has been prepared by Waldock Mackenzie Limited (hereinafter referred to as “WML”) on behalf of Nations Trust Bank PLC. Nations Trust Bank PLC (hereinafter referred to as “NTB” or “the Bank”) and its Directors confirm that to the best of their knowledge and belief, the information contained herein is true and correct in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading. While NTB has taken reasonable care to ensure full and fair disclosure of pertinent information, it does not assume responsibility for any investment decisions made by the investors based on the information contained herein. In making such investment decisions, prospective investors must rely on their own knowledge, examination and assessments on NTB and the terms of the Debentures issued (knowledge, perception together with their own examination and assessment on NTB and the terms and conditions of the Debentures issued) including the risks associated.

## *Registration of the Prospectus*

### **This Prospectus is dated 05th December 2013**

A copy of this Prospectus has been delivered to the Registrar General of Companies of Sri Lanka for registration in accordance with the Companies Act No. 07 of 2007. The following documents were attached to the copy of the Prospectus delivered to the Registrar General of Companies.

1. The written consent by the Managers to the Issue, Auditors and Reporting Accountants to the Issue, Lawyers to the Issue, Trustees to the Issue, Bankers to the Issue and Registrars to the Issue for the inclusion of their respective names in the Prospectus.
2. A declaration to the effect that the Managers to the Issue, Auditors and Reporting Accountants to the Issue, Lawyers to the Issue, Trustees to the Issue, Bankers to the Issue and Registrars to the Issue have not withdrawn their consent referred to above, prior to the delivery of the Prospectus to the Registrar General of Companies.
3. A declaration by each of the Directors of the Company in terms of the Companies Act and confirming that each of them have read the provisions of the Companies Act and the CSE Listing Rules relating to the issue of a prospectus and that those provisions have been complied with.

# ***Representation***

No dealer, sales person, individual or any other outside party has been authorized to give out any information or to make any representation in regard to this Issue other than the information and representations contained in this Prospectus and if given or made such information or representations must not be relied upon as having been authorized by the Company.

This Prospectus has not been registered with any authority outside Sri Lanka. Non resident investors may be affected by laws of the jurisdiction of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and laws of Sri Lanka, when making the investment. The delivery of this Prospectus shall not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Company since the date of this Prospectus.

If you are in any doubt regarding the contents of this document or if you require any clarification or advice in this regard, you should consult the Managers to the Issue, Investment Advisor, a Lawyer or any other Professional Advisor.

For further inquiries please contact the Mangers to the Issue

**Waldock Mackenzie Limited**

242, Union Place,

Colombo 02

Telephone 011-4724866/4719656

Fax 011-4791723

*As per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System Private Limited dated November 30, 2010, all securities allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, in order to facilitate the uploading of allotted Debentures to their CDS account.*

**ALL APPLICANTS SHOULD INDICATE THEIR CDS ACCOUNT NUMBER IN THE SPACE PROVIDED ON THE APPLICATION FORM**

*Please note that upon the allotment of the Debentures under this Issue, the allotted Debentures would be credited to the Applicant's CDS account so indicated. PLEASE NOTE THAT DEBENTURE CERTIFICATES SHALL NOT BE ISSUED.*

*Any application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list or which indicates an inaccurate/incorrect CDS account number, will be rejected and no allotment will be made.*

*You can open a CDS account through any member/trading member of the CSE as set out in Annexure C or through any Custodian Banks as set out in Annexure C of this Prospectus.*

*It should be noted that in the event the Applicant's CDS account number is correctly stated in the application form, all correspondence with such applicant will be sent to the address given to the CDS by such applicant.*

*Further in the event the name or the address of the Applicant mentioned in the application form differ from the name address given to the CDS by such Applicant in respect of the CDS account mentioned in the application form, the name and the address given to the CDS by such applicant in respect of the CDS account mentioned in the application form will be considered as the name and the address of such applicant.*

*Therefore the applicants shall ensure that their name and the address mentioned in the application form tally with the name and the address given to the CDS in respect of the CDS Account mentioned in the application form.*



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## Abbreviations and Interpretations

In this Prospectus the following ABBREVIATIONS/INTERPRETATIONS apply unless the subject or context otherwise requires.

AER	Annual Equivalent Rate
ATS	Automated Trading System of the Colombo Stock Exchange
AWPLR	Average Weighted Prime Lending Rate
Bn	Billion
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Pvt) Limited
CSE	Colombo Stock Exchange
NTB/Company/Bank	Nations Trust Bank PLC
LKR, Rupees	Sri Lankan Rupees
WML	Waldock Mackenzie Limited
Market Day	Any day on which trading takes place at the CSE
Mn	Million
POA	Power of Attorney
SEC	Securities & Exchange Commission of Sri Lanka
SIA	Securities Investment Account
Shareholders	Shareholders of NTB
SLFRS	Sri Lanka Financial Reporting Standards
The Board of Directors/Board	The Board of Directors of NTB
USD	United States Dollars
Working Day	Any day (other than a Saturday or a Sunday or any statutory holiday) on which the Banks and Foreign Exchange markets are open for business in Sri Lanka
Market Day	Any day on which trading takes place at the Colombo Stock Exchange.
Interest Period	means the six month period from the date immediately succeeding a particular Interest Payment Date and ending on the next Interest Payment Date (inclusive of the aforementioned commencement date and end date) and shall include the period commencing from the Date of Allotment and ending on the first Interest Payment Date (inclusive of the aforementioned commencement date and end date) and the period from the date immediately succeeding the last Interest Payment Date before the Date of Redemption and ending on the date immediately preceding the Date of Redemption (inclusive of the aforementioned commencement date and end date).

## *Glossary of Terms Related to the Issue*

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Date of Allotment	Date on which the Debentures will be allotted to the Debenture Holders which date will be notified to the Debenture Holders.
Date of Redemption	Date on which the period of Five (05) years from the Date of Allotment expires, or such earlier date on which the Debentures may become redeemable in accordance with the Trust Deed
Debenture	Listed, Rated, Unsecured Subordinated Redeemable Five (05) Year Debentures (2013-2018) issued at an Issue Price of LKR 100.00 each
Debenture Holders	The holders of the Debentures in whose CDS account the Debentures are lodged as at the relevant date
Interest Payment Date	Fixed Interest rate of 13.00% per annum payable semi annually from the Date of allotment until the expiry of five years from the date of allotment on the principal sum of the debentures.(AER 13.42%).The semi-annual interest payments shall made on 30th June and 31st December each year from the date of allotment until redemption/ maturity. The final interest payments shall be made with the repayment of the Principal Sum on the Date of maturity/Redemption of the Debentures.
NTB/Company/Bank	Nations Trust Bank PLC
Issue	Issue of Debentures by NTB under this Prospectus dated 05th December 2013
Issue Price	Debenture Issue Price of LKR 100.00 per Debenture
Issuer	Nations Trust Bank PLC
Listing	Listing on the Colombo Stock Exchange by way of an Offer for Subscription. An Offer for Subscription is an invitation to the public by or on behalf of an entity to subscribe for its securities.
Prospectus	Prospectus published by NTB dated 05th December 2013 for the purpose of this Issue
Redemption	Repayment of the principal monies on these Debentures
Registered Address	When used in relation to a Debenture Holder means the address provided by the Debenture Holders to the CDS
Entitlement Date	Market Day immediately preceding the respective Interest Payment Date or Date of Redemption on which a Debenture Holder would need to be recorded as being a Debenture Holder on the list of Debenture Holders provided by the CDS to the Bank in order to qualify for the payment of any interest or any redemption proceeds.

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## *Glossary of Terms Related to the Issue*

Subordinate	The claims of the Debenture Holders shall in the event of winding up of NTB, rank after all the claims of the Secured and Unsecured creditors of NTB and any preferential claims under any statutes governing NTB but in priority to and over the claims and rights of the Shareholders of NTB
Tier II Capital	Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.
Trust Deed	Trust Deed executed between NTB and the Deutsche Bank AG, Colombo Branch on 28th November 2013.
Trustee	Deutsche Bank AG, Colombo Branch
Unsecured	Repayment of the principal and interest on these Debentures are not secured by any specific assets of NTB

# 1.0 Corporate Information

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Name of Company/Issuer	:	<b>Nations Trust Bank PLC</b>
Registered Office & Head Office	:	242, Union Place, Colombo 02
Date & Place of Incorporation	:	21st January, 1999, Colombo
Authority of Incorporation	:	Companies Act No 17 of 1982
Company No.	:	PQ 118
Secretary to the Company	:	<b>Mr Theja Silva</b> 242, Union Place Colombo 02
Auditors and Reporting Accountants	:	<b>Messrs. Ernst &amp; Young</b> Chartered Accountants 201, De Saram Place Colombo 10
Credit Rating Agency	:	<b>Fitch Ratings Lanka Ltd</b> No: 15-04, East Tower, World Trade Centre, Colombo 01 Tel: +94 11 2541900 Fax: +94 11 2501903
Legal Form	:	A Public Limited Liability Company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988. The Bank was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007.
Financial Year	:	1st January to 31st December

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## ***Relevant Parties to the Issue***

### **Managers/Arrangers to the Offering**

**Waldock Mackenzie Limited**  
242, Union Place,  
Colombo 02  
+94 114724866/+94 114719656

### **Registrars to the Offering**

**S S P Corporate Services (Private) Limited**  
No: 101, Inner Flower Road, Colombo 03.  
Tel : +94 11 2573894 +94 11 2576871  
Fax : + 94 11 2573609

### **Trustees to the Offering**

**Deutsche Bank AG**  
No: 90, Galle Road, Colombo 03.  
Tel: + 94 11 2447062  
Fax: +94 11 2447067

### **Bankers to the Offering**

**Nations Trust Bank PLC – Corporate Branch**  
242, Union Place, Colombo 02  
Tel: +94 11 4313201/3  
Fax: +94 11 4313202

### **Lawyers to the Offering**

**Nithya Partners**  
Attorneys-at-Law  
No: 97A, Galle Road, Colombo 03  
Tel: +94 11 4712625  
Fax: +94 11 2328817

### **Credit Rating Agency to the Offering**

**Fitch Ratings Lanka Ltd**  
No: 15-04, East Tower,  
World Trade Centre, Colombo 01  
Tel: +94 11 2541900  
Fax: +94 11 2501903

### **Auditors & Reporting Accountants to the offering**

**Ernst & Young**  
Chartered Accountants  
201, De Saram Place,  
P.O. Box 101,  
Colombo 10  
Tel: +94 112463500  
Fax: +94 112697369



## 2.0 Salient Features at a Glance and Parties to The Issue

Issuer	Nations Trust Bank PLC
Instrument	Rated, Unsecured Subordinated Redeemable Five (05) year Debentures 2013-2018
Listing	Main Board of the Colombo Stock Exchange
Face value of each Debenture	LKR 100.00
Issue Price	Debentures are issued at LKR 100.00 each
Issue Opening Date	12th December 2013 (However applications may be submitted forthwith)
Issue Closing Date	3rd January 2014 or such earlier date on which the initial Twenty Million (20,000,000) debentures are fully subscribed, unless otherwise the Bank decides to keep the issue open until further Ten Million (10,000,000) Debentures or part thereof as may be decided by the Bank are subscribed in terms of this prospectus. (refer Section 3.3 of the prospectus)
Amount to be Raised	Sri Lankan Rupees Two Thousand Million (SLR 2,000,000,000/-) with an option to increase the said sum by up to a further Sri Lanka Rupees One Thousand Million (SLR 1,000,000,000/-), at the discretion of the Bank in the event of an oversubscription of the initial issue.
Number of Debentures to be Issued	An initial issue of Twenty Million (20,000,000) Rated, Unsecured Subordinated Redeemable Debentures with an option to issue up to a further Ten Million (10,000,000) of the said Debentures, at the discretion of the Bank in the event of an oversubscription of the initial issue.
Rate of Interest (Yield)	Fixed Interest rate of 13.00% p.a. payable semi annually from the Date of Allotment until the expiry of Five (05) years from the Date of Allotment (giving an Effective Annualized Yield or AER of 13.42%).
Tenure of the Debentures	5 Years
Minimum Subscription	100 Debentures of LKR 100/- (LKR 10,000/-) each and thereafter in multiples of 100 Debentures of LKR 100/- each (LKR10,000/-)
Basis of Allotment	The basis of Allotment will be decided by the Board of Directors of NTB in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. No preferential allotment will be made by NTB with regard to any specific individual or entity. The allotments will be made in a fair manner.
Bank Rating	"A (Ika) " by Fitch Ratings Lanka Limited
Debenture Issue Rating	"A - (Ika) " by Fitch Ratings Lanka Limited
Mode of Payment (Principal & Interest)	By cheque marked "Account Payee Only" or through electronic fund transfer mechanism recognized by the banking system of Sri Lanka such as SLIPS and RTGS
Date of Payment Interest	The semi-annual interest payments shall be made on 30th June and 31st December each year from the date of allotment until redemption/maturity.
Date of Redemption	Interest payments will be made within (3) working days from the due date of interest. On completion of Five (05) years from the Date of Allotment of the Debentures or on such earlier date on which the debentures are redeemed or become payable in the terms of the Trust Deed.

## 3.0 Information Relating To The Issue

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### 3.1 Particulars of the Issue

The Board of Directors of Nations Trust Bank PLC by a resolution passed on 27th September 2013 resolved to borrow a sum of LKR Two Billion (LKR 2,000,000,000/-) with the option to raise further LKR One Billion (LKR 1,000,000,000/-) in the event of an oversubscription, from the public by the issue of Unsecured Subordinated Redeemable Five Year Debentures at an Issue Price of LKR 100/- per Debenture.

Under this Issue, Twenty Million (20,000,000) Unsecured Subordinated Redeemable Five Year Debentures will be issued at the Issue Price of LKR 100 each with a fixed interest rate of 13.00%, payable semi annually with option to raise further Ten Million (10,000,000) Debentures in the event of an oversubscription.

These Debentures will be listed on the main Board of the CSE.

### 3.2 Invitation to Subscribe

NTB hereby invites the Public to make applications for the subscription of Twenty Million (20,000,000) Unsecured Subordinated Redeemable Five Year (05 year) Debentures at an Issue Price of LKR 100 each payable in full as outlined in this Prospectus with the option to make applications up to Thirty Million (30,000,000) Debentures.

The Debentures more fully described below, which shall rank equal and Pari-passu with other Unsecured Subordinated Redeemable Debentures already in issue and differ only with respect to the year of redemption, interest rates and the frequency at which the interest is paid, without any preference of priority of one over the other.

The Debentures will carry a Fixed Interest Rate of 13.00% p.a. payable semi annually from the Date of Allotment until the expiry of Five (05) years from the Date of Allotment (Giving an effective annualized yield or AER of 13.42%) on the principal sum of the Debentures. The tenure of the Debenture will be Five (05) years.

The repayment of the principal and Interest on these Debentures are not secured by any specific assets of NTB. The rights of the Debenture Holders for receipt of the Principal Sum and any accrued interest on these Debentures in the event of winding up of NTB would be subordinated to the rights of the secured and the other unsecured creditors of NTB and any preferential claims under any statutes governing NTB. Therefore the claims of these Debenture Holders shall in the event of winding up of NTB, rank after all the claims of the secured and other unsecured creditors of NTB and any preferential claims under any statutes governing NTB but in priority to and over the claims and rights of the shareholders of NTB.

### 3.3 Subscription List

Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 12th December 2013 and shall remain opened for 14 Market Days until closure at 4.30 p.m. on 03rd January 2014.

In the event of an over-subscription on of the 20,000,000 Debentures, the subscription list will close at 4.30 p.m. on the same day on which it is fully subscribed, with the notification of CSE, by the board of NTB to keep the subscription list open until the subscription of a further 10,000,000 Debentures or part thereof as may be decided by NTB. In such event the subscription list will be closed at 4.30 p.m. on the day on which a further 10,000,000 Debentures or part thereof as may be decided by NTB have been subscribed, with the notification of CSE on 03rd January 2014. which ever is earlier.

Applications may be made forthwith. Duly completed applications in the manner set out under the Procedure for Application in Section 4 of this Prospectus will be accepted from 12th December 2013 by any NTB branch or any member/trading member firm of the CSE as set out in the collection points of Annexure C of this prospectus.

### 3.4 Objectives of the Issue

- To raise medium term funding to manage assets and liabilities gap exposure and associated risks of the bank
- The proceeds of the issue would be utilized for working capital purposes and to replace debentures matured in 2013. Accordingly, the funds raised through this Debenture Issue will be routed to supplement the balance sheet growth of the Bank.
- Provide investors a structure to meet their risk return and maturity needs while offering NTB medium term funds at attractive rate.
- To facilitate the admission of up to 30,000,000 Listed, Rated, Unsecured Subordinated Redeemable Five (05) Year Debentures issued at an Issue Price of LKR 100.00 each to the official list of the CSE.
- In addition, as the Bank currently has a leeway of over LKR 2.5 Billion in terms of utilizing Tier II funding, this Debenture Issue will enable the Bank to further strengthen its capital position.

### 3.5 Tenure of the Debentures

The tenure of the Debentures is Five (05) Years. The Date of Redemption will be Five years from the Date of Allotment of the Debentures.

### 3.6 Interest on the Debentures

Fixed Interest rate of 13.00% per annum payable semi-annually from the Date of allotment until the expiry of five years from the date of allotment on the principal sum of the debentures.(AER 13.42%).

The semi-annual interest payments shall made on 30th June and 31st December each year from the date of allotment until redemption/maturity in respect of each interest period. Interest payments will be made within three (3) working days from each Interest Payment Date.

Interest calculation shall be based upon the actual number of days in each interest payment period (actual/actual). Please refer the Trust Deed for detailed covenants

In order to accommodate the Debenture interest cycles in the Automated Trading Systems (ATS), interest payments shall not include the Debenture Holders holding debentures in the ATS as at the last day of the payment cycle( semi-annually), but one day prior to the due date of interest (entitlement date).If the entitlement date is a holiday, interest shall be calculated including the entitlement date.

### 3.7 Payment of the Principal and Interest

#### 3.7.1 Principle and Interest

The Bank will redeem the Debentures on the respective Date of Redemption as specified in Section 3.7.3 and the interest payments will be made as specified in Section 3.6

The payment of Principal Sum and interest will be made either by cheque/s marked "Account Payee Only" dispatched to the address provided by the Debenture Holders to the CDS at the risk of the Debenture Holders or through electronic fund transfer mechanism recognised by the banking system of Sri

## 3.0 **Information Relating To The Issue**

### **3.7 Payment of the Principal and Interest Contd.**

#### **3.7.1 Principle and Interest Contd.**

Lanka such as SLIPS and RTGS to a bank account provided to the CDS by the Applicant.

However, in the event such payment is over the maximum amount that can be accommodated through electronic fund transfer mechanism recognised by the banking system of Sri Lanka or if the Debenture Holder has not provided to the CDS accurate and correct details of his/her bank account for the payment of Principal Sum and interest, such payment to the Debenture Holder will be made by way of a cheque and sent by post at the risk of the Debenture Holder.

The payment of Principal Sum and interest will be made in Sri Lanka Rupees in favour of the Debenture Holders as of the Entitlement Date. In the case of joint Debenture Holders, the payment of Principal Sum and interest will be made to the one whose name stands first in the register of Debenture Holders.

#### **3.7.2 Taxes with Regard to Interest Payment on Listed Debentures**

As per the present tax legislation, interest income on debentures listed after 01st January 2013 is exempted from Income Tax (including Withholding Tax). However, any statutory taxes and dues that may be brought in subsequently will be deducted.

#### **3.7.3 Redemption**

These Debentures are redeemable at the maturity on the expiry of Five (05) years from the Date of Allotment in accordance with the provisions contained in the Trust Deed.

These Debentures will not be redeemed by NTB prior to maturity for any reason whatsoever, except due to unforeseen circumstances beyond the control of the Bank. Repayment before maturity of the Principal Sum on

a Debenture in any circumstance shall be subject to the prior written approval of the Director Bank Supervision of the Central Bank of Sri Lanka and the approval of 3/4th of the Debenture Holder's in nominal value of the Debentures outstanding when the Principal Sum is repaid before maturity.

The Debenture Holders shall not have any right or option to call for redemption of the Debentures before the date of maturity of such Debentures, except the circumstances where the Debentures have become immediately payable in terms of the Clause 10 of the Trust Deed.

On the date of maturity/redemption of the Debentures, the Company shall in accordance with the provisions contained in the Trust Deed pay to the Debenture holders the principal sum of the Debentures which ought to be redeemed and interest (if any) payable on the maturity/redemption of the Debentures will be paid within three (3) working days from the date of redemption.

If the date of maturity / redemption falls on a non-working day on which the banks are closed for business in Sri Lanka, then the Date of Redemption shall be the immediately succeeding Working Day and interest will be payable up to the date immediately preceding such date.

The Directors are of the opinion that Nations Trust Bank PLC will have the ability to pay the Interest and the Principal Sum on the maximum of Thirty Million (30,000,000) Debentures that will be issued by way of this Prospectus on due dates.

### **3.8 Rating of the Debentures**

Nations Trust Bank PLC has been assigned a A (Ika) rating by Fitch Ratings Lanka Limited, as per the rating report dated 31st October 2013. The Debentures issued by this Prospectus has been assigned a A-(Ika) rating by Fitch Ratings Lanka Limited. The rating report issued by Fitch is set out in Annexure B of this prospectus.

### 3.9 Trustee to the Debenture Issue

Deutsche Bank AG, Colombo Branch has agreed in writing to act as the Trustee to the Debenture Issue and has issued a consent letter to this effect. The Bank and the Trustee have executed a Trust Deed. The Trustee, subject to any overriding clauses in the Trust Deed will act as the agent of the Debenture Holders in entering into such deeds, writings and instruments with the Bank and to act as the Trustee for the benefit of the interest of the Debenture Holders on the terms and conditions contained in the said Trust Deed.

The rights and obligations of the Trustee are set out in the Trust Deed, a copy of which is available for inspection as mentioned in Section 10.1 of this Prospectus. The Debentures shall be subject to the terms and conditions and confer such rights as are incorporated in the said Trust deed.

The fee payable to the Trustees will be LKR 300,000/- per annum

### 3.10 Rights of the Debenture Holders

#### a) Debenture Holders are entitled to the following:

- Receiving the Principal Sum at maturity and interest on the Debentures as per Section 3.6 and 3.7 of this Prospectus and provisions contained in the Trust Deed.
- Ranking above the Shareholders of NTB in the event of liquidation.
- Calling and attending meetings of the Debenture Holders as set out in the Trust Deed.
- In accordance with the Listing Rules of the CSE, receiving audited financial statements of the Company within a period not exceeding Five (05) months from the close of each financial year. The

Audited accounts will be sent in CD form, unless a specific request for a hard copy is received by the Company.

The other rights of the holders of these Debentures are set out in the Trust Deed.

#### b) Debenture Holders are not entitled to the following:

- Attending the meetings of the holders of the other debentures issued by NTB.
- Sharing in the profits of the Bank.
- Participating in any surplus in the event of liquidation.
- The Debenture Holders will not be entitled to any of the rights and privileges available to the Shareholders of the Bank including the right to receive notices of Annual Meeting, General Meetings or attend and vote at the Annual General Meeting of the Bank.

In the event of liquidation or winding up, the claims of the Debenture Holders will rank after all claims of the secured and unsecured creditors of NTB and the preferential claims under the Section 365 of the Companies Act No. 07 of 2007 but in priority to and over the claims and rights of the Shareholders of NTB.

### 3.11 Risk Factors Specifically Associated with the Debentures

Subscribers to the Debentures will be exposed to the following risks:

(It is vital to note however that these risks are not unique to debentures issued by NTB and apply generally to any unsecured fixed income securities, fixed deposit or any other term or money deposit)

## 3.0 Information Relating To The Issue

### 3.11 Risk Factors Specifically Associated with the Debentures Contd.

#### (i) Interest Rate Risk

The price of a typical debenture will change in the opposite direction to a change in the market interest rates assuming all other factors are equal. "Market Interest Rate" refers to interest rate expected by the investors for investments with similar maturity and risk profile. As market interest rates rise, price of the debenture may fall and as market interest rates fall, the price of the debenture may rise. However interest rate risk is of importance only if an investor sells the Debenture prior to maturity. If an investor sells a Debenture prior to maturity when market interest rate is higher than on these Debenture interest rates, the investor may incur a capital loss. Similarly, if an investor sells a debenture prior to maturity when market interest rate is lower than on the debenture interest rate, then the investor may receive a capital gain. This risk of potential capital losses due to future increases in the interest rates is known as the interest rate risk.

#### (ii) Reinvestment Risk

NTB shall pay interest on the Debentures semi annually. The investor may decide to reinvest this interest payment and earn interest on interest. Depending on the prevailing market interest rates, the Debenture Holder may be able to reinvest the paid interest at a higher or lower interest rate than that is offered by these Debentures. This uncertainty that, the interest rate at which the interest payments of the Debenture can be reinvested will fall is known as "reinvestment risk".

#### (iii) Default Risk

Default risk also known as credit risk refers to the risk that the Issuer of a Debenture may default, i.e. the Issuer will be unable to pay interest and principal payments when due. It is advisable for prospective NTB Debenture

investors to take into account past earnings and asset growth performance of NTB, present financial strengths as reflected in the Balance Sheet of NTB, the rating awarded to the Company and its Debentures by Fitch, its risk management policies and the experience of the Directors and Senior Management when forming an opinion on Default Risk.

#### (iv) Liquidity Risk

Liquidity risk depends on the ease with which debentures can be sold after the initial placement. As the Debentures will be listed on the CSE, investors will be able to trade the instrument in the secondary market and convert to cash mitigating liquidity risk. However transaction price or bid-ask spread will be dependent upon the marketability, demand, supply and other macro factors such as market interest rates.

#### (v) Call Risk

Call risk refers to the risk that the issuer will retire all or a part of the principal value of the debentures before maturity. The risk to investor is in that, the timing of the call is not known and the investor will be faced with a reinvestment risk in the event the call is made at a time when the market interest rates have declined. NTB Debentures do not have a call risk except in the circumstances stated below.

These Debentures shall not be redeemed by the Company prior to maturity other than in the Circumstance specified in Clause 10.1 and Clause 4.2 of the Trust Deed. If any voluntary redemption is to be done before maturity, it will be done subject to the prior written approval from the CBSL and the prior approval of the Debenture Holders of three fourth (3/4th) of the face value of Debentures outstanding at that time as set out under Clause 4.2 of the Trust Deed.

#### (vi) Inflation Risk

The possibility of a decline in the real value of cash flows of a Debenture, due to increase in inflation is referred to as inflation risk. Since the coupon rate of a fixed rate Debenture is not adjusted upwards in line with the inflation, Debentures carry an inflation risk. The interest rate of a floating rate Debenture is periodically adjusted on the basis of a selected benchmark interest rate and to the extent the benchmark rate properly reflects inflation, floating rate debentures have less inflation risk.

#### (vii) Duration Risk

Duration risk is a measure of the price sensitivity of fixed income investments to change in interest rates. Calculation is based on the price sensitivity of a fixed income security to a prevailing market interest rate change of 100 basis points. Duration is expressed as a number of years to repay the price from the different cash flows incurred during the period of debenture to its maturity. The duration indicator addresses the risk of interest rate fluctuations. The higher the duration, the greater the price volatility or duration risk, while the lower duration carries a lower risk.

### 3.12 Benefits of Investing in the Debentures

- An attractive interest income for a period of Five (05) years. As per the current Tax legislation of Sri Lanka, interest income earned on Debentures listed after 1 January 2013 are exempted from Withholding Tax(WHT) and Income Tax.
- Provide an opportunity to earn regular cash flow of interest payments semi-annually up to a fixed period of five years.
- Opportunity to realize capital gain according to interest rate fluctuations in the financial markets. Capacity to exit from the investment at any time, after the Debentures are listed on the CSE.

- Listed Debentures provide the investor with an exit option.
- Can be used as collateral to obtain credit facilities from banks and financial institution other than NTB (regulations precludes Banks to provide accommodations against the security of its own shares and debentures).

### 3.13 Transfer of the Debentures

- a) These Debentures shall be freely transferable and transmittable as long as the Debentures are listed in the CSE and registration of such transfer shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.
- b) The Debentures shall be transferable and transmittable as long as the Debentures are listed in the CSE. Subject to the provisions contained herein the Issuer may register, any transfer of debentures, without assuming any liability, which are in accordance with the statutory requirements and rules and regulations in force for the time being as laid down by the CSE, SEC and the CDS.
- c) In the case of death of a Debenture Holder
  - \* The survivor where the deceased was a joint holder; and
  - \* The executors or administrators of the deceased or where the administration of the estate of the deceased is in law not compulsory the heirs of the deceased where such Debenture holder was the sole or only surviving holder; shall be the only persons recognized by the Issuer as having any title to his/her Debentures.

## 3.0 **Information Relating To The Issue**

### 3.13 Transfer of the Debentures Contd.

- d) Any person becoming entitled to any Debenture in consequence of bankruptcy or winding up of any Debenture Holder, upon producing proper evidence that he/she sustains the character in respect of which he/she proposes to act or his/her title as the Board of Directors of the Issuer thinks sufficient may in the discretion of the Board be substituted and accordingly registered as a Debenture Holder in respect of such Debentures subject to the applicable laws rules and regulations of the Issuer, CDS, CSE and SEC.
- e) No change of ownership in contravention to these conditions will be recognized by the Issuer.

### 3.14 Listing

An application has been made to the CSE for permission to deal in and obtain a listing on the Main Board for these Debentures set out in this Prospectus. However the CSE assumes no responsibility for the correctness of the statements made or opinions expressed or reports included in this Prospectus. Admission to the official list is not to be taken as an indication of the merits of NTB or of the Debentures issued.

The Debenture issue under this Prospectus has been approved in-principle by the CSE.



## 4.0 Procedure for Application

### 4.1 Prospectus and Application Form

Copies of the Prospectus and the Application may be obtained free of charge from the NTB Bank branches, Member Firms and Trading Members listed in Annexure C. The Prospectus and Application Form may be downloaded from the website of the Colombo Stock Exchange and Nations Trust Bank PLC ([www.cse.lk](http://www.cse.lk) and [www.nationstrust.com](http://www.nationstrust.com)).

### 4.2 Who May Apply

Applications are invited for the subscription of the Debentures from the following categories of applicants who maintain a valid CDS account at the time of the closure of the subscription list as per the directive of the SEC.

- a) Citizens of Sri Lanka who are resident in Sri Lanka and above 18 years of age.
- b) Companies, Corporations or Institutions incorporated or established within Sri Lanka and who are authorized to invest in Debentures.
- c) Approved Provident Funds, Trust Funds and Approved Contributory Pension Schemes registered/incorporated/established in Sri Lanka and who are authorized to invest in Debentures.(Applications by these bodies must be in the name of the trustee/board of management thereof.)
- d) Regional and country funds approved by SEC and authorized to invest in Debentures.
- e) Foreign Institutional investors, Corporate bodies incorporated outside Sri Lanka, foreign citizens and Sri Lankan residents outside Sri Lanka and above eighteen (18) years of age.

Individuals under the age of eighteen (18) or sole proprietorships, unincorporated trusts or non-corporate bodies will not be eligible to apply for Debentures.

“Individuals resident outside Sri Lanka” will have the same meaning as in the notice published under Exchange Control Act Gazeete No. 15007 dated 21st April 1972.

The Company will comply with Exchange Control Act and all regulations published thereunder including those contained in Government Gazette Extraordinary No 1681/11 dated 22nd November, 2010 and Government Gazette Extraordinary No 1733/19 dated 22nd November 2011 when issue Debentures to Non-Residents.

### 4.3 How to Apply

- a) Applications should be made on the Application Forms, issued with the Prospectus. Application Forms could be downloaded from the Bank’s website, [www.nationstrust.com](http://www.nationstrust.com) and the CSE website, [www.cse.lk](http://www.cse.lk) (exact size photocopies of the Application Forms too would be accepted). Care must be taken to follow the instructions given in the Application Form. Applicants using photocopies are requested to inspect the Prospectus, which is available for inspection as stated under Section 4.1 above.

**Applications that do not strictly conform to such instructions and / or the terms and conditions setout in this Prospectus or which are incomplete or illegible may be rejected.**

- b) Applications should be made for a minimum subscription value of Sri Lanka Rupees Ten Thousand (LKR 10,000) of Hundred (100) Debentures. Applications exceeding 100 Debentures should be in multiples of 100 Debentures (LKR 10,000). Applications for less than 100 Debentures or for a number, which is not in multiples of 100 Debentures, will be rejected.
- c) Multiple applications will not be entertained. The Issuer reserves the right to reject all multiple applications or suspected multiple applications.

## 4.0

### **Procedure for Application**

#### 4.3 How to Apply Contd.

- d) Joint Applications may be made. However, an applicant of a joint application will not be eligible to send a separate application individually or jointly with another party. Only one Application should be made for the benefit of any person or corporate body. The interest and capital payments/repayments (if any) and refunds will be remitted in favour of the principal applicant as given in the Application Form.

Joint Applicants should note that all parties should either be residents of Sri Lanka or Non- Residents.

- e) In the case of corporate applicants, the common seal of the company should be affixed and attested if required by the articles of association or such other constitutional documents of such applicants or as per status governing them. In the case of approved Provident Funds, Trust Funds and approved Contributory Pension schemes, the applications should be in the name of the Trustees/Board of management.
- f) A Sri Lankan citizen must state his/her National Identity Card (NIC) number on the Debenture Application Form. The passport number can be given only when the NIC number is not available. In the case of a corporate entity, the company registration number must be given. A foreign citizen must state his/her passport number in the space provided.
- g) In the case of the applications made under Powers of Attorney (POA) a copy of such POA certified by a Notary Public as "True Copy" should be attached with the Application Form. Original POA should not be attached.
- h) Applicants who wish to apply through their Margin Trading Account should submit the application in the name of the "Margin Provider / Applicants Name" signed by the margin provider, requesting a direct upload of the debentures to the Applicants Margin Trading account in the CDS. A copy of the margin Trading Agreement should be attached with the Application Form. Please

note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications.

The applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form. The Debentures shall be uploaded to the CDS account indicated in the Application Form. The NIC, passport or company registration number of the applicant as the case may be, must be stated in the Application Form.

Application Forms stating third party CDS accounts instead of their own CDS account numbers, except in the case of margin trading accounts will be rejected.

Care must be taken to follow instructions on the reverse of the Application Form. Applications that do not strictly conform to such instruction and additional conditions set out here under or which are illegible may be rejected.

- i) Foreign investors and non-resident investors may be affected by the laws of the jurisdiction of their residence. It is the responsibility of such investors to comply with the laws relevant to their country of residence and the laws of Sri Lanka, when making an application for subscription of the Debentures.
- j) As per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited dated November 30, 2010, all securities allotted must be directly uploaded to the CDS accounts. As such, all Applicants should indicate their CDS account number in the Application Form. Applicants who do not have a CDS account are advised to open a valid CDS account prior to submitting the Application, in order to facilitate the uploading of allotted Debentures to their CDS account.

**ALL APPLICANTS SHOULD INDICATE THEIR CDS ACCOUNT NUMBER IN THE SPACE PROVIDED ON THE APPLICATION FORM**

Please note that upon the allotment of the Debentures under this Issue, the allotted Debentures would be credited to the Applicant's CDS account so indicated. PLEASE NOTE THAT DEBENTURE CERTIFICATES SHALL NOT BE ISSUED.

Any application which does not carry a valid CDS account number or indicates a number of a CDS account which is not opened at the time of the closure of the subscription list or which indicates an inaccurate/incorrect CDS account number, will be rejected and no allotment will be made.

You can open a CDS account through any member/trading member of the CSE as set out in Annexure C or through any Custodian Banks as set out in Annexure C of this Prospectus.

It should be noted that in the event the Applicant's CDS account number is correctly stated in the application form, all correspondence with such applicant will be sent to the address given to the CDS by such applicant.

Further in the event the name or the address of the Applicant mentioned in the application form differ from the name address given to the CDS by such Applicant in respect of the CDS account mentioned in the application form, the name and the address given to the CDS by such applicant in respect of the CDS account mentioned in the application form will be considered as the name and the address of such applicant.

Therefore the applicants shall ensure that their name and the address mentioned in the application form tally with the name and the address given to the CDS in respect of the CDS Account mentioned in the application form.

- k) Application Forms properly filled in accordance with the instructions thereof together with the remittance (cheque, bank draft, bank guarantee or RTGS transfer as the case may be) for the full amount payable on application should be enclosed in an envelope marked "NTB DEBENTURE ISSUE 2013" on the top left hand corner in capital letters and dispatched by post or delivered by hand to the Registrars to the Issue at the following address:

**SSP Corporate Services (Pvt) Limited**

No. 101, Inner Flower Road, Colombo 3

Tel : +94(011) 2573894

Fax : +94 (011) 2573609

or to any Member/Trading Member firm of the CSE set out in Annexure C or to any NTB Branch as set out in Annexure C.

Persons who are not certain of the method of remittance should consult the Registrar/ Manager to the Issue or the respective Bankers or Investment Advisor.

Applications sent by post or delivered to any places mentioned above should reach the office of the Registrars to the Issue at least by 4.30 p.m. on the following Working Day upon closure of the subscription list. Applications received after the said period will be rejected even through they have been delivered to any of the collection points prior to the closing date or carry a post mark dated prior to the closing date.

## 4.0

### Procedure for Application

#### 4.4 Mode of Payment

- a) Payment in full for the total value of Debentures applied for should be made separately in respect of each Application either by cheque/ s, bank draft/ s, bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer directed through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to (b) below. Remittances on applications will be deposited in a separate bank account in the name of the “Nations Trust Bank PLC – Debenture Issue 2013”
- b) Payments for Applications for values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either a;
  - i) Bank guarantee issued by a licensed commercial bank; or
  - ii) Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-; or
  - iii) RTGS transfer with value on the Issue opening date.

**Payments for applications for Debentures of a value below Rupees One Hundred Million (LKR 100,000,000) could be supported by a cheque or bank draft only.**

- c) Cheques or bank drafts should be made payable to “Nations Trust Bank PLC – Debenture Issue 2013” and crossed If Account Payee Only”, and must be honoured on the first presentation.
- d) Application forms accompanied by cash will not be accepted. Applicants who wish to pay in cash can obtain a bank draft from any licensed commercial bank in Sri Lanka. Payments in any other form other than as mentioned above will not be accepted.

- e) The amount payable should be calculated by multiplying the number of Debentures applied for by the Issue Price of LKR 100 per Debenture. If there is a discrepancy in the amount payable and the amount specified in the cheque/bankdraft,bank guarantee, the application will be rejected.
- f) Cheques or bank drafts should be drawn upon any Commercial Bank in Sri Lanka and crossed“Account Payee Only” and made payable to “Nations Trust Bank PLC - Debenture Issue 2013”. Bank Guarantees should be issued in a manner acceptable to NTB by a Commercial Bank in Sri Lanka and payable on demand to “Nations Trust Bank PLC - Debenture Issue 2013”

Applicants are advised to ensure that sufficient funds are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Issue. Please note that bank guarantees should be valid for a minimum of One (01) month from the date of opening the Issue. It is advisable that the applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses inclusive of charges relating to Bank Guarantees should be borne by the applicants.

- g) In case of RTGS transfers (only for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-),such transfers should be made to the credit of “Nations Trust Bank PLC - Debenture Issue 2013” bearing the account number 0061 0002 1840 at Nations Trust Bank PLC with value on the Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date).

The Applicant should obtain a confirmation from the Applicant's bank, to the effect that arrangements have been made to transfer payment in full for the total value of Debentures applied for to the credit of "Nations Trust Bank PLC - Debenture Issue 2013" bearing the account number 0061 0002 1840 at Nations Trust Bank PLC with value on Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date) and should be attached with the Application Form.

For RTGS transfers above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-), the Applicants are entitled to an interest at the rate of Seven decimal zero per centum (7.00%) per annum from the date of such transfers up to the Date of Allotment. However, no interest will be paid if the RTGS transfers are not realised before the end of the Closure Date. Furthermore, even if such RTGS transfers are effected prior to the issue opening date, no interest will be paid for the period prior to the Issue opening date.

- h) All cheques/bank drafts/bank guarantees received in respect of the applications will be banked immediately after the closure of the Subscription List. Payments in any form other than as mentioned above will not be accepted.
- i) In the event that cheques are not realised prior to the date of deciding the basis of allotment, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid.
- j) Applications should not be mailed or hand delivered to any other address. Persons who are not certain of the method of remittance should consult the Registrars to the Issue.

#### 4.5 Foreign Currency Remittance

The under mention requirements are in order to comply with the Exchange Control act and regulations published there under.

This section is applicable to Citizens of Sri Lanka above eighteen (18) years of age, who are resident overseas, Foreign Institutional Investors and Corporate bodies incorporated or established outside Sri Lanka and Foreign Citizens above eighteen (18) years of age (irrespective of whether they are resident of Sri Lanka or overseas), who wish to apply for the Debentures.

Applications in respect of such Applicants should be made in conformity with the requisite declarations accompanied by the documentation stipulated by the Controller of Exchange of Sri Lanka.

Payment for the subscription of the Debentures by Foreign Investors and non-resident Sri Lankan citizens should be made only out of funds received as inward remittances or available to the credit of "Securities Investment Account" (SIA) maintained with any licensed Commercial Banks in Sri Lanka in accordance with directions issued by the Controller of Exchange.

**Such applications must be accompanied with a letter from the respective Commercial Bank confirming that the Cheque / Bank Draft / Bank Guarantee/RTGS is issued out of funds from a SIA account.**

#### 4.6 Rejection of Applications and Delayed Applications

- a) Application Forms and the accompanying remittances made (Cheque / Bank Draft / Bank Guarantee/RTGS transfer) which are illegible or incomplete in any way and / or are not in accordance with the terms, conditions and instructions set out in this Prospectus will be rejected at the sole discretion of the Bank.

## 4.0

### **Procedure for Application**

#### **4.6 Rejection of Applications and Delayed Applications Contd.**

- b) Applications from individuals under the age of eighteen (18) years or in the names of Sole Proprietorships, Partnerships or Unincorporated Trusts will also be rejected.
- c) An Applicant of a Joint Application will not be eligible to submit another application either individually or jointly. Only one Application should be made by any person or entity. Multiple Applications will be rejected.
- d) Applications which do not carry a valid CDS account number at the time of the closure of the subscription list or which indicate an incorrect / inaccurate CDS account number shall be rejected, and no allotment will be made. Application Forms stating third party CDS account numbers, instead of their own CDS account numbers, except in the case of Margin Trading Accounts, will also be rejected.
- e) Any Application Form which does not state the NIC, Passport or Company Registration number, as the case may be, will be rejected.
- f) In the event that cheques are not realized prior to the date of deciding the basis of allotment and realized after such date, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honored on first presentation for the Application to be valid. In the event cheques are dishonored / returned on first presentation, the Application will be rejected.
- g) Applications delivered by hand to the Registrars to the Issue, or to any place / institution discussed in Section 4.3 and Annexure C (Collection Points) after the subscription list is closed will be rejected.
- h) Applications sent by post by 4.30 p.m. on the following day to any place / institution discussed in Section 4.3 and Annexure C (Collection Points) should also reach the office of the Registrars to the issue at least on the following day immediately upon the closure of the Subscription List. Applications received after the said duration will be rejected even though they have been delivered to any of the Collection Points prior to the closing date or carry a post mark dated prior to the closing date.

#### **4.7 Basis of Allotment**

The basis of Allotment will be decided by the Board of Directors of NTB in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. No preferential allotment will be made by NTB with regard to any specific individual or entity. The allotments will be made in a fair manner. Upon the allotments being decided, an announcement will be made to the CSE

The Board of Directors of NTB reserves the right to refuse any Application or to accept any Application or part only, without assigning any reason therefore.

The successful applicants will be informed of the allotment within Ten (10) Market Days from the closure of the Subscription List.

#### **4.8 Unsuccessful Applications and Refund Payments**

Monies will be refunded where;

- an Application is rejected for reasons given in Section 4.6 of this Prospectus; or
- the Application is accepted only in part

The Applicants may indicate the preferred mode of refund payments in the Application Form (i.e. direct transfer via SLIPS or cheque)

If the Applicant has provided accurate and complete details of his/her bank account in the Application, the Bankers to the Issue will make refund payments upto and inclusive of Rupees Five Million (LKR 5,000,000/-) to the bank account specified by the Applicant, through SLIPS and a payment advice will be sent.

In the case of joint Application, the cheques will be drawn in favour of the Applicant's name appearing first in the Application Form.

Refunds on Applications rejected or partly allotted Debentures would be made within ten (10) Market Days excluding the Closure Date. Applicants would be entitled to receive interest at the rate of the last quoted Average Weighted Prime Lending Rate (AWPLR) published in the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in the event that the Central

Bank of Sri Lanka ceases to publish the AWPLR) plus five per centum (5.00%) for the delayed period on any refunds not made within this period.

#### **4.9 Direct Lodgment with CDS**

- a) The Bank shall credit the CDS account with the Debentures allotted within a period of eighteen (18) Market Days from the date of closure of the Issue. A written confirmation in this regard will be sent to the Applicant within two (2) Market days of crediting the CDS account, by ordinary post to the registered address of such applicant.
- b) In terms of the CSE Listing Rules, the Issuer shall submit to the CSE a declaration as set out in the Listing Rules on the Market Day immediately following the day on which the Investors CDS accounts are credited with the Debentures. The Debentures shall be listed on or before the third (3rd) Market Day upon receipt of the declaration by the CSE.

## 5.0 Overview of Nations Trust Bank Plc

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### 5.1 Overview

Nations Trust Bank came into being in 1999 when John Keells joined hands with Central Finance and the International Finance Corporation (IFC) to purchase the Sri Lankan operation of the Hong Kong based Overseas Trust Bank.

NTB PLC is a licensed Commercial Bank established under the banking Act No. 30 of 1988 and a quoted public limited liability company. The registered office of the company is located at no 242 Union Place, Colombo 02. The company has a market capitalization of Rs. 14,297,651,546 /- as at 31st October 2013.

NTB PLC has a network base of 70 branches and 39 leasing centers. Further it has 90 ATMs. NTB PLC is considered to be one of the most customer-centric financial institutions in the local market.

A strategy of aggressive but selective acquisitions has been pursued since 1999. In 2002 the bank acquired Waldock Mackenzie Ltd, the investment arm of John Keells. Bank also began association with American Express in 2003 when bank signed up as the exclusive franchisee to issue and acquire American Express cards in Sri Lanka. In 2006 bank merged with Mercantile Leasing, a long established specialized leasing company.

The core business of NTB includes Retail and SME Banking, Corporate Banking, Consumer Finance, Leasing, Credit Cards and Treasury. These business pillars are supported by an integrated platform combining of support and corporate services divisions with a single focused approach of providing unparalleled and unprecedented levels of convenience to customers.

Fitch Rating has affirmed the Bank National Long Term rating of "A"(lka) with a stable outlook. The agency has simultaneously affirmed NTB's outstanding LKR 2Bn and proposed LKR 3Bn subordinated Debentures at "A-"(lka)

The Board of Directors comprises of 12 members and it is lead by the Chairman Mr. A. K. Gunaratne who was appointed as Chairman of the Board on 1st November 2012.

#### VISION

Making life simple by being the benchmark of convenience.

#### MISSION

Be innovative in continuously developing customer centric solutions. Unleash the talent of our team to be the best in the industry. Consistently grow market share and the most profitable and respectable Sri Lankan bank by 2015

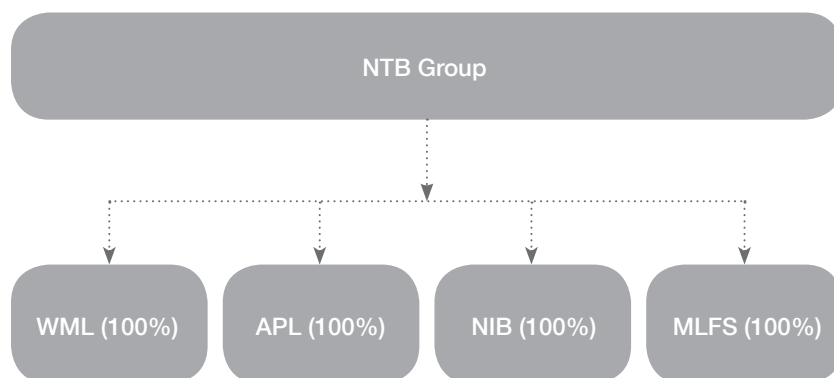
### 5.2 Details of the Group Structure

#### Key Subsidiary Companies

The principal activities of the Bank's subsidiaries namely Waldock Mackenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited, Mercantile Leasing(Financial Services) Limited are carrying out operations as a Margin Provider, property rental, insurance broking and managing and operating a lease portfolio respectively.



## Group Structure



**WML** – Waldock Mackenzie Ltd – Margin Trading & Investment Banking

**APL** – Allied Property Ltd – Renting of Commercial Property

**NIB** – Nations Insurance Brokers Ltd - Insurance Broking activities

**MLFS** – Mercantile Leasing (Financial Services) Ltd – Managing an Operating Lease Portfolio

### 5.3 Major Shareholders as at 31st October 2013

Shareholder	No of Shares	% of Issued Capital
John Keells Holdings PLC	46,121,536.00	20.00%
DFCC Bank A/C 1	22,865,356.00	9.92%
Mackinnons Keells Limited.	22,830,159.00	9.90%
Central Finance Company Plc A/C No 03	20,715,400.00	8.98%
HWIC Asia Fund	19,048,765.00	8.26%
CF Growth Fund Ltd A/C No.01	14,813,273.00	6.42%
CF Insurance Brokers (Pvt) Ltd	10,592,857.00	4.59%
HSBC Intl Nom Ltd-Ssbt-National Westminster Bank Plc as Depository Of First State Indian Subcontinent	3,497,452.00	1.52%
Employees Trust Fund Board	3,153,850.00	1.37%
HSBC Intl Nom Ltd-JPMCB-Pacific Assets Trust PLC	3,101,851.00	1.35%

## 5.0 Overview of Nations Trust Bank Plc

### 5.4 Principal Activities

Principle Activities					
Retail & SME Banking	Card & Consumer Assets	Leasing	Corporate & Wholesale	Treasury	
* Deposit Mobilisation	* Credit Cards	* Finance Leasing	* Corporate Banking	* FX Dealing	
* Branch Banking	* Personal and Home Loans	* Hire Purchase	* Wholesale Banking	* Margin Trading	
* Retail and SME Lending		* Insurance Brokering	* Transactional Banking	* Investment Banking	
* Alternate Channels			* Project Financing	* Dealing in Government Securities & Corporate Debt	
* Pawning			* Institutional Banking		
* Strategic Alliance for insurance Products			* Factoring		
* Remittance					

### 5.5 Future Outlook/Plans and Assumptions

#### 5.5.1 Future Outlook/Plans

The strategic roadmap for NTB is aligned to the medium term growth prospects of the country. Strategies are designed to realise specific goals in gaining market share and maximising shareholder value in each of the core businesses while remaining firmly entrenched in our Bank's core values. NTB will continue to review and reconfigure the operational structures where needed with the objectives of enhancing customer value and increased productivity. NTB will branch out to key geographies and emerging markets with the roll out of its delivery

network. Brick and mortar branches will be supported by opening off site ATMs to increase visibility and maximize on network effect. The branch model would also be re conceptualised to be identified as the critical distribution channel for the Bank's entire product line. The SME sector is expected to be a catalyst of growth for the bank. The Banks business model for the SME sector would evolve to provide a range of products and services seeking to empower the customer with resources that will facilitate sustainable long term development. Corporate banking business would make inroads into a broader spectrum of the export sector companies. The Bank

also expects to develop a mature trade finance portfolio while simultaneously promoting the NTB as the unrivaled choice for end-to-end trade financing and payment solutions.

#### 5.5.2 Assumptions in Relation to the Future Plans

GDP growth is expected to be 7.5% or above and the inflation rate is projected to remain at mid single digit. Interest rates have gradually declined over past 2 years and expected to stabilize at the current level or at slightly lower level. The exchange rate which underwent a moderate depreciation may stabilize around LKR 130.00 per US dollar at the year end. Growth in the service sector is expected to be exponential with rapid infrastructure development projects and the export market in the country is expected to develop with robust economic policies.

#### 5.6. Risks Associated with the Future Outlook/Plans

The Bank has demonstrated resilience amidst several economic cycles recording sustainable profits; however, adverse economic conditions, political instability, unexpected external shocks and natural disasters could have a negative impact on these future strategies.

Risk management functions across the bank will be strengthened during the planning period to manage credit, market, liquidity and operational risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Risks and control limits have been addressed in the business strategies that have been developed for the planning

period. Specifically the development of risk management tools covering the SME Sector and strengthening the related credit risk management expertise has been factored. The Bank views pricing for risk as fundamental to credit risk management which has been incorporated to ensure the Risk Adjusted Returns on Capital emanating from different portfolios and business units give the desired levels of returns during the planning period.

#### 5.7 Degree of Dependence on Key Customers and Suppliers

NTB is neither significantly dependent on any key suppliers and/ or customers nor is over exposed to any particular customer or a supplier. The nature of the business is such it is the normal course of business for the company to have a wide base of customers and suppliers.

#### 5.8 Employees and Labour Union Details

The permanent employee's details as at 31st October 2013 are as follows;

Total no of Employees	2,243
Total no of Managerial Staff	282

There are no labour unions at NTB, and hence the Bank does not have any labour union agreements.

# 6.0 Financial Information

## 6.1 Auditors Report for inclusion in the Prospectus



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eys@lk.ey.com  
ey.com

SPF/DTD/INP/JJ

14 November 2013  
The Board of Directors  
Nations Trust Bank PLC  
No. 242, Union Place  
Colombo 02

### ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF NATIONS TRUST BANK PLC

Dear Sirs

#### Introduction

This report has been prepared for the inclusion in the Prospectus issued in connection with the issuance of 20,000,000 Listed, "A"-rated, Unsecured, Subordinated, Redeemable, Five Year Debentures 2013/2018 and in the event of an oversubscription a further amount of Debentures to be issued not exceeding further 10,000,000, totaling up to a maximum of 30,000,000 at a par value of Rs.100/-.

We have examined the financial statements of Nations Trust Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries ("Group") for the years ended 31 December 2008 to 31 December 2012, included in the prospectus and report as follows.

#### 1. Incorporation

The Bank was incorporated in Sri Lanka on 21 January 1999 as a public limited liability company under the Companies Act NO.7 of 2007 and domiciled in Sri Lanka. The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The Registered Office of the Bank is located at No. 242, Union Place, Colombo 02. The principal activities of the Bank involve providing financial services encompassing personal, commercial, investment and private banking, trade services, leasing, factoring, pawning, treasury and capital market services.

#### 2. Financial Information

##### 2.1 Five Year Summary of Audited Financial Statements

A summary of Statements of Comprehensive Income/ Income Statements, Statements of Financial Position/ Balance Sheets, Statements of Changes in Equity and Cash Flow Statements of Nations Trust Bank PLC and its subsidiaries for the financial years ended 31 December 2008 to 31 December 2012, based on the audited financial statements are set out in Annexure A of the Prospectus.

##### 2.2 Audited Financial Statements for the year ended 31 December 2012

Our audit report on the Financial Statements for the year ended 31 December 2012 together with such financial statements comprising Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement along with the accounting policies and notes thereon is given in Annexure B of the Prospectus.

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

A member firm of Ernst & Young Global Limited



### 2.3 Audit Reports

We have audited the financial statements of the Bank and the consolidated financial statements of the Bank and its subsidiaries for the years ended 31 December 2008 to 31 December 2012. Unqualified audit opinions have been issued for the said financial years by our reports dated 17 February 2009, 18 February 2010, 18 February 2011, 23 February 2012 and 22 February 2013 respectively.

### 2.4 Accounting Policies

The financial statements of the Bank for the years ended 31 December 2008 to 31 December 2012 comply with Sri Lanka Accounting Standards and the accounting policies of the Bank are stated in the audited financial statements of Nations Trust Bank PLC for the year ended 31 December 2012.

First-time adoption of Sri Lanka Accounting Standards (“SLFRS/LKAS”)

For all periods up to and including the year ended 31 December 2011, the Bank has prepared its financial statements in accordance with previous Sri Lanka Accounting Standards (SLASs). The Financial statements, for the year ended 31 December 2012 are the first Bank has prepared in accordance with revised Sri Lanka Accounting Standards comprising SLFRS and LKAS effective for the period beginning on or after 1 January 2012. There were no other material changes in accounting policies of the Bank.

### 2.5 Dividends

The Bank has declared and paid dividends in respect of Ordinary Shares for the years ended 31 December 2008 to 31 December 2012 in the following manner.

Year	Dividend Paid (Rs.)	Dividend per share (Rs.)
2008	251,572	1.5
2009	314,465	1.5
2010	461,215	2.0
2011	484,275	2.1
2012	484,275	2.1

### 2.6 Events after Reporting Date

No material events have taken place since 31 December 2012 that require disclosure or/and adjustments in these financial statements for the year ended 31 December 2012.

Yours faithfully

## 6.0 Financial Information

### 6.2 Five Year Summary of Financial Statements

Group

Year Ended December 31st

Rs. Mn	2008	2009	2010	2011	2012
<b>OPERATING RESULTS</b>					
Gross Income	13,877	14,037	12,215	11,885	17,751
Interest Income	12,094	12,049	10,090	9,795	15,113
Interest Expense	(9,185)	(8,329)	(5,525)	(5,391)	(9,358)
Net Interest Income	2,909	3,720	4,565	4,404	5,755
Fees & Other Income	1,783	1,988	2,125	2,090	2,637
Net Income	4,692	5,708	6,690	6,494	8,392
Operating Expenses (inc. Imp. Charge/Reversal & VAT)	(3,664)	(4,327)	(4,662)	(4,158)	(5,626)
Profit Before Taxation	1,028	1,381	2,029	2,336	2,766
Provision for Taxation	(435)	(695)	(944)	(729)	(815)
<b>Profit After Taxation</b>	<b>593</b>	<b>686</b>	<b>1,084</b>	<b>1,607</b>	<b>1,951</b>
As at December 31st,					
<b>ASSETS</b>					
Cash & Short-Term Funds	4,065	1,431	1,531	3,694	2,534
Statutory Deposits with Central Bank	1,717	2,044	2,416	4,284	5,089
Government Treasury Bills & Bonds	15,688	23,894	26,876	24,982	34,038
Other Investments	3,781	4,239	4,020	3,153	2,221
Loans & Advances	38,585	35,335	44,571	61,188	73,424
Other Assets	1,914	1,210	1,287	2,280	2,591
Property Plant & Equipment	2,035	1,919	1,788	1,891	1,908
Intangible Assets	79	432	758	600	642
<b>Total Assets</b>	<b>67,864</b>	<b>70,504</b>	<b>83,248</b>	<b>102,073</b>	<b>122,447</b>
<b>LIABILITIES</b>					
Deposits	34,146	44,222	48,315	67,633	86,190
Due to Banks	1,039	391	500	1,277	2,796
Deferred Tax Liabilities	436	437	456	236	280
Other Borrowings	24,628	16,631	21,980	19,888	18,167
Other Liabilities	3,273	4,046	5,193	4,410	4,919
<b>Total Liabilities</b>	<b>63,522</b>	<b>65,727</b>	<b>76,443</b>	<b>93,444</b>	<b>112,352</b>

**Group**

Year Ended December 31st

Rs. Mn	2008	2009	2010	2011	2012
<b>SHAREHOLDERS' FUNDS</b>					
Share Capital/Stated Capital	3,110	3,110	4,368	5,101	5,101
Reserve Fund	80	106	156	224	314
Reserves	1,152	1,561	2,281	3,303	4,680
<b>Total Shareholders' Funds</b>	<b>4,342</b>	<b>4,777</b>	<b>6,804</b>	<b>8,628</b>	<b>10,095</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>67,864</b>	<b>70,504</b>	<b>83,248</b>	<b>102,073</b>	<b>122,447</b>
Commitments and Contingencies	53,617	51,591	60,844	72,792	86,239
<b>RATIOS (Group)</b>					
Return on Average Shareholders' Funds (%)	16.45	15.05	18.72	20.83	20.84
Income Growth (%)	48.55	1.15	(12.98)	(2.68)	49.35
Return On Average Assets (%)	0.96	0.99	1.41	1.73	1.74
Property Plant & Equipment to Shareholders' Funds (%)	46.86	40.16	26.28	21.92	18.90
Total Assets to Shareholders' Funds (Times)	15.60	14.80	12.23	11.83	12.13
Cost/Income Ratio (%)	65.42	57.68	58.78	61.85	56.71
Capital Adequacy Ratio Tier I (%)	10.31	11.79	13.43	13.42	13.82
Capital Adequacy Ratio Tier II (%)	15.70	16.11	15.74	17.44	18.18
<b>SHARE INFORMATION(Bank)</b>					
Market Value per Share (Rs.)	22.25	36.75	83.40	57.00	56.00
Earnings Per Share (Rs.)	2.95	2.99	4.66	6.31	7.76
Price Earning Ratio (Times)	6.06	8.98	15.45	9.03	7.22
Net Asset Value per Share (Rs.)	23.47	24.96	29.25	34.08	39.73
Earnings Yeild (%)	13.25	8.14	5.59	11.07	13.86
Dividend Per Share (Rs.)	1.50	1.50	2.00	2.10	2.10
Dividend Payout Ratio (%)	50.87	50.13	42.92	33.28	27.06
% of 20 Largest Shareholders	81.32	76.38	78.58	78.22	78.67
<b>OTHER INFORMATION (Group)</b>					
Number of Employees	1,615	1,532	1,608	1,853	2,037
Number of Branches	36	38	40	48	57
Personal Banking Centres	6	6	6	7	7
No of ATMs	47	44	48	48	70

Note : Figures highlighted prior to year 2011 is based on Sri Lanka Accounting Standerds (SLAS)

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited)

#### Performance Review – 3Q 2013

Nations Trust Bank Group recorded a profit after tax of Rs. 1,596Mn for the 9 months ended 30 September 2013 compared with Rs. 1,510Mn in the corresponding period of the previous year. Group recorded a commendable revenue growth of 18% for the period, which however did not translate to an equal bottom line growth due to increases in operating expenses attributable to the costs incurred on the execution of the strategic initiatives and higher impairment charges. Core earnings were well balanced across the business pillars despite industry challenges impacting particular portfolios unfavorably.

The Central Bank enforced an easing monetary stance from beginning of the year which led to a decline in policy rates resulting in a gradual decline in interest rates as the year progressed. Such measures taken to fuel credit growth did not materialize to anticipated levels as private sector credit growth remained sluggish throughout the period under review. Slower loan book growth led to excess funds being invested in low-yielding liquid assets with Banks witnessing a decline in NIMs. NPLs across the industry shot up with the slowdown in economic activity also leading to a substantial rise in impairment charges.

Group net interest income recorded a 33% increase over previous period with corresponding NIMs improving modestly. Yields on loans and advances came under stress due to low credit demand which was further challenged by regulatory caps on interest rates. The gradual decline in cost of deposits coupled with improved spreads on the FIS portfolio with the maturing of lower yielding assets positively impacted NIM movement.

Net fees and other operating income recorded a 22% growth, with an outstanding contribution coming from credit card related fees and commissions. With the slowdown witnessed in external trade, trade finance

income fell below previous year level. Net trading results amounted to a loss of Rs. 310Mn for the current year mainly due to losses recorded in FX income which was partly off set by gains attributed to the FIS portfolio. The adverse movement in forward premiums resulting in negative marked to market impact on funding SWAPS resulted in FX losses for the current period. However, this adverse trend reversed towards the end of 3rd quarter wiping out most of the losses recorded in the first 6 months.

Operating expenses recorded a growth of 23% as implementation of the initiatives identified in the 5 year strategic plan took place across the Bank. Highest increase over previous year and the largest contributory factor to the increase in cost base was on account of one off expenses incurred in the introduction and execution of productivity and cost efficiency concepts across key areas of the Bank.

The Bank's NPLs ratio stood at 4.0% which recorded an increase over 2.8% reported in December 2012 which is in part due to the slower growth in the loan book whilst absolute NPLs also increased similar to the rest of the industry. Impairment charge for the 9 months increased by Rs. 219Mn over the previous period mainly attributable to the Pawning portfolio.

Loans and Deposits recorded a growth of 6% and 10% respectively for the 9 months. These growth levels compares well with industry performance for the 9 months of 5% for loans and 11% for deposits. Loan growth slowed down mainly due to the decline in the corporate portfolio which faced stiff rate competition compounded by excess liquidity and low credit demand. Retail, SME, leasing and cards put up a solid growth despite lower credit demand. The Bank continued its efforts to grow low cost balances which reaped good results recording an 22% growth and thereby improving low cost mix.



Branch expansion continued with 9 new branches being opened during the 9 months in identified key strategic geographies taking the network to 66 branches. With the view of enhancing customer value and productivity the Bank undertook the implementation of lean concepts across the entire organization, by reviewing high impact, critical processes on a phased out plan during the year. The Bank strengthened its SME proposition further with the signing of an agreement with Asian Development Bank (ADB) for an USD 15 Million term lending facility. This financing agreement is specifically aimed at funding SMEs, a cause strongly supported by ADB.

The Nations SME Business Academy was inaugurated in collaboration with the Frankfurt School of Finance and Management, the leading private business school and advisory institute in Germany. Through the Academy the Bank intends to develop the skills and competencies of its frontline SME staff by offering comprehensive structured development programs to gain expertise in SME financing. The Nations Trust debit card was launched during the month of August adding to the Bank's array of products with the view of providing a complete suite of payment solutions to its customers. This Nations Debit card gives customers access to over 1 Million ATMs worldwide as well as ability to do point of sale transactions at any MasterCard accepted merchant globally.

The Bank also received accolades in various spheres; top amongst the list was becoming the recipient of the award for the "Best HR Strategy in Line with Business" at the Best Employer Brand Awards 2013, held in Singapore.

Commenting on the results and achievements, Renuka Fernando Director/CEO stated "Amidst the innumerable challenges that befell the industry during the year, our performance has been resilient, consistently demonstrating sustainable returns. We are optimistic on a possible turn around in demand for credit as we progress towards year 2014. Our business pillars are ably supported by a sound risk management framework, collection processes and a stable operational platform, so we are confident that we will be able to continue meeting the challenges ahead. We also look forward to reaping the benefits of all our efforts this year in moving to lean processes which would see further enhancements to our delivery and distribution capability after we implement our new core banking system in 2014"

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC and its fully owned Subsidiaries Income Statement

	Bank				Group				
	Nine months ended 30th September		Quarter ended 30th September		Nine months ended 30th September		Quarter ended 30th September		
	2013	2012	2013	2012	2013	2012	2013	2012	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
<b>Gross Income</b>	14,912,247	12,739,566	4,801,577	4,801,577	15,185,485	12,942,380	5,158,804	4,877,006	6
Interest Income	13,134,513	10,680,868	3,998,844	3,998,844	13,315,491	10,832,935	4,419,875	4,048,214	9
Less : Interest Expense	(7,791,191)	(6,708,925)	(2,589,846)	(2,589,846)	(7,799,818)	(6,691,040)	(2,445,834)	(2,580,059)	(5)
<b>Net Interest Income</b>	5,343,322	3,971,943	1,408,998	1,408,998	5,515,673	4,141,895	1,974,041	1,468,155	34
Fees and Commission Income	1,865,769	1,568,499	598,306	598,306	1,974,439	1,649,709	744,254	626,465	19
Less : Fees and Commission Expense	(140,873)	(118,946)	(48,495)	(48,495)	(140,879)	(118,107)	(48,495)	(45,005)	8
<b>Net Fees and Commission Income</b>	1,724,896	1,449,553	552,467	552,467	1,833,560	1,531,602	695,759	581,460	20
Net Trading Income / (Expense)	(308,220)	329,057	109,543	109,543	(309,976)	317,085	(67,286)	107,439	(163)
Other Operating Income	220,185	161,142	94,884	94,884	205,631	142,651	61,961	94,888	(35)
<b>Total Operating Income</b>	6,980,183	5,911,695	2,165,892	2,165,892	7,244,788	6,133,233	2,664,475	2,251,942	18
Impairment Charges / (Reversal) for Loans and Advances	490,316	274,132	89,382	89,382	491,985	273,307	209,622	90,110	133
Individual Impairment	29,899	156,750	73,849	73,849	29,899	156,750	20,112	73,849	(73)
Collective Impairment	460,417	117,382	188,468	15,533	462,086	116,557	189,510	16,261	1,065
<b>Net Operating Income</b>	6,489,867	5,637,563	2,076,510	2,076,510	6,752,803	5,859,926	2,454,853	2,161,832	14
<b>Less : Expenses</b>									
Personnel Expenses	1,721,023	1,456,268	543,243	543,243	1,747,408	1,483,634	599,215	552,031	7
Depreciation of Property, Plant and Equipment	177,706	194,433	64,206	64,206	186,355	203,114	66,073	66,582	(1)
Amortization of Intangible Assets	94,262	81,096	32,838	27,843	96,397	82,313	33,609	29,060	16
Other Operating Expenses	2,061,447	1,548,117	759,368	538,714	2,057,024	1,550,607	757,349	538,123	41
<b>Total Operating Expenses</b>	4,054,438	3,279,914	1,435,978	1,174,006	4,087,184	3,319,668	1,446,246	1,185,796	22
<b>Operating Profit before Value Added Tax (VAT)</b>	2,435,429	2,357,649	902,504	902,504	2,665,619	2,540,258	1,008,607	976,036	3
Less : Value Added Tax (VAT) on Financial Services	347,051	323,330	123,494	123,494	361,238	337,311	130,374	128,411	2
<b>Profit before Income Tax</b>	2,088,378	2,034,319	801,359	779,010	2,304,381	2,202,947	878,233	847,625	4
Less : Income Tax Expense	643,080	640,841	240,614	251,709	707,931	692,884	262,090	270,744	(3)
<b>Profit for the Period</b>	1,445,298	1,393,478	560,745	527,301	1,596,450	1,510,063	616,143	576,881	7
<b>Earnings Per Share</b>									
Basic Earnings Per Share	6.27	6.04	2.43	2.29	6.92	6.55	2.67	2.50	7

Nations Trust Bank PLC and its fully owned Subsidiaries  
Statement of Other Comprehensive Income

	Bank				Group							
	Nine months ended 30th September		Quarter ended 30th September		Nine months ended 30th September		Quarter ended 30th September					
	2013 Rs. '000	2012 Rs. '000	Change (%)	2013 Rs. '000	Change (%)	2013 Rs. '000	2012 Rs. '000	Change (%)				
Profit for the period	1,445,298	1,393,478	4	560,745	527,301	6	1,596,450	1,510,063	6	616,143	576,881	7
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive Income for the period, Net of Tax	1,445,298	1,393,478	4	560,745	527,301	6	1,596,450	1,510,063	6	616,143	576,881	7
Attributable to:												
Equity holders of the parent	1,445,298	1,393,478	4	560,745	527,301	6	1,596,450	1,510,063	6	616,143	576,881	7

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC and its fully owned Subsidiaries Statement Of Financial Position

As at	30.09.2013	Bank	Change	30.09.2013	Group	Change
	Rs. '000	31.12.2012		Rs. '000	31.12.2012	
		Audited	%	Rs. '000	Rs. '000	%
					Audited	
<b>On Balance sheet Assets</b>						
Cash and Cash Equivalents	2,860,169	2,534,056	13	2,860,209	2,534,155	13
Balances with Central Bank of Sri Lanka	3,753,988	5,089,342	(26)	3,753,988	5,089,342	(26)
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	319,337	327,843	(3)	319,337	327,843	(3)
Reverse Repurchase Agreements	1,197,465	3,287,274	(64)	520,355	2,711,927	(81)
Other Financial Assets Held-for-Trading	28,952,847	20,253,158	43	29,864,216	21,087,926	42
Other Financial Assets	2,140,514	1,892,922	13	2,140,514	1,892,922	13
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-
Loans & Receivables to Banks	-	-	-	-	-	-
Loans & Receivables to Other Customers	76,533,281	72,643,812	5	77,933,811	73,609,406	6
Financial Investments - Available-for-sale	-	-	-	-	-	-
Financial Investments - Held-to-Maturity	6,891,536	10,237,904	(33)	6,891,536	10,237,904	(33)
Investments in Subsidiaries	678,710	678,710	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-	-
Property, Plant & Equipment	1,496,937	1,395,882	7	2,002,419	1,907,999	5
Investment Properties	-	-	-	-	-	-
Intangible Assets	657,741	625,186	5	673,318	642,457	5
Deferred Tax Assets	83,091	158,931	(48)	84,174	159,807	(47)
Other Assets	3,270,877	2,385,161	37	3,326,189	2,405,135	38
<b>Total Assets</b>	<b>128,836,493</b>	<b>121,510,181</b>	<b>6</b>	<b>130,370,066</b>	<b>122,606,823</b>	<b>6</b>

**Nations Trust Bank PLC and its fully owned Subsidiaries  
Statement Of Financial Position**

As at	30.09.2013 Rs. '000	Bank 31.12.2012 Rs. '000 Audited	Change %	30.09.2013 Rs. '000	Group 31.12.2012 Rs. '000 Audited	Change %
<b>On Balance sheet Liabilities</b>						
Due to Banks	1,506,576	2,796,350	(46)	1,506,576	2,796,350	(46)
Derivative Financial Instruments	184,748	528,472	(65)	184,748	528,472	(65)
Other Financial liabilities Held-for-Trading	-	-	-	-	-	-
Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	-	-
Repurchase Agreements	12,214,097	11,832,692	3	12,214,097	11,832,692	3
Due to Other Customers	94,829,382	86,597,514	10	94,636,696	86,189,996	10
Other Borrowings	160,763	308,622	(48)	711,850	811,278	(12)
Debt Securities Issued	-	501,041	(100)	-	501,041	(100)
Current Tax Liabilities	381,506	510,155	(25)	422,217	544,253	(22)
Deferred Tax Liabilities	365,261	439,812	(17)	365,261	439,962	(17)
Other Liabilities	5,282,973	3,811,943	39	5,329,180	3,846,059	39
Due to Subsidiaries	-	-	-	-	-	-
Subordinated Term Debts	3,788,044	5,021,460	(25)	3,792,006	5,021,460	(24)
<b>Total Liabilities</b>	<b>118,713,350</b>	<b>112,348,061</b>	<b>6</b>	<b>119,162,631</b>	<b>112,511,563</b>	<b>6</b>
<b>Equity</b>						
Stated Capital / Assigned Capital ( 230,607,283 Ordinary Shares)	5,101,369	5,101,369	-	5,101,369	5,101,369	-
Statutory Reserve Fund	313,663	313,663	-	313,663	313,663	-
Retained Earnings	3,751,215	3,153,852	19	4,777,160	4,044,303	18
Other Reserves	956,896	593,236	61	1,015,243	635,925	60
<b>Total Shareholders' Equity</b>	<b>10,123,143</b>	<b>9,162,120</b>	<b>10</b>	<b>11,207,435</b>	<b>10,095,260</b>	<b>11</b>
<b>Total Equity and Liabilities</b>	<b>128,836,493</b>	<b>121,510,181</b>	<b>6</b>	<b>130,370,066</b>	<b>122,606,823</b>	<b>6</b>
<b>Contingent Liabilities and Commitments</b>	<b>93,788,708</b>	<b>84,914,559</b>	<b>10</b>	<b>95,047,887</b>	<b>86,238,642</b>	<b>10</b>
<b>Memorandum Information</b>						
Number of Employees	2166	2002		2200	2037	
Number of Branches	66	57		66	57	
Number of Personal Banking Centers	7	7		7	7	

**CERTIFICATION :**

I certify that these Financial Statements comply with the requirements of the Companies Act No.7 of 2007.

(Sgd.)

**Ajith Akmeemana**  
Chief Financial Officer

We, the undersigned being the Chairman, Director and Director/Chief Executive Officer of Nations Trust Bank PLC., certify jointly that,  
(a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.  
(b) the information contained in these statements has been extracted from the unaudited financial statements of the Bank and its Subsidiaries unless indicated as audited.

(Sgd.)  
**A.K Gunaratne**  
Chairman

(Sgd.)  
**M.E. Wickremesinghe**  
Director

(Sgd.)  
**Renuka Fernando**  
Director/Chief Executive Officer

12th November 2013  
Colombo

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC and its fully owned Subsidiaries Selected Performance Indicators (As Per Regulatory Reporting)

Item	Bank		Group	
	30.09.2013	31.12.2012 (Audited)	30.09.2013	31.12.2012 (Audited)
<b>Regulatory Capital Adequacy</b>				
Core Capital (Tier 1 Capital), Rs. '000	8,677,846	9,162,120	9,601,485	10,085,760
Total Capital Base, Rs. '000	11,191,024	12,340,942	12,114,663	13,264,583
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	11.15%	12.81%	12.06%	13.82%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	14.38%	17.25%	15.22%	18.18%
<b>Assets Quality (Quality of Loan Portfolio)</b>				
Gross Non-Performing Advances Ratio, % (net of interest in suspense)	4.00%	2.83%	3.97%	2.79%
Net-Non Performing Advances, %(net of interest in suspense and provision)	2.47%	1.32%	2.45%	1.31%
<b>Profitability</b>				
Interest Margin, %	5.66%	4.97%	-	-
Return on Assets (before Tax), %	2.21%	2.28%	2.42%	2.46%
Return on Equity, %	20.30%	21.02%	20.27%	20.84%
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets, Rs. '000	27,419,266	25,481,081	-	-
Statutory Liquid Assets Ratio, % (Minimum Requirement, 20%)				
Domestic Banking Unit	26.63%	25.91%	-	-
Off-Shore Banking Unit	53.10%	25.42%	-	-
Net Assets Value Per Share (Rs.)	43.90	39.73	48.60	43.78
<b>Market Price Per Share (Rs.)</b>				
	30.09.2013 (Quarter ended)	30.09.2012 (Quarter ended)		
Highest	65.50	63.60		
Lowest	57.00	45.80		
Last Traded Price	60.50	61.90		

**Nations Trust Bank PLC and its fully owned Subsidiaries**  
**Statement of Changes in Equity**

BANK	Stated Capital	Retained	Reserve	Investment	Total
	Rs. '000	Earnings Rs. '000	Fund Rs. '000	Fund Account* Rs. '000	
<b>As at 01 January 2012</b>	5,101,369	2,284,243	224,242	248,123	7,857,977
Dividend paid for 2011	-	(484,275)	-	-	(484,275)
Total Comprehensive Income	-	1,393,478	-	-	1,393,478
Transfers to the Investment Fund Account*	-	(254,509)	-	254,509	-
<b>As at 30 September 2012</b>	5,101,369	2,938,937	224,242	502,632	8,767,180
<b>As at 01 January 2013</b>	5,101,369	3,153,852	313,663	593,236	9,162,120
Dividend paid for 2012	-	(484,275)	-	-	(484,275)
Total Comprehensive Income	-	1,445,298	-	-	1,445,298
Transfers to the Investment Fund Account*	-	(363,660)	-	363,660	-
<b>As at 30 September 2013</b>	5,101,369	3,751,215	313,663	956,896	10,123,143
<b>GROUP</b>	<b>Stated Capital</b>	<b>Retained</b>	<b>Reserve</b>	<b>Investment</b>	<b>Total</b>
	<b>Rs. '000</b>	<b>Earnings Rs. '000</b>	<b>Fund Rs. '000</b>	<b>Fund Account* Rs. '000</b>	<b>Rs. '000</b>
<b>As at 01 January 2012</b>	5,101,369	3,034,047	224,242	268,761	8,628,419
Dividend paid for 2011	-	(484,275)	-	-	(484,275)
Total Comprehensive Income	-	1,510,063	-	-	1,510,063
Transfers to the Investment Fund Account*	-	(271,889)	-	271,889	-
<b>As at 30 September 2012</b>	5,101,369	3,787,946	224,242	540,650	9,654,207
<b>As at 01 January 2013</b>	5,101,369	4,044,303	313,663	635,925	10,095,260
Dividend paid for 2012	-	(484,275)	-	-	(484,275)
Total Comprehensive Income	-	1,596,450	-	-	1,596,450
Transfers to the Investment Fund Account*	-	(379,318)	-	379,318	-
<b>As at 30 September 2013</b>	5,101,369	4,777,160	313,663	1,015,243	11,207,435

\* Investment Fund Account is established and operated based on the Guidelines on the Operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on April 29, 2011 with the concurrence of the Commissioner - General of Inland Revenue.

\* Tax saving on the reduction of tax rates transferred to the Investment Fund as per the guidelines issued by the Department of Inland Revenue and Central Bank of Sri Lanka. Loans amounting to Rs. 785 Mn. were granted under this scheme.

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC and its fully owned Subsidiaries Statement of Cash Flow

Nine months ended 30th September	Bank		Group	
	2013 Rs.' 000	2012 Rs.' 000	2013 Rs.' 000	2012 Rs.' 000
<b>Cash Flows from Operating Activities</b>				
Receipts of Interest Income	12,869,751	10,879,743	13,037,883	11,087,649
Receipts of Fees and Commission Income	1,861,269	1,557,451	1,943,043	1,643,702
Payments of Interest Expense	(8,076,850)	(6,049,551)	(8,081,042)	(6,080,174)
Payments of Fees and Commission Expense	(140,873)	(118,946)	(136,879)	(118,946)
Net Trading Income	(373,888)	383,538	(373,888)	383,538
Receipts from Other Operating Income	218,649	161,142	202,369	144,008
Gratuity Payments Made	20,647	(6,711)	20,647	(6,878)
Payments for Operating Expenses	(4,063,294)	(3,271,015)	(4,105,785)	(3,337,806)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>	<b>2,315,411</b>	<b>3,535,651</b>	<b>2,506,348</b>	<b>3,715,093</b>
Income Tax paid	(540,333)	(103,036)	(595,426)	(116,461)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>1,775,078</b>	<b>3,432,615</b>	<b>1,910,922</b>	<b>3,598,632</b>
<b>(Increase)/Decrease in Operating Assets</b>				
Reverse Repurchase Agreements	2,082,734	6,522,896	2,184,488	6,921,632
Derivative Financial Instruments	8,505	(223,186)	8,505	(223,186)
Financial Investments Held for Trading	(8,678,728)	(17,012,187)	(8,696,811)	(16,572,893)
Financial Investments-Held to Maturity	3,209,284	1,769,069	3,150,766	1,769,069
Other Financial Assets	(236,349)	(310,749)	(236,133)	(310,749)
Loans and Advances to Customers	(4,263,182)	(11,519,733)	(4,988,543)	(11,828,511)
Other Assets	(885,715)	47,524	(891,454)	30,120
<b>(Increase)/Decrease in Operating Assets</b>	<b>(8,763,451)</b>	<b>(20,726,366)</b>	<b>(9,469,182)</b>	<b>(20,214,518)</b>
<b>Increase/(Decrease) in Operating Liabilities</b>				
Repurchase Agreements	537,308	1,738,460	435,554	815,333
Due to Other Customers	8,269,399	17,660,612	8,556,604	17,660,612
Derivative Financial Instruments	(343,725)	15,266	(343,725)	15,266
Other Liabilities	1,388,295	(461,540)	1,381,879	(629,257)
<b>Increase/(Decrease) in Operating Liabilities</b>	<b>9,851,277</b>	<b>18,952,799</b>	<b>10,030,312</b>	<b>17,861,954</b>
<b>Net Cash Flows from Operating Activities</b>	<b>2,862,904</b>	<b>1,659,048</b>	<b>2,472,052</b>	<b>1,246,068</b>
<b>Cash Flows from Investing Activities</b>				
Purchase of Property, Plant and Equipment	(265,156)	(220,421)	(267,172)	(220,421)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets	1,124	914	1,124	773
Purchase of Intangible Assets	(139,531)	(51,581)	(139,969)	(70,672)
	(403,563)	(271,088)	(406,017)	(290,320)
<b>Cash Flows from Financing Activities</b>				
Net change in Debt issued and other Borrowed Funds	(1,223,116)	1,285,461	(779,808)	1,699,111
Repayment of Subordinated Debt	(1,634,650)	(304,650)	(1,634,650)	(304,650)
Interest paid on Subordinated Debt	(257,087)	(262,579)	(257,087)	(262,579)
Dividends paid to Equity Holders of the Parent	(484,275)	(484,275)	(484,275)	(484,275)
	(3,599,128)	233,957	(3,155,820)	647,607
Net Increase in Cash and Cash Equivalents	(1,139,787)	1,621,917	(1,089,785)	1,603,355
Cash and Cash Equivalents at the beginning of the year	7,510,041	7,612,998	7,510,139	7,666,133
Cash and Cash Equivalents at the end of the year	6,370,254	9,234,915	6,420,354	9,269,488



Nine months ended 30th September	Bank		Group	
	2013 Rs.' 000	2012 Rs.' 000	2013 Rs.' 000	2012 Rs.' 000
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash on Hand	2,486,651	2,054,635	2,486,661	2,089,174
Statutory Deposit with the Central Bank of Sri Lanka	3,753,988	5,580,773	3,753,988	5,580,773
Balances with Banks	363,516	711,961	413,606	711,995
Money at Call and Short Notice	10,002	937,841	10,002	937,841
Due to Banks	(243,903)	(50,295)	(243,903)	(50,295)
	6,370,254	9,234,915	6,420,354	9,269,488
<b>A. Reconciliation of Operating Profit</b>				
<b>Profit before Taxation</b>	2,088,378	2,034,319	2,304,381	2,202,947
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets	(1,537)	1,378	(1,537)	1,378
Impairment charge / (Reversal) for Loans and Advances	490,316	274,132	491,985	273,307
Provision for Gratuity	66,228	55,321	68,105	56,444
(Increase) / Decrease in Interest Receivable	(264,762)	198,875	(268,780)	204,590
Increase/ (Decrease) in Interest Payable	(285,659)	661,234	(285,740)	665,539
Increase / (Decrease) in Financial Guarantee Liabilities	(4,500)	(11,048)	(4,500)	(11,048)
Other Non cash items	207,300	328,151	181,787	328,815
Gratuity Payments Made	20,647	(6,711)	20,647	(6,879)
	2,315,411	3,535,651	2,506,348	3,715,093

## 6.0

**Financial Information**

## 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

**Nations Trust Bank PLC and its fully owned Subsidiaries  
Analysis of Financial Instruments by Measurement Basis**

BANK	HFT at Fair Value		Financial Derivatives at Fair Value		HTM at Amortised Cost		L & R at Amortised Cost		Total	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012
<b>Rs. '000</b>	<b>30.09.2013</b>	<b>31.12.2012</b>	<b>30.09.2013</b>	<b>31.12.2012</b>	<b>30.09.2013</b>	<b>31.12.2012</b>	<b>30.09.2013</b>	<b>31.12.2012</b>	<b>30.09.2013</b>	<b>31.12.2012</b>
<b>Assets</b>										
Cash and Cash Equivalents	-	-	-	-	-	-	2,860,169	2,534,056	2,860,169	2,534,056
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	3,753,988	5,089,342	3,753,988	5,089,342
Derivative Financial Instruments	-	-	319,337	327,843	-	-	-	319,337	327,843	-
Reverse Repurchase Agreements	-	-	-	-	-	-	1,197,465	3,287,274	1,197,465	3,287,274
Financial Assets - Held for Trading	28,952,847	20,253,158	-	-	-	-	-	28,952,847	20,253,158	-
Other Financial Assets	-	-	-	-	-	-	2,140,514	1,892,922	2,140,514	1,892,922
Loans and Advances to Customers	-	-	-	-	-	-	76,533,281	72,643,812	76,533,281	72,643,812
Financial Assets - Held to Maturity	-	-	-	-	6,891,536	10,237,904	-	-	6,891,536	10,237,904
<b>Total Financial Assets</b>	<b>28,952,847</b>	<b>20,253,158</b>	<b>319,337</b>	<b>327,843</b>	<b>6,891,536</b>	<b>10,237,904</b>	<b>86,485,417</b>	<b>85,447,406</b>	<b>122,649,137</b>	<b>116,266,311</b>
<b>Liabilities</b>										
Due to Banks	-	-	-	-	1,506,576	2,796,350	-	-	1,506,576	2,796,350
Derivative Financial Instruments	184,748	528,472	-	-	-	-	-	-	184,748	528,472
Repurchase Agreements	-	-	-	-	12,214,097	11,832,692	-	-	12,214,097	11,832,692
Due to Other Customers	-	-	-	-	94,829,382	86,597,514	-	-	94,829,382	86,597,514
Debt Issued and Other Borrowed Funds	-	-	-	-	3,948,807	5,831,123	-	-	3,948,807	5,831,123
<b>Total Financial Liabilities</b>	<b>184,748</b>	<b>528,472</b>	<b>-</b>	<b>-</b>	<b>112,498,862</b>	<b>107,057,679</b>	<b>-</b>	<b>-</b>	<b>112,683,610</b>	<b>107,586,151</b>



## 6.0

## Financial Information

## 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

Nations Trust Bank PLC and its fully owned Subsidiaries  
Segment Information

Operating Segments	Bank		Treasury Functions		Others		Unallocated/ Eliminations		Total Group	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012	30.09.2013	30.09.2012	30.09.2013	30.09.2012	30.09.2013	30.09.2012
Rs. '000										
<b>Operating income</b>	6,399,400	5,115,860	635,972	712,686	233,838	248,437	(24,422)	56,250	7,244,788	6,133,233
Credit Loss Expense	490,316	274,133	-	-	-	-	1,669	(925)	491,985	273,307
<b>Net Operating income</b>	5,909,084	4,841,727	635,972	712,686	233,838	248,437	(26,091)	57,075	6,752,803	5,859,926
<b>Extracts of results</b>										
Interest Income	10,153,607	8,031,113	3,011,890	2,523,596	323,115	294,813	(173,121)	(16,587)	13,315,491	10,832,935
Inter Segment	349,107	346,429	(349,107)	(346,429)	-	-	-	-	-	-
Interest Expense	(6,056,921)	(4,833,440)	(1,689,367)	(1,767,575)	(226,491)	(153,796)	172,960	63,770	(7,799,818)	(6,691,040)
<b>Net Interest Income</b>	4,445,793	3,544,102	973,416	409,592	96,624	141,017	(160)	47,183	5,515,673	4,141,895
Fees and Commission Income	1,867,663	1,527,951	-	-	143,103	108,259	(36,326)	13,499	1,974,439	1,649,709
Fees and Commission Expense	(127,784)	(106,475)	(33,373)	(21,247)	(4,132)	(839)	24,409	10,454	(140,879)	(118,107)
<b>Net fee and commission income</b>	1,739,879	1,421,476	(33,373)	(21,247)	138,971	107,420	(11,917)	23,953	1,833,560	1,531,602
Net Trading Income	-	-	(310,293)	314,880	(1,757)	-	2,073	2,205	(309,976)	317,085
Other Operating Income	213,727	150,282	6,223	9,461	-	-	(14,419)	(17,092)	205,531	142,651
Depreciation of Property, Plant and Equipment	102,205	88,762	75,655	118,560	8,649	8,681	(154)	(12,890)	186,355	203,114
Amortization of Intangible Assets	45,620	28,772	48,488	39,434	2,135	1,217	154	12,890	96,397	82,313
<b>Segment Profit / (Loss) before Value Added Tax</b>	2,221,820	2,051,258	640,045	468,809	231,223	199,160	(427,469)	(178,968)	2,665,620	2,540,259
Value Added Tax & Income Tax Expense	(64,851)	(17,482)	(1,004,318)	(1,012,714)	(1,069,170)	(1,030,196)	-	-	(2,116,374)	(2,060,182)
<b>Profit for the year</b>	2,221,820	2,051,258	640,045	468,809	166,372	181,678	(1,431,787)	(1,191,682)	1,596,450	1,510,063
<b>Capital Expenditures</b>										
Property and Equipment	169,696	181,321	98,560	41,650	-	-	-	-	268,256	222,971
Other Intangible Assets	45,265	9,560	92,709	39,471	-	-	-	-	137,974	49,031
<b>Total Assets</b>	78,262,513	71,397,410	48,899,280	49,116,717	3,617,798	1,022,950	(409,625)	1,285,221	130,370,066	122,822,297
<b>Total Liabilities</b>	97,286,629	88,047,287	21,831,917	26,947,766	1,872,447	49,317	(1,828,362)	(1,876,278)	119,162,631	113,168,093

## Debenture Information

The rated unsecured subordinated redeemable debentures 2011/16 of the Bank are listed in the Colombo Stock Exchange. However, these debentures have not been traded from the date of listing up to 30th September 2013.

Debenture Categories	CSE Listing	Interest Payable Frequency	Balance as at		Market Values			Interest Rates		Interest rate of Comparable Government Security		Other Ratios as at date of last trade	
			30.09.2013	30.09.2012	Highest	Lowest	Year End	Coupon Rate	Effective Annual Yield	30.09.2013	30.09.2012	Interest Yield	Yield to Maturity
			Rs. '000	Rs. '000	Rs.	Rs.	Rs.	%	%	%	%	%	%
<b>Fixed Rate</b>													
Fixed Rate	NTBD0145	Semi -Annually	-	500,000	Not traded			20.53	21.58	14.54	12.55	Not traded	
Fixed Rate	NTBD0131	Annually	-	1,000,000	Not traded			21.00	21.00	9.61	12.77	Not traded	
Fixed Rate	NTBD0163	Semi -Annually	1,525,000	1,525,000	Not traded			11.50	11.83	11.19	14.03	Not traded	
Fixed Rate	NTBD0164	Semi -Annually	200,000	200,000	Not traded			11.00	11.30	11.19	14.03	Not traded	
Fixed Rate	NTBD0165	Semi -Annually	275,000	275,000	Not traded			11.50	11.83	11.19	14.03	Not traded	
<b>Total Debentures</b>			<b>2,000,000</b>	<b>3,500,000</b>									

### Ratios of Debt

	30.09.2013	30.09.2012
* Debt / Equity Ratio %	37.38%	42.99%
Interest Cover (Times)	5.93	5.65

\* All Subordinated debt and listed Senior debt are considered as Debt (numerator)

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC and its fully owned Subsidiaries Additional Quarterly Disclosure

##### 1) Loans and Advances To Customers

	Bank		Group	
	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited
<b>Gross Loans and Advances</b>	77,467,687	73,288,486	78,867,743	74,251,937
(Less) : Individual Impairment	(1,150,401)	(1,120,502)	(1,150,401)	(1,120,502)
Collective Impairment	(1,078,769)	(704,788)	(1,078,296)	(702,645)
<b>Net Loans and Advances including those designated at Fair Value through Profit or Loss</b>	<b>75,238,517</b>	<b>71,463,196</b>	<b>76,639,046</b>	<b>72,428,790</b>
(Less) : Loans and Advances designated at Fair Value through Profit or Loss	-	-	-	-
<b>Net Loans and Advances</b>	<b>75,238,517</b>	<b>71,463,196</b>	<b>76,639,046</b>	<b>72,428,790</b>
<b>Staff Loans</b>	2,074,492	1,861,546	2,074,492	1,861,546
Less : Allowance for Day 1 Difference	(779,728)	(680,930)	(779,728)	(680,930)
	1,294,764	1,180,616	1,294,764	1,180,616
	76,533,281	72,643,812	77,933,811	73,609,406

##### 2) Gross Loans and Advances to Customers -By Product

	Bank		Group	
	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited
<b>By Product -Domestic Currency</b>				
Bills of Exchange	8,776	35,841	8,776	35,841
Overdrafts	18,046,321	16,276,668	18,046,321	16,276,668
TermLoans	19,435,621	18,519,006	19,435,621	18,519,006
Staff Loans	2,074,492	1,861,546	2,074,492	1,861,546
Other Advances	1,977,402	2,870,581	3,377,458	3,834,033
Leases	21,226,155	19,361,556	21,226,155	19,361,555
Credit Cards	9,136,669	7,455,077	9,136,669	7,455,077
Pawning Advance	2,423,011	1,768,814	2,423,011	1,768,814
Corporate Debt Securities	1,427,067	798,834	1,427,067	798,834
<b>Sub Total</b>	<b>75,755,514</b>	<b>68,947,923</b>	<b>77,155,570</b>	<b>69,911,374</b>
<b>By Product -Foreign Currency</b>				
Bills of Exchange	458,272	279,759	458,272	279,759
Overdrafts	142,130	2,095,727	142,130	2,095,727
TermLoans	1,448,140	1,709,325	1,448,140	1,709,325
Other Advances	1,738,123	2,117,298	1,738,123	2,117,298
<b>Sub Total</b>	<b>3,786,665</b>	<b>6,202,109</b>	<b>3,786,665</b>	<b>6,202,109</b>
<b>Total</b>	<b>79,542,179</b>	<b>75,150,032</b>	<b>80,942,235</b>	<b>76,113,483</b>

3) Movements in Individual and Collective Impairment during the period for Loans and Receivables to Other Customers

	Bank		Group	
	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited
<b>Individual Impairment</b>				
As at 01 January	1,120,502	907,122	1,120,502	907,122
Charge/ (Reversal) to Income Statement	29,899	213,380	29,899	213,380
<b>As at 30 September</b>	<b>1,150,401</b>	<b>1,120,502</b>	<b>1,150,401</b>	<b>1,120,502</b>
<b>Collective Impairment</b>				
As at 01 January	704,788	582,894	702,646	579,882
Charge/ (Reversal) to Income Statement	460,417	217,585	462,086	218,454
Amounts written off during the Period	(86,436)	(95,691)	(86,436)	(95,691)
<b>As at 30 September</b>	<b>1,078,769</b>	<b>704,788</b>	<b>1,078,296</b>	<b>702,645</b>
<b>Total Impairment</b>	<b>2,229,170</b>	<b>1,825,290</b>	<b>2,228,697</b>	<b>1,823,147</b>

4) Due to Other Customers -By Product

	Bank		Group	
	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited	30.09.2013 Rs. '000	31.12.2012 Rs. '000 Audited
<b>By Product -Domestic Currency</b>				
Demand Deposits	8,497,166	7,256,052	8,460,696	7,233,100
Savings Deposits	10,398,343	8,836,395	10,398,343	8,836,395
Call Deposits	682,560	220,489	682,560	220,489
Fixed Deposits	54,287,860	49,718,561	54,131,644	49,333,995
Certificate of Deposits	5,073,361	5,029,652	5,073,361	5,029,652
<b>Sub Total</b>	<b>78,939,290</b>	<b>71,061,149</b>	<b>78,746,604</b>	<b>70,653,631</b>
<b>By Product -Foreign Currency</b>				
Demand Deposits	328,732	484,809	328,732	484,809
Savings Deposits	3,760,372	2,298,364	3,760,372	2,298,364
Call Deposits	112,247	27,657	112,247	27,657
Fixed Deposits	11,688,741	12,725,535	11,688,741	12,725,535
<b>Sub Total</b>	<b>15,890,092</b>	<b>15,536,365</b>	<b>15,890,092</b>	<b>15,536,365</b>
<b>Total</b>	<b>94,829,382</b>	<b>86,597,514</b>	<b>94,636,696</b>	<b>86,189,996</b>

## 6.0 Financial Information

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC Shareholder Information as at 30th September 2013

##### Twenty largest Shareholders

Name of the Shareholder	No. of Shares	%
John Keells Holdings PLC.	46,121,536	20.00
DFCC Bank A/C No 01	22,865,356	9.92
Mackinnons & Keells Financial Services Limited	22,830,159	9.90
Central Finance Company PLC A/C No 03	20,715,400	8.98
HWIC Asia Fund	19,048,765	8.26
CF Growth Fund Limited A/C No 01	14,813,273	6.42
CF Insurance Brokers (Pvt) Limited.	10,592,857	4.59
HSBC Intl. Nom. Limited - SSBT -National Westminster Bank Plc as Depository of First State Indian Subcontinent	3,497,452	1.52
Employees Trust Fund Board	3,153,850	1.37
HSBC Intl. Nom. Limited - JPMCB-Pacific Assets Trust PLC	3,101,851	1.35
Mr.M.F. Hashim	2,600,000	1.13
The Ceylon Investment PLC A/C #02	2,272,168	0.99
The Ceylon Guardian Investment Trust PLC A/C #02	2,010,350	0.87
Renuka City Hotels PLC	1,858,775	0.81
Bank of Ceylon - A/C No 02	1,546,100	0.67
Mr. N.R. Somaiya	1,320,624	0.57
Timex (Garments) Limited	1,238,465	0.54
Deutsche Bank AG as Trustee for Namal Acuity Value Fund	1,200,000	0.52
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/C No 01	1,089,000	0.47
Malship Ceylon Limited	1,063,857	0.46
	182,939,838	79.33
Others	47,667,445	20.67
<b>Total</b>	<b>230,607,283</b>	<b>100.00</b>

Percentage of public shareholding as at 30th September 2013 was 79.85%



Directors' holding in shares as at 30th September 2013

Name of Director	No of Shares
Mr. K.N.J.Balendra	107,700
Mr. A.K. Gunaratne	19,432
Mr. A.R. Rasiah	16,304
Mr. C.H.S.K. Piyaratna	100,400
Mrs. R.N. K. Fernando (Director / CEO)	68,700
Mr.K.O.V.S.M.S. Wijesinghe	39,650
Dr. (Ms.) D. Weerakoon	-
Mr. M.E. Wickremesinghe	-
Mr. M Jafferjee	-
Dr. (Mr.) Kemal De. Soysa	-
Mr. D.P. De Silva	-
Ms. N. S. Panditaratne	-

## 6.0 **Financial Information**

### 6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.

#### Nations Trust Bank PLC and its fully owned Subsidiaries

##### Explanatory Notes:

- (1) The Group figures include those of the fully owned subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited (formerly MLL Insurance Brokers Limited).
- (2) These Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKASs) and provide the information as required in terms of Rule 7.4 of the Colombo Stock Exchange and the Directions issued by the Central Bank of Sri Lanka. Comparative figures have been remeasured / reclassified where necessary to comply with the Central Bank guidelines and SLFRS / LKASs.
- (3) These interim financial statements are presented in accordance with LKAS 34 - Interim Financial Reporting and there are no changes to the accounting policies and methods of computation as against those disclosed in the Annual Report for the year ended 31st December 2012.
- (4) There are no material changes to contingent assets and liabilities since 30.09.2013 and the balances reflected are due to transactions carried out in the normal course of Banking Business.
- (5) No material events have taken place since 30.09.2013 that require disclosure or/and adjustments in these accounts and all known expenditure have been provided in these financial statements.

**The above figures are provisional and subject to audit.**

# 1 RISK MANAGEMENT

## 1.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risk. The goal of risk management is to optimize the risk-reward trade-off.

### *Risk Management Structure*

The Board of Directors is responsible for establishing the overall risk management framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits. The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (IRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different Executive Risk Committees. It also monitors compliance with Bank's policies and regulations. The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on Market Risk management and Liquidity Risk management whilst Head Office Credit Committee focuses on the Credit Risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for capturing and monitoring the Bank's overall risk position by integrating the various risk exposures across business units and products within the Bank.. Exceptions are reported on a daily basis, where necessary, to the Chief Executive Officer and various management levels.

Relevant actions are taken to address exceptions and any areas of weakness. IRMD is also responsible for developing risk management tools in line with industry best practice.

Treasury is responsible for managing the liquidity and market risks of the Bank on a day to day basis in line with the approved policies and procedures.

### *Risk Measurement and Reporting Systems*

Risks are measured using a method that reflects both the expected losses likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the regulatory allowance for credit losses on a monthly basis. The IRMC receives a comprehensive risk assessment report once a quarter which is designed to provide a wide range of information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the Chief Executive Officer and all other relevant members of the Bank on the utilization of market limits, liquidity and any other risk developments.

## 1.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for

## 6.0

### **Financial Information**

#### **6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.**

##### **1.2 Credit Risk Contd.**

industry concentrations, and by monitoring exposures in relation to such limits. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

##### ***Impairment Assessment***

The Bank reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, GDP growth rate and the performance of different individual groups).

##### ***Collateral***

The Bank uses and accept various types of collateral as a credit risk mitigant. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

##### ***Commitments and Guarantees***

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

##### **1.3 Liquidity Risk**

Liquidity risk is defined as the risk that the Bank will encounter a difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is measured through the stock and flow approaches.

Bank maintains a minimum 20% ratio of liquid assets to total liabilities under stock approach based on the regulations of the Central Bank of Sri Lanka. Liquid assets mainly consist of cash, short-term Bank deposits and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% of Sri Lankan Rupee customer deposits. The bank also manages the liquidity risk through managing the gaps between assets and liabilities in various maturity buckets. Management considers both contractual cash flows as well as behavioral aspects of these assets and liabilities when analyzing the gaps. Due consideration is given to stress factors relating to both the market

in general and specifically to the Bank. Additionally, the Bank has developed a contingency plan to address these stress situations.

#### 1.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose Banks' Net Interest Income to variations. IRR exposure is primarily managed with Maturity Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term to their next re-pricing (floating rate). The sensitivity of the Income Statement is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency. Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

#### 1.5 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Over the period Operational Risk Management tools have evolved within the Bank and now the usage of techniques such as Risk and control self assessment (RCSA) and key risk indicators (KRI) have become part and parcel of normal course of business. The Bank has a robust process to capture operational loss events which are centrally fed in to an operational loss data base to be used for modeling when the Bank moves towards the Advanced Approach under BASEL Guidelines. In addition to above Operational Risk Management Unit oversee the appropriateness and implementation of Business Continuity Plan (BCP) across the Bank.

Operational Risk Management Unit oversees the internal control systems of the Bank which include assessment of operating procedures to mitigate Operational Risks. The Operational Risk Management Unit works closely with other business/support units in confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with relevant accounting principles and regulatory requirements.

The Bank uses Insurance as a risk mitigating technique to contain the severity of Operational Risk.

## 6.0

### **Financial Information**

#### **6.3 Interim Financial Statements for the period ended 30th September 2013 (Un-Audited) Contd.**

#### **2 CAPITAL MANAGEMENT**

The Bank has established a capital maintenance strategy which forms an integral part of its strategic planning exercise with following key objectives in mind.

- To maintain the capital resources commensurate with the business strategy, capital commitments and overall risk appetite
- To maintain an adequate capital buffer for unexpected and stressed economic conditions
- To allocate capital to businesses and products in order to optimize risk adjusted returns and economic value additions
- To comply with regulatory requirements and international best practice relating to capital maintenance

In regulatory capital perspective, the bank applies the Basel 2 framework, as adopted by CBSL in order to calculate the Risk Weighted Assets (RWA) and the capital requirement. For the measurement of RWA, the bank currently adopts the standardized approach for credit risk and market risk while the Basic Indicator Approach is applied for Operational Risk. The minimum Tier 1 capital is set at 5% of RWA while minimum Total Capital (Tier 1 plus Tier 2) is set at 10% RWA

A detailed analysis and explanation of risk management policies and procedures are given in the Annual Report 2012 of the Bank.

## 6.4 Audited Financial Statements for the Year ended 31st December 2012

Auditors Report to the Board of Directors and Audited Consolidated Financial Statements of NTB and its subsidiaries as at 31st December 2012 is disclosed under Annexure A of this Prospectus.

## 6.5 Stated Capital

The detailed breakdown of Stated Capital as at 30th September 2013 is given below.

BANK	As at 01 January 2013	Dividend paid for 2012	Total Comprehensive Income	Transfers to the Investment Fund Account	As at 30 September 2013
Stated Capital	5,101,369	-	-	-	5,101,369
Retained Earnings	3,153,852	(484,275)	1,445,298	(363,660)	3,751,215
Reserve Fund	313,663	-	-	-	313,663
Investment Fund Account	593,236	-	-	363,660	956,896
Total	9,162,120	(484,275)	1,445,298	-	10,123,143

## 6.6 Dividend Policy

The Board of Directors subject to the Articles of Association of the Company and Companies Act No. 07 of 2007 may recommend and declare dividends to the shareholder from and out of the profits of the Bank. The dividend rate will be determined based on a number

of factors, including but not limited to the Company's earnings, capital requirements and overall financial condition. Dividends paid and payable are subject to the Banking Act requirements.

	2012	2011	2010
Dividend Payments NTB '000'	484,275	484,275	461,215
Dividend Per share (first & final)	Rs. 2.10	Rs. 2.10	Rs. 2.00

## 6.0 Financial Information

### 6.7 Financial Ratios As at 30 September 2013

Interest Coverage Ratio	5.93
Net Debt/EBITDA	1.99

(EBITDA – Earnings before Interest Tax Depreciation and Amortization and note that the above ratios are based on SLFRS.

### 6.8 Details of Other Debt Securities

Details of Borrowings as at 30th September 2013

Type of Borrowing	Year of Issue	Face Value (Rs.'000')	Tenor (years)	Outstanding Balance (Rs.'000')
Senior Debt	2008	1,354,800	5	159,813
Subordinated Debenture	2011	2,000,000	5	2,020,657
Subordinated Loan	2004	673,250	10	67,325
Subordinated Loan	2012	1,649,050	5	1,700,063

### 6.9 Details of Outstanding Convertible Debt Securities

NTB has not issued any convertible debt securities as at the date of the Prospectus.



## 7.0 The Board of Directors

### 7.1 The Details of the Board of Directors

Name, Designation & Address	Description
<p><b>A. K. Gunaratne</b> - Chairman/Non Executive Director</p> <p>No. 90/1, Galle Road, Mt. Lavinia</p>	<p>Mr. Gunaratne was appointed as the Chairman of Nations Trust Bank PLC on 1 November, 2012. He has been a member of the Board of the Bank since 1 May, 2005. He is the Director - Group Co-ordination of Central Finance Company PLC, a leading Non-Banking Financial Institution (NBF) in the country where he oversees the functions of Strategic Planning and Risk Management. He is a Fellow Member of The Chartered Institute of Management Accountants of UK and The Institute of Chartered Accountants of Sri Lanka. Mr Gunaratne also serves on the Board Supervisory Committee, Board Credit Committee and Human Resources and Remuneration Committee of the Bank and recently was appointed as the Chairman of the said Committees. He is a member of the Nomination Committee of the Bank. Until recently, Mr. Gunaratne served on the Integrated Risk Management Committee of the Bank. Further more, Mr. Gunaratne has over 10 years of audit and consulting experience with Ernst &amp; Young and 3 years of financial control experience with Union bank of Colombo in addition to over 12 years with Central Finance Company PLC.</p>
<p><b>R. N. K. Fernando</b> - Executive Director/CEO</p> <p>232/2, Havelock Road , Colombo 05</p>	<p>Mrs. Fernando was appointed as the Director/ CEO of Nations Trust Bank PLC on 15 September, 2012. She joined the Bank in September, 2001 as AGM- Corporate Financial Solutions and thereafter held the positions of DGM-Retail Banking and DGM-Consumer Banking. In June, 2011 she was appointed as the Deputy CEO of the Bank. Prior to joining the Bank she was with ABN AMRO Bank N.V, Sri Lanka, where she held the positions of Vice President/ Head -Global Transactional Services and Head of Consumer Banking. During her banking carrier spanning 30 years, Mrs. Fernando has also worked at Banque Indosuez, Sri Lanka as Manager-Corporate Banking and Nederlandsche Middenstands Bank -Hong Kong. Mrs. Fernando is an Associate of Chartered Institute of Bankers, UK and possesses a H.Dip. in Business Administration (Banking).</p>
<p><b>C. H. S. K. Piyaratna</b> – Executive Director</p> <p>Apartment 19, Rosmead Towers, 102, Rosmead Place, Colombo 7</p>	<p>Mr. Sarath Piyaratna is an Executive Director of the Bank. He was appointed to the Board of Nations Trust Bank PLC in October 2006, after a successful career at HSBC spanning 28 years. His career at HSBC included assignments in Group offices in Hong Kong and Philippines. He served as the Deputy CEO and Head of Personal Financial Services at HSBC Colombo from 2000 until his retirement in 2006. Mr. Piyaratna holds a Bachelors Degree and a Masters Degree in Economics. He is a member of the Board Credit Committee of the Bank. He has previously served as the Chairman of the Board Supervisory Committee of the Bank which he continues to serve as a member.</p>

## 7.0 The Board of Directors

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<b>M. E. Wickremesinghe</b> - Independent Non Executive Director/ Senior Director	<p>Mr. Maithri Wickremesinghe is President's Counsel, a Fellow of the Chartered Institute of Management Accountants of the United Kingdom, holds an Honours Degree in Laws from the University of Colombo and obtained First Class Honours at the Final Examination of the Sri Lanka Law College. He specialises in litigation in Corporate, Banking and Intellectual Property Law both in the original and appellate courts, and engages in an advisory practice in financial restructuring, investment transactions and commercial transactions. He had advised on several mergers, acquisitions and leveraged management buyouts including the leveraged management buyout of the Sri Lankan subsidiary of Pfizer Corp. New York, arguably the first leveraged management buyout in Sri Lanka, and the leveraged management buyout of Millennium Information Technologies, which was later acquired by the London Stock Exchange. He has previously lectured and examined at the Faculty of Laws of the University of Colombo, at the University of Moratuwa and at the Kotalawela Defence Academy and functioned as an examiner for the Institute of Chartered Accountants of Sri Lanka. Mr. Wickremesinghe was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. He functions as the Chairman of the Board Audit Review Committee and of the Nomination Committee of the Bank. Mr. Wickremesinghe has previously served on the Integrated Risk Management Committee of the Bank.</p>
No. 46, Old Road, Nawala, Rajagiriya	

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<b>A. R Rasiah</b> – Non Executive Director	<p>Mr. Rasiah is a Fellow member of The Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science Degree from the University of Sri Lanka. Mr. Rasiah possesses well over 30 years of experience in Finance at a very senior level both internationally and locally and currently serves on the Board's of Ceylon Cold Stores PLC and Walkers Sons Co. Limited, MTD Walkers PLC and EB Creasy Group of Companies. He is also a Management Consultant to Ceylon Pencil Company. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and a former visiting lecturer and examiner at The Institute of Chartered Accountants of Sri Lanka. He is currently a visiting lecturer for MBA students on Finance at Postgraduate Institute of Management (PIM). A keen social worker, he is a former President of the Benevolent Society of The Institute of Chartered Accountants of Sri Lanka and a Committee member of Sri Lanka Institute of Directors. Mr. Rasiah is also a sportsman of repute having represented Sri Lanka at Table Tennis. Mr. Rasiah was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. He serves as the Chairman of the Integrated Risk Management Committee of the Bank. He also serves as a member of the Human Resources and Remunerations Committee and the Board Audit Review Committee of the Bank. Mr. Rasiah has also served as the Chairman of the Board Audit Review Committee of the Bank.</p>
No.52A, Ward Place, Colombo 7	

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<p><b>Dr. Dushni Weerakoon</b> – Independent Non Executive Director</p>	<p>Dr. (Ms.) Weerakoon holds a Ph.D. and a MA in Economics from the University of Manchester, United Kingdom and a B.Sc. in Economics from Queens University of Belfast, U. K. Currently, Dr. (Ms.) Weerakoon is carrying-out research and teaching in international economics and macroeconomic policy management and has functioned as a research fellow at the Institute of Policy Studies, Consultant on International Trade for UN ESCAP and a regional faculty member of World Trade Organization on Regional Trade Policy Course. She was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. She is a member of the Board Audit Review Committee and the Human Resources and Remuneration Committee of the Bank.</p>
<p>No.10, Swarnadisi Place, Koswatta, Nawala</p>	
<p><b>K. N. J. Balendra</b> – Non Executive Director</p>	<p>Mr. Balendra was appointed to the Board of Nations Trust Bank PLC in December 2009. He is a President and member of the Group Executive Committee of John Keells Holdings PLC and has responsibility for the Retail sector and John Keells Stock Brokers. He is the Chairman of the Colombo Stock Exchange. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence &amp; Co. PLC, Sri Lanka prior to joining JKH. Mr. Balendra holds a law degree (LLB) from the University of London and an MBA from INSEAD. He serves as a member of the Board Supervisory Committee, the Human Resources and Remuneration Committee, Nomination Committee and the Board Credit Committee of the Bank.</p>
<p>3/5, Maitland Crescent, Colombo 07</p>	
<p><b>Murtaza Jafferjee</b> – Independent Non Executive Director</p>	<p>Mr. Jafferjee holds a Masters in Financial Economics from the University of Colombo, Sri Lanka, Chartered Financial Analyst from CFA Institute, Charlottesville, Virginia, USA, Bachelors in Computer Science and Bachelors in Engineering-Mechanical (Hons) from University of New South Wales, Australia. He was appointed to the Board of Nations Trust Bank PLC in December, 2010. He is currently a Director and the Chief Executive Officer of JB Securities (Pvt) Limited, Immediate Past President of CFA Sri Lanka, the local member society representing CFA charter holders in Sri Lanka and also an Independent Non Executive Director of Serendib Hotel PLC. He is also a Director of several other companies including Star Packaging (Pvt) Limited and Serendib Hotels PLC. He was a Director of Colombo Stock Exchange from April, 2007 to August, 2009. He possesses experience and skills in the fields of management, corporate finance, financial statement analysis and industry analysis. He is a member of the Nomination Committee and the Board Supervisory Committee of the Bank.</p>
<p>6 A, Adams Avenue, Colombo 04</p>	

## 7.0 The Board of Directors

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**Dr. Kemal De Soysa** – Independent Non Executive Director

1B 34th Lane, Off Queens Road, Colombo 3

Dr. De Soysa holds a PhD in History of Science, MPhil in History and Philosophy of Science and Medicine and BA Hons. in Natural Sciences from the University of Cambridge. He was appointed to the Board of Nations Trust Bank PLC on 21 January, 2011. He is currently the Director of Amba Research Lanka (Pvt) Ltd., managing the Sri Lanka-based operation of Amba Research, the leading provider of investment research and analytics support services to the global capital market industry. He is a member of the Executive Committee of the Amba Group and has also served in various capacities in the equity research domain at Amba's offices in Costa Rica and India. Dr. De Soysa serves as a member of the Integrated Risk Management Committee of the Bank and was recently appointed as a member of the Human Resources and Remuneration Committee of the Bank.

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**N. Shalini Panditaratne** – Independent Non Executive Director

Apartment A18/1, Empire Residencies, 51, Braybrooke Place, Colombo 2

Ms. Shalini Panditaratne is a Chartered Accountant, Sri Lanka and, is a Fellow of the Chartered Institute of Management Accountants, UK. She has international experience in Corporate and Investment Banking at senior management level, primarily in Credit Risk Management and Analysis. She initially worked as an accountant in Sri Lanka and Zambia and commenced her career in corporate banking in Bahrain. After moving to Australia, she worked for seventeen years with JP Morgan Chase Bank Sydney (formerly The Chase Manhattan Bank) in various roles including as Vice President, Head of Country Credit in Singapore and later in Thailand. She also held the position of Head of Asia Credit and Capital Management, S.E Asia. Ms. Panditaratne has provided credit training for Sydney-based financial institutions in corporate credit risk analysis and credit risk management. She was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. She was recently appointed as a member of the Board Audit Review Committee and Board Credit Committee of the Bank. She has served as a member of the Integrated Risk Management Committee of the Bank, until recently.

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**D. Prasanna De Silva** - Non Executive Director

No. 63/1A, 5th Lane, Edirisinghe Road, Mirihana, Nugegoda

Mr. De Silva who is a Director of Central Finance Company PLC, possesses 22 years of experience in banking and finance of which 15 years have been in senior management. He was appointed to the Board of Nations Trust Bank PLC on 01st January, 2012. He has had extensive exposure to credit appraisals, recovery, operating systems, tax, regulatory framework and legal aspects at operational and managerial levels during his tenure at Central Finance Company PLC. Mr. De Silva is an Associate Member of the Chartered Financial Analyst Institute (CFA) USA and an Associate Member of Chartered Institute of Management Accountants (CIMA) UK. He is also a past Chairman of the Leasing Association of Sri Lanka. Mr. De Silva serves as a member of the Board Audit Review Committee and Integrated Risk Management Committee of the Bank. Until recently, he served as a member of the Nomination Committee of the Bank.

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**K. O. V. S. M. S. Wijesinghe** - Non Executive Director

No. 10, Madangahawatte Lane, Colombo 6

Mr. Wijesinghe is a Fellow Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He has over 30 years of work experience in the fields of auditing, financial management and general management which has been acquired while serving in organisations both locally and overseas. Mr. Wijesinghe is currently an Executive Vice President at John Keells Holdings PLC and is the Chief Financial Officer of the Financial Services Sector of the Group. He has been with the John Keells Group and in the Financial Services Sector since January 2004. The Financial Services Sector of the John Keells Group comprises of Nations Trust Bank PLC, Union Assurance PLC and John Keells Stock Brokers (Pvt) Ltd. Prior to joining the John Keells Group, Mr. Wijesinghe was employed in Botswana for 12 years, initially as the Group Finance Manager and thereafter as the Group Finance Director of Securicor Botswana Ltd. (formerly known as Inco Holdings Ltd.) a Company listed on the Botswana Stock Exchange. He was appointed to the Board of Nations Trust Bank PLC on 1 November, 2012. He serves as a member of the Board Supervisory Committee, Board Audit Review Committee and Integrated Risk Management Committee of the Bank.

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## 7.0 The Board of Directors

### 7.2 Directorships Held on Other Boards

Name of The director	Other Directorships
1. Mr. Arjuna Kapila Gunaratne	<ol style="list-style-type: none"> <li>1. Capital Suisse Asia Limited</li> <li>2. Central Finance Company PLC</li> <li>3. Mark Marine Services (Pvt) Limited</li> <li>4. Central Industries PLC</li> <li>5. Zyrex Power Company Limited</li> <li>6. Waldock Mackenzie Limited</li> <li>7. Allied Properties Limited</li> <li>8. CF Insurance Brokers (Pvt) Ltd</li> <li>9. Hi-Tech Power Systems (Pvt) Limited</li> <li>10. CF Venture Management Co. Ltd</li> </ol>
2. Mr. Chinthamana Hettige Sarath Kumara Piyaratna	<ol style="list-style-type: none"> <li>1. Sunshine Holdings PLC</li> <li>2. Katulanda Plantations (Pvt) Limited</li> <li>3. Nations Insurance Brokers Limited</li> <li>4. Swiss Biogenics Limited (Unquoted)</li> <li>5. Waldock Mackenzie Limited</li> <li>6. Sunshine Power (Pvt) Limited</li> <li>7. Sunshine Energy (Pvt) Limited</li> <li>8. Mercantile Leasing (Financial Services) Limited</li> </ol>
3. Mr. Albert Rasakantha Rasiah	<ol style="list-style-type: none"> <li>1. Ceylon Cold Stores PLC</li> <li>2. MTD Walkers PLC</li> <li>3. Walkers Sons &amp; Co. Ltd</li> <li>4. E.B. Creasy &amp; Company PLC</li> <li>5. Darley Butler &amp; Company Limited</li> <li>6. Creasy Foods Limited</li> <li>7. Ceylon Pencil Company Ltd</li> <li>8. Marawila Resorts PLC</li> <li>9. Beruwala Resorts PLC</li> <li>10. Sigiriya Resorts PLC</li> </ol>
4. Dr. Dushni Weerakoon	<ol style="list-style-type: none"> <li>1. Institute of Policy Studies</li> <li>2. Centre for Poverty Analysis (CEPA)</li> </ol>

5. Mr. Maithri Evan Wickremesinghe	1. Hemas Holdings PLC
6. Mr. Krishan Niraj Jayasekara Balendra	<ol style="list-style-type: none"> <li>1. Colombo Stock Exchange</li> <li>2. Jaykay Marketing Services (Private) Limited</li> <li>3. John Keells Stock Brokers (Private) Limited</li> <li>4. John Keells Capital (Pvt.) Ltd.</li> <li>5. Central Hospitals (Pvt) Ltd.</li> <li>6. John Keells BPO Holdings Private Limited</li> <li>7. John Keells BPO Solutions India Private Limited</li> <li>8. John Keells BPO Investments Private Limited</li> <li>9. Nexus Networks (Private) Limited</li> <li>10. South Asia Gateway Terminals (Private) Limited</li> <li>11. John Keells BPO Alpha Private Limited</li> <li>12. British Overseas (Private) Limited</li> <li>13. Waldock Macenzie Limited</li> <li>14. Allied Properties Limited</li> <li>15. John Keells BPO International Private Limited</li> <li>16. John Keells BPO Solutions Canada Inc</li> </ol>
7. Mr. Murtaza Jafferjee	<ol style="list-style-type: none"> <li>1. JB Securities (Pvt) Ltd</li> <li>2. JB Financial (Pvt) Ltd.</li> <li>3. Jafferjee Investments Ltd</li> <li>4. Serendib Hotels PLC</li> <li>5. CFA Sri Lanka</li> <li>6. Maxwell Enterprises (Pvt) Ltd</li> <li>7. Ceylon Machine Twisted Industries (Pvt) Ltd</li> <li>8. Askold (Pvt) Ltd</li> <li>9. Star Packaging (Pvt) Ltd</li> </ol>
8. Dr. Kemal de Soysa	<ol style="list-style-type: none"> <li>1. Amba Research Lanka (Pvt) Ltd.</li> <li>2. ID Lanka Limited</li> <li>3. East India Holdings (Pvt) Ltd</li> </ol>
9. Mr. Dhammika Prasanna De Silva	<ol style="list-style-type: none"> <li>1. Central Finance Company PLC</li> <li>2. Hedges Court Res. (Pvt) Ltd</li> <li>3. Mark Marine Services (Pvt) Ltd</li> <li>4. CF Insurance Brokers (Pvt) Ltd</li> <li>5. Telecommunication Regulatory Commission of Sri Lanka</li> <li>6. Leasing Association of Sri Lanka</li> <li>7. CF Growth Fund Limited</li> <li>8. CF Venture Management Co. Ltd.</li> </ol>

## 7.0 The Board of Directors

10. Ms. Neelendra Shalini Panditaratne	N/A
12. Mr. Suran Wijesinghe	N/A
11. Ms. Renuka Fernando	<ol style="list-style-type: none"> <li>1. Nations Trust Bank PLC</li> <li>2. Nations Insurance Brokers Limited</li> <li>3. Mercantile Leasing (Financial Services) Limited</li> <li>4. Allied Properties Limited</li> <li>5. Waldock Mackenzie Limited</li> <li>6. Lanka Financial Services</li> </ol>

### 7.3 Directors Interest in any Asset Acquired, Disposed or Leased

None of the Directors have any direct or indirect material interest in any assets acquired, disposed or leased by the Bank during the past two years from the date of this Prospectus and in any assets proposed to be acquired, disposed or leased during the two years succeeding this Issue.

### 7.4 Directors Interest in Material Contracts

None of the Directors have any interest in any of the material contracts entered by the Bank that are in force as at the date of this Prospectus. Banking facilities have been granted to Companies in which directors have an interest subject to and in accordance with the regulations agreed by the central bank of Sri Lanka.

### 7.5 Declaration by the Directors

No Director of NTB or a person nominated to become a Director is or was involved in the following events

- A petition under any bankruptcy laws filed against such a person or any partnership in which he was a partner or any corporation of which he was an executive officer.

- A conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE consider as a disqualification

### 7.6 Directors' Remuneration

The aggregate emoluments paid to the Directors (including CEO) comprising bonus and/or profit sharing payment during the financial year ended 31 December 2012 was LKR 51.5 Mn. The estimated emoluments including bonus and/or profit sharing payment payable for the financial year ending 31 December 2013 is LKR 53.1 Mn.

Details of Directors fees & emoluments paid during 2012	Estimated YTD 2013 (Rs. Mn)	Paid for the Year 2012 (Rs. Mn)
Executive Directors Emoluments (including CEO)	42.16	41.01
Non Executive Directors' Fees	11.00	10.55
<b>Total</b>	<b>53.15</b>	<b>51.55</b>



## 8.0 **CEO and Corporate Management Team**

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### 8.1 Details of Corporate Management

Name	Professional Qualifications	Overall Experience in the Banking & Finance field
Mr Chinthamana Hettige Sarath Kumara Piyaratna	B.A. Economics – University of Madras - 1975	<b>Nations Trust Bank PLC</b> Executive Director (Oct 2006 to date)
	M.A. Economics - Delhi School of Economics – 1977	<b>HSBC Sri Lanka</b> (1978 - 2006) Deputy CEO and Head of Personal Financial Services (2000-2006) Secondment to HSBC Philippines as Vice President Custody and Clearing (1994-1996) Secondment to HSBC Hong Kong (1988-1989)

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## 8.0

### **CEO and Corporate Management Team**

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Ms Renuka Nandini Kurukulasuriya  
Fernando

Associate of Chartered Institute of  
Bankers, UK – 1988 September

H.Dip. Business Administration  
(Banking), Polytechnic, Hongkong –  
1981

#### **Nations Trust Bank PLC**

Director / Chief Executive Officer

(September 2012 to date)

Deputy Chief Executive Officer

(May 2011 to September 2012)

DGM – Retail & SME Banking

(Jan 2011 to May 2011)

DGM – Retail Banking

(Jan 2010 to Dec 2010)

DGM – Consumer Banking

(April 2004 to Dec 2009)

AGM – Corporate Banking

(Sep 2001 to Mar 2004)

#### **ABN AMRO Bank NV, SL**

(Jan 2000 to Sep 2001)

Asst Vice President - Global

Transactional Banking

(Jan 1997 to Jan 2000)

Head – Consumer Banking

#### **Banque Indosuez, SL**

(Mar 1986 to Dec 1996)

Manager Corporate Banking

#### **Netherlandsche Middenstands Bank, Hongkong**

(Oct 1981 to Oct 1985)

Credit Officer Corporate Banking

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Ms Renicka Keshini Jayawardena	Solicitor of the Supreme Court of England and Wales – 1985	<b>Nations Trust Bank PLC</b>
	B.Sc. Econ Upper Second Class Honours, London School of Economics – 1981	DGM – Retail & SME Banking (Sep 2011 to date) DGM – SME Banking (Feb 2006 to Aug 2011)
		<b>HSBC Sri Lanka</b>
		(1987 – 2005)
		Head of Operations
Mr. Lakshitha Priyantha Bandara Talwatte	Diploma in Marketing – Chartered Institute of Marketing, UK – 1993	<b>Nations Trust Bank PLC</b>
		DGM Cards & Strategic Marketing (Jan 2012 to date)
		DGM – Cards, Consumer Assets & Strategic Marketing
		(Jan 2011 to Dec 2011)
		DGM – Sales & Marketing
		(Mar 2008 to Dec 2010)
		Head of Credit Cards & Strategic Marketing
		(Mar 2003 to March 2008)
		Head of Marketing
		(May 2002 to Mar 2003)

## 8.0 CEO and Corporate Management Team

Mr Anthony Rohitha Ganlath Ganegoda	MBA, Southern Illinois University – 1997	<b>Nations Trust Bank PLC</b>
	B.Sc. Computer Science, University of Texas – 1993	Chief Operating Officer (Jan 2010 to date)
	Diploma in Computer Studies, NIBM - 1987	Chief Operations Officer (July 2005 to Jan 2010)
		Chief Manager Information Technology (Jan 2004 to July 2005)
		Senior Manager Applications (Aug 2002 to Dec 2003)
		<b>National Development Bank of Sri Lanka</b>
		Financial & Accounting Systems Analyst/Programmer (Aug 1993 to Aug 1996)
Mr. Thilak Theja Silva	Bachelor of Laws (LL.B) Second Class Honours, University of Colombo – 1992	<b>Nations Trust Bank PLC</b>
	Attorney-at-Law (Supreme Court of Sri Lanka) – 1993	Company Secretary/DGM – Legal & Compliance (Jan 2012 to date)
	Masters in Law (LLM) in International Law (University of Colombo) - 1998	Head of Legal & Company Secretary (April 2004 to Dec 2011)
	Registered Company Secretary (SriLanka) – 1996	Company Secretary/Manager Legal & Corporate Services
	Notary Public (Sri Lanka) – 1994	<b>DFCC Bank</b> (6 years experience) Legal Officer Senior Legal Officer

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Ms Ramanika Gayatri Unamboowe

MBA in Human Resources Management, Postgraduate Institute of Management, University of Sri Jayawardenapura - 2010

Bachelor of Arts in International Business Administration, The American College in Paris, France - 1988

**Nations Trust Bank PLC**

DGM – Commercial Banking  
(Jan 2012 to date)

Head of Human Resources  
(Sep 2009 to Dec 2011)

Chief Manager Human Resources  
(May 2008 to Aug 2009)

Chief Manager Wholesale Banking  
(Jan 2004 to April 2008)

Executive Corporate Banking  
(Oct 2002 to Dec 2004)

**American Express Bank**

(1991 - 2002)

Account Relationship Manager -  
Corporate Banking

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## 8.0 **CEO and Corporate Management Team**

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Mr Ajith Mahinda Akmeemana	Associate of the Institute of Bankers of Sri Lanka (AIB) – 1998	<b>Nations Trust Bank PLC</b> Chief Financial Officer (DGM - January 2012 to date)
	Associate of the Institute of Chartered Accountants of Sri Lanka (ACA) – 2004	Chief Financial Officer (March 2009 to Dec 2011)
		<b>Bank of Maldives Plc, Maldives</b> (2006 to 2008) Chief Financial Officer
		<b>ICICI Bank, Colombo</b> (2005 to 2006) Finance Manager
		<b>Public Bank Berhad, Colombo</b> (2002 to 2005) Head of Finance
		<b>Union Bank of Colombo</b> (1999 to 2002) Accountant
		<b>Seylan Merchant Bank, Colombo</b> (1998 to 1999) Accountant
		<b>Ernst &amp; Young, Colombo</b> (1995 to 1998) Senior Accountant

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Mr Anura Dammika Senarath Yapa	Associate of the Institute of Bankers of Sri Lanka - 1990	<b>Nations Trust Bank PLC</b>
		Chief Risk Officer (DGM – Jan 2012 to date)
		Chief Risk Officer (April 2011 to Dec 2011)
		Head of Credit Risk Management (May 2009 to March 2011)
		<b>Bank Sohar, Oman</b>
		(2008 – 2009)
		Chief Manager Corporate Accounts
		<b>HSBC Bank Middle East Ltd, Bahrain</b>
		(2006 – 2008)
		Manager Credit
		<b>The Saudi British Bank, Dammam</b>
		(2003 – 2006)
		Relationship Manager, Commercial Banking
		<b>Union Bank of Colombo Ltd</b>
		(1997 – 2003)
		Head of Loan Administration
		<b>The Saudi British Bank, Riyadh</b>
		(1993 – 1997)
		Relationship Manager Corporate Banking

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## 8.0 **CEO and Corporate Management Team**

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Mr Arthur Fernandez

Member of Certified Management Accountants (CMA). USA – part Qualification – 2003

Institute of Bankers of Sri Lanka – February 1980

### **Nations Trust Bank PLC**

Head of Internal Audit  
(June 2006 to date)

Chief Manager Internal Audit  
(Jan 2005 – June 2006)

Consultant – Nations Trust/MLL  
(Sept 2004 – Jan 2005)

### **National Bank of Oman, Oman**

Senior Manager Credit  
(Mar 2002 – Jan 2003)

### **Oman International Bank, Oman**

Chief Manager Corporate Banking  
(Jan 1999 – Nov 2001)

Various posts in Corporate Banking  
(1985 to 1999)

### **Abu Dhabi Commercial Bank, Abu Dhabi**

Supervisor (1981 – 1985)

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Mr Priyantha Wijsekera

Attorney-at-Law (Sri Lanka) – 1987

Solicitor (England & Wales) – 1991

**Nations Trust Bank PLC**

Head of Leasing

(September 2011 to date)

Chief Manager – Nations Leasing  
Operations

(2009 to 2011)

AGM – Operations (Leasing)

(2008 to 2009)

AGM (Human Resources/Legal) –  
Nations Leasing

(2006 to 2008)

**Mercantile Leasing Ltd**

AGM - Human Resources/Legal

(2003 – 2006)

AGM – Human Resources &  
Compliance Officer

(2001 – 2003)

**Citi National Investment Bank**

(1998 – 2001)

Head Compliance & Operations

**Lanka Securities (Pvt) Ltd**

(subsidiary of MBSL)

(1995 – 1998)

Manager Compliance & Operations

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## 8.0 **CEO and Corporate Management Team**

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Mr Mevan Indrajith Balalle	Attorney-at-Law of the Supreme Court of Sri Lanka – 1992	<b>Nations Trust Bank PLC</b> Head of Human Resources (Jan 2011 to date) <b>Coca Cola Beverages Sri Lanka</b> Manager Human Resources (2007 to 2011) <b>The Capital Maharaja Organization</b> Group Human Resources Manager (2002 – 2006) <b>Attorney-at-Law – Self Employed</b> (1992 – 2002)
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Mr. Indrajith Boyagoda	<p>Bachelor of Science Degree (Chemistry Special) – Second Class Upper Division University of Peradeniya</p> <p>1991</p> <p>Postgraduate Diploma in Development Economics - University of Colombo</p> <p>1995</p> <p>Master of Arts - Economics - University of Colombo.</p> <p>1998</p>	<p><b>Nations Trust Bank PLC</b></p> <p>DGM Treasury (June 2012 to date)</p> <p><b>Samba Financial Group – Saudi Arabia</b></p> <p>Assistant General Manager/Program Director – Treasury &amp; Capital Markets - Audit &amp; Risk Review Group</p> <p>May 2011- June 2012</p> <p>Assistant General Manager/Senior Reviewer – Audit &amp; Risk Review Group</p> <p>Apr 2006- Apr 2011</p> <p><b>Citibank N.A.</b></p> <p>Vice President – Country Treasurer.</p> <p>Oct 2003- Apr 2006</p> <p>Assistant Vice President – Financial Institutions (FI) Head &amp; Securities Country Manager</p> <p>Oct 1998 – Sep 2003</p> <p>Relationship Manager – Corporate &amp; Financial Institutions</p> <p>May 1997 – September 1998</p> <p>Assistant Manager – FX &amp; Money Market Dealer</p> <p>April 1995 – April 1997</p> <p>Assistant Manager – Operations Officer</p> <p>July 1992 – March 1995</p>
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## **8.0**

### ***CEO and Corporate Management Team***

#### **8.2 Declaration by the Director/Chief Executive Officer**

The Chief Executive is/was NOT involved in the following events:

- A petition under bankruptcy laws filed against such a person or any partnership in which she was a partner or any corporation of which she was as an executive officer.
- A conviction of fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.
- The subject of an order, judgment or ruling of any court or competent jurisdiction temporary enjoining him from acting as an investment advisor, dealer in securities, director or employee of a financial institution or engaging in any type of business practice or activity.

#### **8.3 Senior Management Remuneration**

The aggregate emoluments paid to the Chief Executive Officer and Senior Management in the form of salaries and bonuses during the financial year ended 31 December 2012 was LKR 191.82Mn and the estimated emoluments in the form of salaries and bonuses payable for the financial year ending 31 December 2013 is LKR 184.88Mn.

## 9.0 **Corporate Governance Practices**

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### 9.1 Overview

Corporate Governance is the system of internal controls and procedures by which NTB is managed. It provides a framework that defines the rights, roles and responsibilities of different groups within the Bank namely – Board, Management and Staff within the Bank, so as to promote the credibility and soundness of the Bank, which will lead to the overall stability of the banking sector in Sri Lanka. The Board is responsible and accountable for the management of the affairs of the Bank, conduct of business and maintenance of prudent risk management and soundness of NTB. The Board ensures that all shareholders have the same right to participate in the Governance of the Bank and receive fair treatment from the Board and Management, and all rights of shareholders and others are clearly delineated and communicated. The Board's role is to provide entrepreneurial leadership to the Bank within the framework of prudent and effective controls which enables risks to be identified and managed. The Board sets the Bank's strategic aims, ensuring that the necessary financial, human and physical resources are in place for the Bank to meet its objectives. The Board defines the Bank's values and standards and ensures that its obligations to its stakeholders are clearly understood and met. The Board is also responsible for ensuring that management maintains an effective system of internal controls that provides assurance on efficient operations and compliance with applicable laws and regulations. In carrying out this responsibility, the Board gives regard to what is appropriate for NTB's business and reputation, the materiality of financial and other risks inherent in the business and the relative costs and benefits of implementing specific controls. The Board is also the policy-making body for all matters that are of strategic importance to NTB. Corporate Governance is a fundamental part of the culture and business practices of NTB.

Good governance continues to be one of the main areas of focus for the Board of Directors of the Bank. Accordingly Board ensures a high degree of integrity through transparency and accountability at every level of operations of the Bank. The Board of Directors has established necessary policies and procedures to ensure that the day to day affairs of the Bank are governed by adequate internal control mechanisms in a manner that would enhance stakeholder confidence. Board is assisted in this effort by 6 Board sub committees. Whilst ensuring that the business is carried on adhering to the generally accepted corporate governance practices, the Board also ensures compliance with the Corporate Governance Rules under Direction No.11 of 2007 issued by the Central Bank of Sri Lanka. Bank has obtained a certificate from the External Auditors in compliance with Direction No.11 of 2007 issued by the Central Bank of Sri Lanka.

### 9.2 Board Audit Review Committee

The Board Audit Review Committee (the "BARC") is a subcommittee of the Board of Directors chaired by an Independent Non-Executive Director and comprising exclusively of Non executive Directors. The Head of Internal Audit of the Bank is the secretary of the BARC. The Director / Chief Executive Officer will attend all the meetings on the invitation of BARC. Other members of the Corporate Management attended such meetings as and when required by BARC. The minutes of meetings of the BARC are submitted for review to the Board of Directors. The Head of Internal Audit reports directly to the Chairman of the BARC, a practice that strengthens the independence of the position.

## 9.0 Corporate Governance Practices

### 9.2 Board Audit Review Committee Contd.

#### *Board Audit Review Committee*

- M. E. Wickremesinghe (Chairman)
- A. R. Rasiah
- Dr. (Ms.) D. Weerakoon
- D. Prasanna De Silva
- Mrs N.S Panditharatne
- K. O. V. S. M. S Wijesinghe
- A. Fernandez - Head of Internal Audit - (Secretary - Board Audit Review Committee)

#### *Functions of BARC*

The BARC advises the Board of Directors on the Bank's system of internal controls and on management of risk. As and when required, it requests additional information from the Management in order to satisfy itself of the adequacy of the controls in place. The functions are in accordance with the Banking Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks in Sri Lanka.

### 9.3 Human Resources and Remuneration Committee

The Committee was reconstituted with effect from 1st December, 2012 and currently comprises of the following directors;

- Mr. A. K. Gunaratne(Chairman)
- Dr. (Ms) D. Weerakoon
- Mr. A. R. Rasiah
- Mr. K.N.J. Balendra
- Dr. Kemal De Soyza

The workings of the committee are governed by the Remuneration Committee Charter, the objectives of

which are:

- To assist the Board of Directors to establish remuneration policies and practices.
- To review and recommend to the Board, remuneration policies and packages for the Chief Executive Officer (CEO) and other Executive Director and key Management Personnel of the Bank.
- To set goals and targets for CEO, other Executive Director and key Management Personnel.
- To evaluate the performance of the CEO, other Executive Directors and key Management Personnel against set goals and targets.

In performing this role, the Committee ensures that

- Shareholder and employees interests are aligned
- The Bank is able to attract, motivate and retain employees, particularly at management level.
- The integrity of the Bank's compensation and reward programme is maintained.

### 9.4 Nominations Committee

The Committee was reconstituted with effect from 1 December, 2012 consequent to changes in the Board of Directors and currently comprise of the following Directors;

- Mr. M. E. Wickremesinghe – Chairman
- Mr. A. K. Gunaratne
- Mr. K. N. J. Balendra
- Mr. Murtaza Jafferjee

The Chairman of the Committee is an independent Non-Executive Director while the other members are Non-

Executive Directors. The proceedings of the meetings were reported to the Board.

The Committee's main responsibilities include the following.

- Selecting and appointing new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
- Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel of the Bank and setting up criteria for their appointment or promotion.
- Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.
- Ensuring compliance with the provisions of the Articles of Association, written law, the Rules of the Colombo Stock Exchange and Directions of the Monetary Board of the Central Bank of Sri Lanka as may be applicable to the appointment of Directors, the Chief Executive Officer and Key Management Personnel.

## 9.5 Integrated Risk Management Committee

The Integrated Risk Management Committee of the Board comprises of the following Directors.

- Mr. A. R. Rasiah (Chairman)
- Dr. Kemal De Soysa
- Mr. D. Prasanna De Silva
- Mr. K. O. V. S. M. S. Wijesinghe

Chief Executive Officer, Ms. R. N. K. Fernando and the following Key Management Personnel attended meetings

of the Integrated Risk Management Committee as required under Rule No. 3(6)(v)(a) on Rules of Corporate Governance for Licensed Commercial Banks in Sri Lanka.

- Mr. Ajith Akmeemana – Chief Financial Officer
- Mr. Rohitha Ganegoda – Chief Operating Officer
- Mr. Anura Yapa – Chief Risk Officer
- Mr. Indrajith Boyagoda – DGM – Treasury
- Mr. Theja Silva – DGM – Legal & Compliance

In addition to the above, Mr. Sarath Piyaratna, Executive Director, Mr. Arthur Fernandez, Head of Internal Audit, Mr. Damith Pallewatte, Deputy Head Integrated Risk Management and Mr. Jerome Ratnarajah, Chief Manager Market Risk Management also attended meetings of the Integrated Risk Management Committee by invitation.

### ***Terms of Reference***

Integrated Risk Management Committee's mandate includes the following:

- Ensuring that the Bank has a comprehensive risk management framework in place relative to the Bank's activities and risk profile.
- Assessing the effectiveness of the Bank's risk management system and monitoring the impact to the Bank from risk types such as credit, market, liquidity, operational and strategic through appropriate risk indicators and management information,
- Ensuring that a compliance function is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies relating to all areas of Bank operations,
- Ensuring that the Board of Directors is kept updated of the Group's risk exposure.

## 10.0 Statutory and Other General Information

### 10.1 Inspection and Hosting of Documents

This Prospectus, the Articles of Association of NTB and the Trust Deed will be hosted on the Colombo Stock Exchange's web site [www.cse.lk](http://www.cse.lk) and on the NTB website [www.nationstrust.com](http://www.nationstrust.com) from the date of opening the issue until the date of maturity of the Debentures.

Audited financial statements of NTB of the Five (05) years preceding the Issue (FY 2008 to FY 2012), the Trust Deed, Articles of Association of the Bank, material contracts and management agreements and reports or statements made by an expert and referred to in the Prospectus is open for inspection by the public during normal working hours at the Registered Office of NTB from the date of this Prospectus until the date of maturity of the Debentures.

### 10.2 Copies of the Prospectus

Copies of the Prospectus and Application Forms may be obtained from the Registered Office of NTB, The Managers to the Issue, Member Firms and Trading Member Firms of the Colombo Stock Exchange and selected NTB Branches (Collection Points - Refer Annexure C).

### 10.3 Details of Legal, Arbitration or Mediation Proceedings and Penalties

Apart from legal proceedings in the normal course of its banking business, the Bank and its subsidiaries are not a party to any litigation or arbitration proceedings and is not aware of any pending or threatened litigation or arbitration that, if decided adversely to the Bank, would have a significant effect upon the Bank's financial position nor has it been a party to any such proceedings in the recent past.

### 10.4 Details of Penalties Imposed by Regulatory and State Authorities

There were no material fines or penalties imposed by regulatory or state authorities on NTB as at 31st October 2013.

### 10.5 Details of Contingent Liabilities

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers. No material losses are anticipated as a result of these transactions. Contingent liabilities of the Bank as at 30th September 2013 are as follows:

	(LKR)
Bonds & Warranties	3,537,410,804
Acceptance	1,657,722,364
Guarantees	377,423,810
Letters of Credit	4,175,514,649
Forward Exchange Contracts	35,339,082,443
	<b>45,087,154,069</b>

### 10.6 Financial Statements

NTB being a Licensed Commercial Bank is required to prepare financial statements for the year ended 31st December of a particular year. Accordingly, NTB has prepared its financial statements for the year ended 31st December 2012 which has been audited.

### 10.7 Taxation

There are no specific tax concessions or exemptions applicable to the business other than normal taxes applicable to the business of banking.



## 10.8 Cost of the Issue

The Directors estimate that the total cost of the Issue including structuring and management fees, fees payable in respect of services rendered by accountants, printing and other direct costs to be approximately LKR 25 million. Such cost will be met out of internally generated funds.

## 10.9 Underwriting and Minimum Subscription

The Debenture issue is not underwritten.

In the event the issue is under subscribed, the subscribers shall be allotted in full and funds raised shall be utilized to meet the objectives stated in this Prospectus.

## 10.10 Brokerage

Brokerage at the rate of 0.25% of the nominal value of Debenture will be paid in respect of the number of Debentures allotted on Applications bearing the seal of the Banker to the Issue or any Member/ Trading Member of the CSE or any agent appointed by the Company.

## 10.11 Management Agreements

There are no Management agreements presently in force or currently being considered.

## 10.12 Take-over Offers

There were no take-over offers by third parties in respect of the Banks shares during the past two years. The Bank has not made any takeover offers in respect of third party companies during the past two years.

## 10.13 Conflict of Interest between NTB and Trustee

No conflict of interest has arisen between the Trustee and NTB as at the date of this Prospectus.

## 10.14 Material Contracts

The Company has not entered into any material contracts other than those contracts entered into in the ordinary course of business.

## 10.15 Transactions Related Property

There are no transactions relating to property that took place within the two preceding years in which any vendor of the property to the Company or any person who is or was at the time of the transaction, a promoter or a director or proposed director of the Company had any interest, direct or indirect.

## 10.16 Details of Commissions and Benefits Paid

No other commissions or benefits were payable, paid, given or intended to be paid or given in the two preceding years for subscribing or agreeing to subscribe or procuring or agreeing to procure or promoting or agreeing to promote, subscriptions for any shares or debentures of the Company other than what is disclosed in item 10.8 above relating to the issue

# 11.0 Statutory Declarations

## 11.1 Declaration by the Directors

We the undersigned, who are named in the Prospectus as Directors of Nations Trust Bank PLC hereby declare and confirm that this Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that provisions of the CSE Listing Rules and the Companies Act no. 07 of 2007 and any amendments to it from time to time have been complied with and after making all reasonable enquires and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of Nations Trust Bank PLC have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to Nations Trust Bank PLC and making assumptions that are considered to be reasonable at the present point in time in our best judgment.

	Signature
Mr. A.K. Gunaratne	Sgd.
Mr. K N J Balendra	Sgd.
Mrs. R.N.K.fernando (Director/CEO)	Sgd.
Mr. C.H.S.K. Piyaratna	Sgd.
Mr. A.R. Rasiah	Sgd.
Dr. (Ms.) D. Weerakoon	Sgd.
Mr. M.E. Wickremesinghe	Sgd.
Mr. M Jafferjee	Sgd.
Dr. (Mr.) Kemal De. Soysa	Sgd.
Mr. D.P. De Silva	Sgd.
Ms. N. S. Panditaratne	Sgd.
Mr. K. O. V. S. M. S. Wijesinghe	Sgd.

## 11.2 Declaration by the Managers to the Issue

We Waldock Mackenzie Limited, of 242, Union Place Colombo 02 who are named in the Prospectus as the Managers to the Listed Debenture Issue of Nations Trust Bank PLC hereby declare and confirm that to the best of our knowledge and belief this Prospectus constitutes full and true disclosure of all material facts about the Issue and Issuer and where appropriate, it has satisfied that applicable forecasts have been stated by the Directors after due and careful enquiry.

The Common Seal of Waldock Mackenzie Limited affixed on this 11th day of November 2013 at Colombo in the presence of

(Sgd.)  
**R.N.K. Fernando**  
Director

(Sgd.)  
**T T Silva**  
Company Secretary

## 11.3 Declaration by the Company

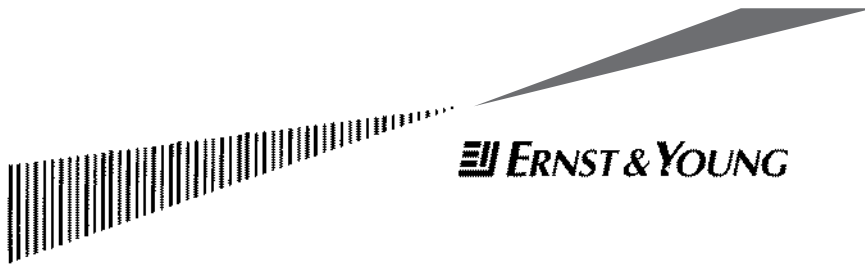
“An application has been made to the Colombo Stock Exchange for permission to deal in and for a listing for all securities in a particular class issued by the Entity and those Securities of the same class which are the subject of this issue. Such permission will be granted when the Securities are listed on the Colombo Stock Exchange. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this prospectus. Listing on the Colombo Stock Exchange is not to be taken as an indication of the merits of the Entity or of the Securities issued”

The Common Seal of Nations Trust Bank PLC affixed on this 11th day of November 2013 at Colombo in the presence of

(Sgd.)  
**R.N.K. Fernando**  
Director

(Sgd.)  
**T T Silva**  
Company Secretary

# ***Annexure A***



**Chartered Accountants**

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC**

**Report on the Financial Statements**

We have audited the accompanying financial statements of Nations Trust Bank PLC ("Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise the statements of financial position as at 31 December 2012, and the income statements and statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Bank.

**Report on Other Legal and Regulatory Requirements**

These financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

22 February 2013  
Colombo

# Statement of Financial Position

As at 31 December

	Notes	2012 Rs. '000	Bank 2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	Group 2011 Rs. '000	As at 01 January 2011 Rs. '000
<b>Assets</b>							
Cash and Cash Equivalents	5	2,534,056	3,694,381	1,532,605	2,534,155	3,694,423	1,532,624
Balances with Central Bank of Sri Lanka	6	5,089,342	4,284,336	2,416,235	5,089,342	4,284,336	2,416,235
Reverse Repurchase Agreements	7.1	3,287,274	7,262,949	4,677,266	2,711,927	6,614,228	3,484,081
Derivative Financial Instruments	8.1	327,843	254,695	62,072	327,843	254,695	62,072
Financial Assets - Held for Trading	9	20,253,158	6,270,703	15,195,791	21,087,926	6,549,788	16,033,313
Financial Assets - Held to Maturity	10.2	10,237,904	11,197,758	7,672,903	10,237,904	11,817,619	8,241,975
Other Financial Assets	11	1,892,922	2,898,132	3,140,410	1,892,922	2,898,132	3,140,410
Loans and Advances to Customers	12	72,458,357	60,238,355	43,237,637	73,423,951	61,187,970	43,938,142
Investments in Subsidiaries	13	678,710	678,710	678,710	-	-	-
Other Assets	14	2,570,616	2,223,694	1,804,010	2,590,590	2,280,207	1,858,080
Property, Plant and Equipment	15.1.3	1,395,882	1,367,740	1,254,019	1,907,999	1,891,269	1,788,444
Intangible Assets	16.1	625,186	599,568	679,057	642,457	599,941	679,057
<b>Total Assets</b>		<b>121,351,250</b>	<b>100,971,021</b>	<b>82,350,715</b>	<b>122,447,016</b>	<b>102,072,608</b>	<b>83,174,433</b>
<b>Liabilities</b>							
Due to Banks	17	2,796,350	1,277,136	1,201,506	2,796,350	1,277,136	1,201,506
Repurchase Agreements	7.2	11,832,692	14,760,019	17,390,911	11,832,692	14,479,508	17,390,911
Derivative Financial Instruments	8.2	528,472	315,720	359,856	528,472	315,720	359,856
Due to Customers	18.1	86,597,514	67,691,749	49,064,134	86,189,996	67,633,066	49,024,935
Debt Issued and Other Borrowed Funds	19.3	5,831,123	4,808,100	3,681,769	6,333,779	5,408,963	4,064,969
Current Tax Liabilities		510,155	234,404	576,805	544,253	235,255	582,762
Other Liabilities	20	3,811,943	3,790,205	3,917,134	3,846,059	3,858,830	3,787,532
Deferred Tax Liabilities	21	280,881	235,711	13,237	280,155	235,711	13,237
<b>Total Liabilities</b>		<b>112,189,130</b>	<b>93,113,044</b>	<b>76,205,352</b>	<b>112,351,756</b>	<b>93,444,189</b>	<b>76,425,708</b>
<b>Equity Attributable to Equity Holders of the Parent</b>							
Stated Capital	22	5,101,369	5,101,369	4,367,631	5,101,369	5,101,369	4,367,631
Statutory Reserve Fund	23.2	313,663	224,242	155,696	313,663	224,242	155,696
Retained Earnings	24	3,153,852	2,284,243	1,622,036	4,044,303	3,034,047	2,225,398
Other Reserves	25.1.2	593,236	248,123	-	635,925	268,761	-
<b>Total Equity</b>		<b>9,162,120</b>	<b>7,857,977</b>	<b>6,145,363</b>	<b>10,095,260</b>	<b>8,628,419</b>	<b>6,748,725</b>
<b>Total Liabilities and Equity</b>		<b>121,351,250</b>	<b>100,971,021</b>	<b>82,350,715</b>	<b>122,447,016</b>	<b>102,072,608</b>	<b>83,174,433</b>
<b>Contingent Liabilities and Commitments</b>	8 & 42	<b>84,914,559</b>	<b>75,739,741</b>	<b>58,031,437</b>	<b>86,238,642</b>	<b>72,792,124</b>	<b>55,278,826</b>
<b>Net Assets Value per Ordinary Share (Rs.)</b>		<b>39.73</b>	<b>34.08</b>	<b>29.31</b>	<b>43.78</b>	<b>37.42</b>	<b>32.19</b>

Certification

I certify that these Financial Statements comply with the requirements of the Companies Act No. 07 of 2007.

  
Ajith Akmeemana  
Chief Financial Officer

The Notes to the Financial Statements from pages 185 to 251 form an integral part of these Financial Statements.

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

Signed for and on behalf of the Board of Directors by;

  
A.K. Gunaratne  
Chairman

  
M.E. Wickremesinghe  
Director

  
Renuka Fernando  
Director/ CEO

  
Theja Silva  
Company Secretary

Colombo  
22 February 2013

# Income Statement

For the Year Ended 31 December

	Notes	Bank		Group	
		2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Interest Income	26	14,917,427	9,514,024	15,113,117	9,795,459
Interest Expense	27	(9,381,686)	(5,382,320)	(9,358,378)	(5,391,142)
<b>Net Interest Income</b>		5,535,741	4,131,704	5,754,739	4,404,317
Fees and Commission Income	28.1	2,175,861	1,738,812	2,285,311	1,849,929
Fees and Commission Expense	28.2	(163,259)	(144,352)	(163,350)	(144,369)
<b>Net Fees and Commission Income</b>		2,012,602	1,594,460	2,121,961	1,705,560
Net Trading Income	29	295,944	108,804	287,668	72,082
Other Operating Income	30	246,278	324,176	227,809	311,769
<b>Total Operating Income</b>		8,090,565	6,159,144	8,392,177	6,493,728
Impairment Charge / (Reversal) for Loans and Advances	31	430,965	(241,467)	431,834	(234,765)
<b>Net Operating Income</b>		7,659,600	6,400,611	7,960,343	6,728,493
Personnel Expenses	32	2,059,122	1,863,386	2,096,700	1,900,503
Depreciation of Property, Plant and Equipment		254,984	218,013	266,535	229,732
Amortization of Intangible Assets		110,962	95,000	112,816	95,121
Other Operating Expenses	33	2,284,015	1,786,810	2,282,739	1,791,207
<b>Total Operating Expenses</b>		4,709,083	3,963,209	4,758,790	4,016,563
<b>Operating Profit Before Value Added Tax (VAT)</b>		2,950,517	2,437,402	3,201,553	2,711,930
Value Added Tax (VAT) on Financial Services		416,961	351,460	435,396	376,000
<b>Profit Before Income Tax</b>		2,533,556	2,085,942	2,766,157	2,335,930
Income Tax Expense	34	745,138	645,851	815,041	728,759
<b>Profit for the Year</b>		1,788,418	1,440,091	1,951,116	1,607,171
<b>Earnings Per Share</b>			<b>Rs.</b>		<b>Rs.</b>
Basic Earnings Per Share	35	7.76	6.31	8.46	7.05
Dividend Per Share	36	2.10	2.10	2.10	2.10

The Notes to the Financial Statements from pages 185 to 251 form an integral part of these Financial Statements.

# Statement of Comprehensive Income

For the Year Ended 31 December	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Profit for the Year	1,788,418	1,440,091	1,951,116	1,607,171
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income for the Year, Net of Tax</b>	<b>1,788,418</b>	<b>1,440,091</b>	<b>1,951,116</b>	<b>1,607,171</b>
Attributable to:				
Equity Holders of the Parent	1,788,418	1,440,091	1,951,116	1,607,171

The Notes to the Financial Statements from pages 185 to 251 form an integral part of these Financial Statements.

# Statement of Changes in Equity

Bank	Stated Capital	Retained Earnings	Reserve Fund	Investment Fund Account	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>As at 01 January 2011</b>	4,367,631	1,622,036	155,696	-	6,145,363
Dividend Paid for 2010	-	(461,215)	-	-	(461,215)
Issue of share Capital	733,738	-	-	-	733,738
Total Comprehensive Income	-	1,440,091	-	-	1,440,091
Transfers to the Investment Fund Account	-	(248,123)	-	248,123	-
Transfers to the Reserve Fund	-	(68,546)	68,546	-	-
<b>As at 31 December 2011</b>	5,101,369	2,284,243	224,242	248,123	7,857,977
Dividend paid for 2011	-	(484,275)	-	-	(484,275)
Total Comprehensive Income	-	1,788,418	-	-	1,788,418
Transfers to the Investment Fund Account	-	(345,113)	-	345,113	-
Transfers to the Reserve Fund	-	(89,421)	89,421	-	-
<b>As at 31 December 2012</b>	5,101,369	3,153,852	313,663	593,236	9,162,120
<b>Group</b>	<b>Stated Capital</b>	<b>Retained Earnings</b>	<b>Reserve Fund</b>	<b>Investment Fund Account</b>	<b>Total</b>
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>As at 01 January 2011</b>	4,367,631	2,225,398	155,696	-	6,748,725
Dividend Paid for 2010	-	(461,215)	-	-	(461,215)
Issue of share Capital	733,738	-	-	-	733,738
Total Comprehensive Income	-	1,607,171	-	-	1,607,171
Transfers to the Investment Fund Account	-	(268,761)	-	268,761	-
Transfers to the Reserve Fund	-	(68,546)	68,546	-	-
<b>As at 31 December 2011</b>	5,101,369	3,034,047	224,242	268,761	8,628,419
Dividend paid for 2011	-	(484,275)	-	-	(484,275)
Total Comprehensive Income	-	1,951,116	-	-	1,951,116
Transfers to the Investment Fund Account	-	(367,164)	-	367,164	-
Transfers to the Reserve Fund	-	(89,421)	89,421	-	-
<b>As at 31 December 2012</b>	5,101,369	4,044,303	313,663	635,925	10,095,260

The Notes to the Financial Statements from pages 185 to 251 form an integral part of these Financial Statements.



# Cash Flow Statement

For the Year Ended 31 December

Notes	2012 Rs. '000	Bank		Group	
		2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2011 Rs. '000
<b>Cash Flows from Operating Activities</b>					
Receipts of Interest Income	15,234,777	9,451,262	15,430,937	9,718,158	
Receipts of Fees and Commission Income	2,158,910	1,760,918	2,260,086	1,852,900	
Payments of Interest Expense	(8,537,241)	(4,807,151)	(8,512,767)	(4,808,749)	
Payments of Fees and Commission Expense	(163,259)	(143,966)	(161,147)	(143,966)	
Net Trading Income	187,421	(122,997)	187,421	(122,997)	
Receipts from Other Operating Income	247,656	318,906	229,161	360,855	
Gratuity Payments Made	20.2.2 (15,911)	(7,420)	(16,780)	(8,340)	
Payments for Operating Expenses	(4,714,552)	(3,944,860)	(4,773,179)	(4,015,277)	
<b>Net Cash Flow from Operating Activities Before Income Tax (A)</b>	4,397,801	2,504,692	4,643,732	2,832,584	
Income Tax paid	(211,215)	(542,441)	(247,364)	(600,087)	
<b>Operating Profit Before Changes in Operating Assets and Liabilities</b>	4,186,586	1,962,251	4,396,368	2,232,497	
<b>(Increase)/Decrease in Operating Assets</b>	37.1 (21,684,326)	(14,287,393)	(21,429,010)	(14,504,720)	
<b>Increase/(Decrease) in Operating Liabilities</b>	37.2 15,528,725	15,196,887	15,257,002	16,246,667	
<b>Net Cash Flows from Operating Activities</b>	(1,969,015)	2,871,745	(1,775,640)	3,974,443	
<b>Cash Flows from Investing Activities</b>					
Purchase of Property, Plant and Equipment	15.1.1 (283,456)	(319,300)	(283,596)	(321,239)	
Proceeds from Sale of Property, Plant and Equipment	914	7,297	914	8,528	
Purchase of Intangible Assets	16 (138,542)	(54,706)	(157,630)	(54,706)	
	(421,084)	(366,709)	(440,312)	(367,417)	
<b>Cash Flows from Financing Activities</b>					
Proceeds from Exercise of Share Warrants	-	733,738	-	733,738	
Net change in Debt issued and Other Borrowed Funds	3,081,635	(230,225)	2,907,545	(1,369,353)	
Proceeds from the issue of Subordinated Debentures	-	2,000,000	-	2,000,000	
Repayment of Subordinated Debt	(304,650)	(299,650)	(304,650)	(299,650)	
Interest paid on Subordinated Debt	(5,569)	(83,712)	(5,569)	(83,712)	
Dividends paid to Equity Holders of the Parent	(484,275)	(461,215)	(484,275)	(461,215)	
	2,287,141	1,658,936	2,113,051	519,808	
<b>Net Increase in Cash and Cash Equivalents</b>	(102,958)	4,163,972	(102,901)	4,126,834	
Cash and Cash Equivalents at the beginning of the year	7,612,999	3,449,027	7,613,041	3,486,207	
<b>Cash and Cash Equivalents at the end of the year</b>	7,510,041	7,612,999	7,510,140	7,613,041	
<b>Reconciliation of Cash and Cash Equivalents</b>					
Cash in Hand	5 1,836,568	1,370,877	1,836,576	1,370,885	
Statutory Deposit with the Central Bank of Sri Lanka	6 5,089,342	4,284,336	5,089,342	4,284,336	
Balances with Banks	395,146	674,843	395,237	674,877	
Money at Call and Short Notice	302,342	1,648,661	302,342	1,648,661	
Due to Banks	(113,357)	(365,718)	(113,357)	(365,718)	
	7,510,041	7,612,999	7,510,140	7,613,041	
<b>A. Reconciliation of Operating Profit</b>					
<b>Profit Before Taxation</b>	2,533,556	2,085,942	2,766,157	2,335,930	
(Profit) / Loss on disposal of Property, Plant and Equipment	1,378	(5,269)	1,378	(5,876)	
Impairment Charge / (Reversal) for Loans and Advances	430,965	(241,467)	431,834	(234,765)	
Provision for Gratuity	45,545	55,321	45,195	56,905	
(Increase) / Decrease in Interest Receivable	317,350	(62,762)	317,626	(59,013)	
Increase / (Decrease) in Interest Payable	844,446	577,030	844,445	584,199	
Increase / (Decrease) in Financial Guarantee Liabilities	(16,951)	22,105	(16,951)	22,105	
Other Non cash items	37.3 257,423	81,212	270,828	141,439	
Gratuity Payments Made	20.2.2 (15,911)	(7,420)	(16,780)	(8,340)	
	4,397,801	2,504,692	4,643,732	2,832,584	

# Notes to the Financial Statements

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## 1. CORPORATE INFORMATION

### 1.1 General

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2012 comprise the Bank and its subsidiaries: Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

Nations Trust Bank PLC does not have an identifiable parent of its own.

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2012 were authorized for issue in accordance with the resolution of the Board of Directors on 22 February 2013.

### 1.2 Principal Activities and Nature of Operations

#### **Bank**

The Bank provides a comprehensive range of financial services encompassing personal, commercial, investment and private banking, trade services, leasing, factoring, pawning, treasury and capital market services.

#### **Subsidiaries**

The principal activities of the Bank's subsidiaries namely Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee based activities, property rental and insurance broking respectively. During the year, Mercantile Leasing (Financial Services) Limited was non-operating.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The consolidated Financial Statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards as issued by the Institute of Chartered Accountants of Sri Lanka.

For all periods up to and including year ended 31 December 2011, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards applicable as at 31 December 2011 ("SLAS"). These Financial Statements for the year ended 31 December 2012 are the first the Group has prepared in accordance with Sri Lanka Accounting Standards effective 01 January 2012 comprising SLFRS and LKAS ("SLFRS"). (Refer Note 3 for explanation of the transition).

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for Derivative Financial Instruments, Financial Assets and Liabilities Held for Trading and Available for Sale Financial Investments all of which have been measured at fair value.

The consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) and all values are rounded to the nearest Thousand Rupees ('000), except when otherwise indicated.

The Group/Bank has consistently applied the accounting policies used in the preparation of its opening SLFRS Statement of Financial Position as at 01 January 2011 through all periods presented, as if these policies have always been in effect.

#### **Statement of Compliance**

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting

Standards (“SLFRS”) as issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Consolidated Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007. The presentation of these Financial Statement is also in compliance with the requirements of the Banking Act No. 30 of 1988.

### ***Presentation of Financial Statements***

The Bank and the Group present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 40.

Each material class of similar items is presented separately in the Consolidated Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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

The consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December each year. The Financial Statements of the Bank’s subsidiaries are prepared for the same reporting year.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## **2.2 Significant Accounting Judgments, Estimates and Assumptions**

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the Financial Statements. Use of available information, estimates and assumptions and application of judgment is inherent in the preparation of the Financial Statements as they affect the application of accounting policies and the recorded amounts in the Financial Statements. The Group believes its estimates including the valuation of assets and liabilities are appropriate. Estimates and underlying assumptions are reviewed on a continuous basis. However the actual results may differ from those estimates. The most significant uses of judgments and estimates are as follows:

### ***Judgments***

#### ***Taxation***

The Group is subject to income tax and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

## Notes to the Financial Statements

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

### *Estimates and Assumptions*

#### *Going Concern*

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

#### *Fair Value of Financial Instruments*

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 41.

#### *Impairment Losses on Loans and Advances*

The Group reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's

judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, GDP growth rate and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 12 and Note 31.

#### *Employee Benefit Liability – Gratuity*

The cost of the defined benefit plan – gratuity, is determined using an actuarial valuation. Actuarial valuation involve making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. Description of employee benefits is given in Note 20.2

## 2.3 Summary of Significant Accounting Policies

### (1) Foreign Currency Translation

The consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the Group's functional and presentation currency.

**(i) Transactions and Balances**

Transactions in foreign currencies are initially recorded at the spot middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot middle rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Income Statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

**(2) Financial Instruments – Initial Recognition and Subsequent measurement**

Financial Assets within the scope of LKAS 39 are classified as Financial Assets at Fair Value Through Profit or Loss, Loans and Receivables, Held-to-Maturity Investments, Available-for-Sale Financial Assets as appropriate. The Group determines the classification of its Financial Assets at initial recognition.

**(i) Date of Recognition**

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**(ii) Initial Measurement of Financial Instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of

financial assets and financial liabilities recorded at fair value through profit or loss.

**(iii) Financial Assets and Liabilities at Fair Value Through Profit & Loss**

- Derivatives Recorded at Fair Value Through Profit or Loss

The Bank uses Derivatives such as Interest Rate Swaps, Cross-Currency Swaps and Forward Foreign Exchange Contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Trading Income'.

- Financial Assets or Financial Liabilities Held for Trading

Financial assets or financial liabilities held for trading are recorded in the Statement of Financial Position at fair value. Changes to the fair values of financial assets or financial liabilities held for trading is recorded in 'Net Trading Income'. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

**(iv) Held to Maturity Financial Assets**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement.

## Notes to the Financial Statements

If the Group were to sell or reclassify more than an insignificant amount of held to maturity assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years under LKAS 39.

### **(v) Loans and Advances to Customers**

'Loans and advances to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, 'Loans and Advances to Customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'Impairment Charge'.

### **(vi) Debt Issued and Other Borrowed Funds**

Financial instruments issued by the Group are classified as liabilities under 'Debt Issued and Other Borrowed Funds', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, Debt Issued and Other Borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

An analysis of the Group's issued debt is disclosed in Note 19.

### **(vii) 'Day 1' Profit or Loss**

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Trading Income' except for loans granted to staff of the Bank at concessionary rates of interest.

## **(3) Derecognition of Financial Assets and Financial Liabilities**

### **(i) Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired or;
- The Group has transferred substantially all the risks and rewards of the asset.

### **(ii) Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

#### (4) Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its Statement of Financial Position to 'Financial Assets Held for Trading Pledged as Collateral' or to 'Financial Investments Held to Maturity Pledged as Collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Interest Income' and is accrued over the life of the agreement using the EIR.

#### (5) Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 41.

#### (6) Impairment of Financial Assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial re-organisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *(i) Financial Assets Carried at Amortised Cost*

For financial assets carried at amortised cost (such as, Loans and Advances to Customers as well as Held To Maturity Assets), the Group first assesses individually whether objective evidence of impairment exists for

## Notes to the Financial Statements

financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest Income'.

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the interest rate prevailed at the last repricing date.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, credit risk characteristics such as asset type, industry, collateral type and past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as property prices, payment status or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.



See Note 12 for details of impairment losses on financial assets carried at amortised cost and analysis of the impairment allowance on loans and advances by class.

***(ii) Rescheduled Loans***

Where possible, the Group seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due after receipt of payments continuously for a prescribed period. Management continuously reviews rescheduled loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

***(iii) Collateral Valuation***

The Group seeks to use collateral, where possible, to mitigate its risks of losses on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and subsequently as and when required.

***(iv) Collateral Repossessed***

The Group's policy is to sell the repossessed assets at the earliest possible opportunity. Such collateral repossessed are held on a memorandum basis without derecognizing the underlying receivable.

**(7) Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable

legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

**(8) Leasing**

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

***Group as a Lessee***

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

***Group as a Lessor***

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**(9) Property, Plant and Equipment**

Property, Plant and Equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for

## Notes to the Financial Statements

by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The Group reviews its assets' residual values, useful lives and method of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. The depreciable life of Buildings owned by the Group were re-estimated and assessed to be 40 years from the date of acquisition. Accordingly, the depreciation on Buildings will be based on the re-estimation effective from 01 January 2011.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives from the time the asset is placed in use. Lands are not depreciated. The estimated useful lives are as follows:

Buildings	40 years
Motor Vehicles	04 years
Other Equipment	04 -08 years
Computer Hardware	04 years
Furniture and Fittings	08 years
Leasehold Improvements	Over the lease period

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' or 'Other Operating Expenses' as appropriate in the Income Statement in the year the asset is derecognised.

### (10) Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

### (11) Other Intangible Assets

The Group's other intangible assets include the cost of computer software and Licenses.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 7 and 10 years, for computer software and license fees respectively.

## (12) Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, and other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been

determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

Impairment losses relating to goodwill are not reversed in future periods.

## (13) Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Financial Statements (within 'Other Liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Income Statement in 'Impairment Charge'. The premium received is recognised in the Income Statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

## (14) Employee Benefit Liability

### (i) *Defined Benefit Plan - Gratuity*

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the projected unit credit actuarial valuation method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

## Notes to the Financial Statements

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2012, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

### *(ii) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund*

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank and its subsidiaries except for Nations Insurance Brokers Limited contribute 12% of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and 3% to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contribute 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

### **(15) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

### **(16) Taxes**

#### *(i) Current Tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

#### Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 28%.

#### Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 28%.

#### Subsidiary - Allied Properties Limited

In terms of a BOI Agreement, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years commencing from 01 April 2007. Income tax on profit from other sources of income is calculated at 28%.

#### Subsidiary - Mercantile Leasing (Financial Services Limited

Income tax on profit from operations is calculated at the rate of 28%.

#### Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 28%.

#### *(ii) Deferred Tax*

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except where deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

***(iii) Value Added Tax (VAT)***

During the year, the Bank's and its subsidiary Waldock Mackenzie Limited's total 'value addition' was subjected to a 12% VAT on financial services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

***(iv) Economic Service Charge (ESC)***

As per the provisions of the Economic Service Charge Act No. 13 of 2006, the Bank paid ESC at the rate of 0.25%, on that relevant part of the turnover attributable to 'profits and income' exempt from income tax, where such turnover per quarter exceeded Rs. 50 Mn, ESC paid is deductible from the income tax liability and any unclaimed liability can be carried forward and set off against the income tax payable for a further four years.

**(17) Fiduciary Assets**

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the Financial Statements, as they are not the assets of the Group.

**(18) Dividends on Ordinary Shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**(19) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

## Notes to the Financial Statements

### *(i) Interest Income and Expense*

For all financial instruments interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future Impairment losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### *(ii) Fee and Commission Income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### **Fee Income Earned from Services that are Provided over a Certain Period of Time**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Credit related fees are deferred and recognised as an adjustment to the EIR of the loan.

#### **Fee Income from Providing Transaction Services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### *(iii) Dividend Income*

Dividend income is recognised when the Group's right to receive the payment is established.

### *(iv) Net Trading Income*

Results arising from trading activities include all gains and losses from changes in fair value .

### *(v) Rental Income*

Rental income is recognized on an accrual basis.

### *(vi) Other Income*

Other income is recognized on an accrual basis.

### *(vii) Other Expenses*

All other expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year.

## (20) Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents comprise mainly cash balances, call placements, balances with the Central Bank of Sri Lanka, highly liquid investments of which original maturity of 3 months or less and net amount due from banks.

## (21) Segment Reporting

The Group's segmental reporting is based on the following operating segments: Retail and SME Banking, Corporate Banking, Leasing, Treasury functions, Investment Banking, Insurance Broking and Property Management.

### 2.5 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 178 for the Statement of the Directors' Responsibility for Financial Reporting.

### 2.6 Standards Issued but not yet Effective

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRS will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future financial statements.

#### (i) SLFRS 9 -Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

#### (ii) SLFRS 13 -Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 01 January 2015 and 2014 respectively.

In addition to the above, following standards have also been issued and will be effective from 01 January 2014.

- SLFRS 10 - Consolidated Financial Statements
- SLFRS 11 - Joint Arrangements
- SLFRS 12 - Disclosure of Interests in Other Entities

## Notes to the Financial Statements

### 3 FIRST - TIME ADOPTION OF SLFRS

#### 3.1 Reconciliation of Equity as at 1 January 2011 (Date of transition to SLFRS)

Notes	Bank			Group		
	SLAS* Reclassifications	Remeasurements	SLFRS as at** 01 January 2011	SLAS* Reclassifications	Remeasurements	SLFRS as at** 01 January 2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	1,530,529	2,076	1,532,605	1,530,548	2,076	1,532,624
Balances with Central Bank of Sri Lanka	2,416,235	-	2,416,235	2,416,235	-	2,416,235
Reverse Repurchase Agreements	4,677,281	(15)	4,677,266	3,484,096	(15)	3,484,081
Derivative Financial Instruments	-	62,072	62,072	-	62,072	62,072
Financial Assets - Held for Trading	21,985,628	(6,789,837)	15,195,791	23,392,222	(7,358,909)	16,033,313
Financial Assets - Held to Maturity	-	7,674,123	7,672,903	-	8,243,195	8,241,975
Other Financial Assets	4,019,535	(879,125)	3,140,410	4,019,535	(879,125)	3,140,410
Loans and Advances to Customers	43,925,805	-	43,237,637	44,571,020	(678,454)	43,938,142
Investments in Subsidiaries	678,710	-	678,710	-	-	-
Other Assets	1,136,503	(17,056)	1,804,010	1,173,910	1,488	1,858,080
Property, Plant and Equipment	1,254,019	-	1,254,019	1,788,444	-	1,788,444
Other Intangible assets	679,057	-	679,057	758,318	(79,261)	679,057
Goodwill	-	372,053	-	-	79,261	-
Deferred Tax Assets	113,544	(113,544)	-	113,544	(113,544)	-
<b>Total Assets</b>	<b>82,416,846</b>	<b>310,762</b>	<b>82,350,715</b>	<b>83,247,872</b>	<b>2,829</b>	<b>83,174,433</b>
<b>Liabilities</b>						
Due to Banks	499,813	701,693	1,201,506	499,813	701,693	1,201,506
Repurchase Agreements	-	17,411,161	17,390,911	-	17,411,161	17,390,911
Derivative Financial Instruments	-	172,796	359,856	-	172,796	359,856
Due to Customers	48,353,755	792,518	49,064,134	48,314,555	792,518	49,024,935
Debt Issued and Other Borrowed Funds	21,596,959	(17,911,758)	3,681,769	21,980,160	(17,911,758)	4,064,969
Current Tax Liabilities	-	549,739	576,805	-	555,696	582,762
Other Liabilities	5,386,204	(1,488,830)	3,917,134	5,193,113	(1,423,464)	3,787,532
Employee Benefit Liability	175,066	(175,066)	-	182,270	(182,270)	-
Deferred Tax Liabilities	273,530	(113,543)	13,237	273,530	(113,543)	13,237
<b>Total Liabilities</b>	<b>76,285,327</b>	<b>(61,291)</b>	<b>76,205,352</b>	<b>76,443,441</b>	<b>2,829</b>	<b>76,425,708</b>
<b>Equity Attributable to Equity Holders of the Parent</b>						
Stated Capital	4,367,631	-	4,367,631	4,367,631	-	4,367,631
Statutory Reserve Fund	-	155,696	155,696	-	155,696	155,696
Retained Earnings	1,608,192	372,053	1,622,036	2,281,104	(55,706)	2,225,398
Other Reserves	155,696	(155,696)	-	155,696	(155,696)	-
<b>Total Equity</b>	<b>6,131,519</b>	<b>372,053</b>	<b>6,145,363</b>	<b>6,804,431</b>	<b>(55,706)</b>	<b>6,748,725</b>
<b>Total Liabilities and Equity</b>	<b>82,416,846</b>	<b>310,762</b>	<b>82,350,715</b>	<b>83,247,872</b>	<b>2,829</b>	<b>83,174,433</b>

\* Based on Sri Lanka Accounting Standards ("SLAS") as at 01 January 2011 (Date of transition).

\*\*Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") as at 01 January 2011 (Date of transition).



### 3 FIRST - TIME ADOPTION OF SLFRS (CONTD.)

3.2 Reconciliation of Equity as at 31 December 2011

Notes	SLAS*		Bank Reclassifications		Bank Remeasurements		SLFRS as at** 31 December 2011		Group Reclassifications		Remeasurements		SLFRS as at** 31 December 2011	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>														
Cash and Cash Equivalents	3,690,795	3,586	3,586	-	-	3,694,381	3,690,837	3,586	-	-	-	-	3,694,423	
Balances with Central Bank of Sri Lanka	4,284,336	-	-	-	-	4,284,336	4,284,336	-	-	-	-	-	4,284,336	
Reverse Repurchase Agreements	7,262,980	-	-	(31)	-	7,262,949	6,614,259	-	-	(31)	-	-	6,614,228	
Derivative Financial Instruments	-	254,695	254,695	-	-	254,695	-	254,695	-	-	-	-	254,695	
Financial Assets - Held for Trading	16,552,355	(10,281,652)	(10,281,652)	-	-	6,270,703	17,451,300	(10,901,512)	-	-	-	-	6,549,788	
Financial Assets - Held to Maturity	-	11,197,758	11,197,758	-	-	11,197,758	3,811,329	11,817,619	-	-	-	-	11,817,619	
Other Financial Assets	3,811,329	(913,197)	(913,197)	-	-	2,898,132	3,811,329	(913,197)	-	-	-	-	2,898,132	
Loans and Advances to Customers	61,075,039	-	-	(836,684)	-	60,238,355	62,026,192	(4,544)	-	-	(833,678)	-	61,187,970	
Investments in Subsidiaries	678,710	-	-	-	-	678,710	-	-	-	-	-	-	-	
Other Assets	1,439,303	(31,608)	(31,608)	815,999	-	2,223,694	1,497,346	(32,668)	-	-	815,529	-	2,280,207	
Property, Plant and Equipment	1,364,795	-	-	2,945	-	1,367,740	1,888,323	-	-	-	2,946	-	1,891,269	
Other Intangible assets	599,568	-	-	-	-	599,568	679,200	(79,259)	-	-	-	-	599,941	
Goodwill	-	372,053	372,053	(372,053)	-	-	-	79,261	-	-	(79,261)	-	-	
Deferred Tax Assets	62,430	(62,430)	(62,430)	-	-	-	62,430	(62,430)	-	-	-	-	-	
<b>Total Assets</b>	100,821,640	539,205	539,205	(389,824)	-	100,971,021	102,005,552	161,551	(94,495)	-	(94,495)	-	102,072,608	
<b>Liabilities</b>														
Due to Banks	365,718	911,418	911,418	-	-	1,277,136	365,718	911,418	-	-	-	-	1,277,136	
Repurchase Agreements	-	14,769,833	14,769,833	(9,814)	-	14,760,019	-	14,489,321	-	-	(9,813)	-	14,479,508	
Derivative Financial Instruments	-	291,380	291,380	24,340	-	315,720	-	291,380	-	-	24,340	-	315,720	
Due to Customers	66,497,627	1,297,634	1,297,634	(103,512)	-	67,691,749	66,438,942	1,297,634	-	-	(103,510)	-	67,633,066	
Debt Issued and Other Borrowed Funds	20,273,161	(15,465,061)	(15,465,061)	-	-	4,808,100	20,593,512	(15,184,549)	-	-	-	-	5,408,963	
Current Tax Liabilities	-	203,843	203,843	30,561	-	234,404	-	204,695	-	-	30,560	-	235,255	
Other Liabilities	5,291,560	(1,556,499)	(1,556,499)	55,144	-	3,790,205	5,370,058	(1,555,082)	-	-	43,854	-	3,858,830	
Employee Benefit Liability	222,966	(222,966)	(222,966)	-	-	-	230,835	(230,835)	-	-	-	-	-	
Deferred Tax Liabilities	395,638	(62,430)	(62,430)	(97,497)	-	235,711	395,638	(62,430)	-	-	(97,496)	-	235,711	
<b>Total Liabilities</b>	93,046,670	167,152	167,152	(100,778)	-	93,113,044	93,394,703	161,551	(112,065)	-	(112,065)	-	93,444,189	
<b>Equity Attributable to Equity Holders of the Parent</b>														
Stated Capital	5,101,369	-	-	-	-	5,101,369	5,101,369	-	-	-	-	-	5,101,369	
Statutory Reserve Fund	-	224,242	224,242	-	-	224,242	-	224,242	-	-	-	-	224,242	
Retained Earnings	2,201,236	372,053	372,053	(289,046)	-	2,284,243	3,016,477	-	-	-	17,570	-	3,034,047	
Other Reserves	472,365	(224,242)	(224,242)	-	-	248,123	493,003	(224,242)	-	-	-	-	288,761	
<b>Total Equity</b>	7,774,970	372,053	372,053	(289,046)	-	7,857,977	8,610,849	(224,242)	-	-	17,570	-	8,628,419	
<b>Total Liabilities and Equity</b>	100,821,640	539,205	539,205	(389,824)	-	100,971,021	102,005,552	161,551	(94,495)	-	(94,495)	-	102,072,608	

\* Based on Sri Lanka Accounting Standards ("SLAS") as at 31 December 2011.

\*\*Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") as at 31 December 2011 (Date of transition).

## Notes to the Financial Statements

### 3 FIRST - TIME ADOPTION OF SLFRS (CONTD.)

3.3 Reconciliation of Income for the year ended 31 December 2011

	Notes	SLAS*		Bank Reclassifications		Remeasurements		SLFRS**		SLAS*		Reclassifications		Group Remeasurements		SLFRS**	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	C & D	9,671,851	14,129	(171,956)	9,514,024	9,953,754	14,130	(172,425)	9,795,459								9,795,459
Interest Expense	I & J	(5,573,113)	183,288	7,505	(5,382,320)	(5,588,560)	189,914	7,504	(5,391,142)								(5,391,142)
<b>Net Interest Income</b>		4,098,738	197,417	(164,451)	4,131,704	4,365,194	204,044	(164,921)	4,404,317								4,404,317
Fees and Commission Income	L	529,934	1,230,984	(22,106)	1,738,812	621,917	1,256,868	(28,856)	1,849,929								1,849,929
Fees and Commission Expense		-	(144,352)	-	(144,352)	-	(144,369)	-	(144,369)								(144,369)
<b>Net Fee and Commission Income</b>		529,934	1,086,632	(22,106)	1,594,460	621,917	1,112,499	(28,856)	1,705,560								1,705,560
Net Trading Income	B & K	343,351	(397,268)	162,721	108,804	343,351	(433,990)	162,721	72,082								72,082
Other Operating Income	D	1,394,011	(1,073,454)	3,619	324,176	1,417,809	(1,116,409)	10,369	311,769								311,769
<b>Total Operating Income</b>		6,366,034	(186,673)	(20,217)	6,159,144	6,748,271	(233,856)	(20,687)	6,493,728								6,493,728
Credit Loss Expense / (Reversal)		(218,996)	237,232	(259,703)	(241,467)	(208,209)	189,973	(216,529)	(234,765)								(234,765)
<b>Net Operating Income</b>		6,585,030	(423,905)	239,486	6,400,611	6,956,480	(423,829)	195,842	6,728,493								6,728,493
Personal Expenses	D	1,798,073	-	65,313	1,863,386	1,835,637	(447)	65,313	1,900,503								1,900,503
Depreciation of Property, Plant and Equipment	F	-	220,958	(2,945)	218,013	-	232,799	(3,067)	229,732								229,732
Amortization of Intangible Assets		-	95,000	-	95,000	-	95,000	121	95,121								95,121
Other Operating Expenses	E	2,822,924	(1,041,570)	5,456	1,786,810	2,910,961	(1,124,809)	5,055	1,791,207								1,791,207
<b>Total Operating Expenses</b>		4,620,997	(725,612)	67,824	3,963,209	4,746,598	(797,457)	67,422	4,016,563								4,016,563
<b>Operating Profit before Value Added Tax (VAT)</b>		1,964,033	301,707	171,662	2,437,402	2,209,882	373,628	128,420	2,711,930								2,711,930
Value Added Tax (VAT) on Financial Services	O	-	338,182	13,278	351,460	-	362,722	13,278	376,000								376,000
<b>Profit Before Income Tax</b>		1,964,033	(36,475)	158,384	2,085,942	2,209,882	10,906	115,142	2,335,930								2,335,930
Income Tax Expense	O	593,105	-	52,746	645,851	675,987	26	52,746	728,759								728,759
<b>Profit for The Year</b>		1,370,928	(36,475)	105,638	1,440,091	1,533,895	10,880	62,396	1,607,171								1,607,171

\*Based on Sri Lanka Accounting Standards ("SLAS") as at 31 December 2011.

\*\*Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") as at 31 December 2011.

3.4 Notes to the reconciliation of equity as at 01st January 2011, 31 December 2011 and total comprehensive income for the year ended 31st December 2011

The Group adopted Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") effective 01 January 2012. Prior to the adoption of SLFRS, the Group prepared its Consolidated Financial Statements in accordance with previous Sri Lanka Accounting Standards. The Group prepared its opening SLFRS Consolidated Financial Statements as at 01 January 2011, the date of transition to SLFRS which forms the starting point for the Group's financial reporting under SLFRS. These Consolidated Financial Statements have been prepared in accordance with the accounting policies described in Note 2.

In preparing these Consolidated Financial Statements, the Group has applied the requirements of SLFRS1 - First-time adoption of Sri Lanka Accounting Standards, including retrospective application of SLFRS effective for the Group on adoption, unless otherwise indicated. The resulting adjustments are described below.

**A Reverse Repurchase Agreements**

On adoption of SLFRS, the Interest income is recognized based on an effective interest rate (EIR) method.

**B & K Derivative Financial Instruments**

As per SLFRS, the fair value of derivative instrument are separately recognized on the Statement of Financial Position.

**C Financial Assets-Held to Maturity**

Financial Assets where the Group has the ability and intention to hold to maturity were classified as Held to Maturity and measured at amortized cost using the effective interest rate method.

**D Loans and Advances to Customers**

SLAS required provision for impairment of receivables to consists of both a specific amount for incurred losses and a general amount for expected future losses. SLFRS does not permit recognition of impairment for expected future losses and instead required on a collective as well as individual basis assessment based on objective evidence that there has been an impairment.

Based on SLFRS, all loans granted to staff of the Group at concessionary rates are initially recognised at fair value.

Subsequent interest thereon was recognised as per EIR. Day 1 difference is treated as pre-paid staff cost and amortised over the remaining tenor of the loan.

**E Other Assets**

SLFRS requires total lease payments under operating leases be recognized as an expense on a straight line basis over the lease term. Further these standards require security deposits paid on operating leases be initially fair valued and subsequently measured at amortised cost using EIR method.

**F Property, Plant and Equipment**

On adoption of SLFRS, the Group re-estimated the useful life of its Buildings to be 40 years.

**G Goodwill and Other Intangible Assets**

Based on SLFRS, the Goodwill that arose as a result of business combinations that took place prior to the date of transition was determined to be impaired and derecognized against equity.

**H Repurchase Agreements**

On adoption of SLFRS, the interest expense on repurchase contracts is recognized based on an EIR method.

## **Notes to the Financial Statements**

### ***I Amounts Due to Customers***

On adoption of SLFRS, the interest expense on amounts due to customers (deposits) is recognized based as per EIR method.

### ***J Debt Issued and Other Borrowed Funds***

On adoption of SLFRS, the pre-paid transaction costs of debts issued and borrowed funds are capitalised and amortised as per EIR.

### ***L Other Liabilities***

Under SLFRS, financial guarantees were measured at fair value and reported on the Statement of Financial Position.

### ***M Reserves***

The net effect of adoption of SLFRS as of the transition date of 01 January 2011 is recorded through "Retained Earnings"

### ***N Statement of cash flows***

The transition from SLAS to SLFRS did not have a material impact on the Statement of Cash Flows.

### ***O Taxation***

This represents the effect on taxes arising on adjustments following the adoption of Sri Lanka Accounting Standards. Pending the issue of tax guidelines, such impact on taxes has been assessed based on the currently applicable tax laws and regulations.

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

4.1 Bank

	2012				
	HFT at Fair	Financial	HTM at	L & R at	Total
	Value	Derivatives	Amortised	Amortised	
Rs. '000	at Fair Value Rs. '000	Cost Rs. '000	Cost Rs. '000	Rs. '000	
<b>Assets</b>					
Cash and Cash Equivalents	-	-	-	2,534,056	2,534,056
Balances with Central Bank of Sri Lanka	-	-	-	5,089,342	5,089,342
Reverse Repurchase Agreements	-	-	-	3,287,274	3,287,274
Derivative Financial Instruments	-	327,843	-	-	327,843
Financial Assets - Held for Trading	20,253,158	-	-	-	20,253,158
Financial Assets - Held to Maturity	-	-	10,237,904	-	10,237,904
Other Financial Assets	-	-	-	1,892,922	1,892,922
Loans and Advances to Customers	-	-	-	72,458,357	72,458,357
<b>Total Financial Assets</b>	<b>20,253,158</b>	<b>327,843</b>	<b>10,237,904</b>	<b>85,261,951</b>	<b>116,080,856</b>

	2012		
	Financial	Other	Total
	Derivatives	Financial	
Fair Value	at Amortised	Cost	
Rs. '000	at Fair Value Rs. '000	Cost Rs. '000	Rs. '000
<b>Liabilities</b>			
Due to Banks	-	2,796,350	2,796,350
Repurchase Agreements	-	11,832,692	11,832,692
Derivative Financial Instruments	528,472	-	528,472
Due to Customers	-	86,597,514	86,597,514
Debt Issued and Other Borrowed Funds	-	5,831,123	5,831,123
<b>Total Financial Liabilities</b>	<b>528,472</b>	<b>107,057,679</b>	<b>107,586,151</b>

HFT - Held for Trading

HTM - Held-to-Maturity

L & R - Loans and Receivables

## Notes to the Financial Statements

### 4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

#### 4.2 Group

	2012				
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	L & R at Amortised Cost	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>					
Cash and Cash Equivalents	-	-	-	2,534,155	2,534,155
Balances with Central Bank of Sri Lanka	-	-	-	5,089,342	5,089,342
Reverse Repurchase Agreements	-	-	-	2,711,927	2,711,927
Derivative Financial Instruments	-	327,843	-	-	327,843
Financial Assets - Held for Trading	21,087,926	-	-	-	21,087,926
Financial Assets - Held to Maturity	-	-	10,237,904	-	10,237,904
Other Financial Assets	-	-	-	1,892,922	1,892,922
Loans and Advances to Customers	-	-	-	73,423,951	73,423,951
<b>Total Financial Assets</b>	<b>21,087,926</b>	<b>327,843</b>	<b>10,237,904</b>	<b>85,652,297</b>	<b>117,305,970</b>

	2012		
	Financial Derivatives at Fair Value	Other Financial Liabilities at Amortised Cost	Total
	Rs. '000	Rs. '000	Rs. '000
<b>Liabilities</b>			
Due to Banks	-	2,796,350	2,796,350
Repurchase Agreements	-	11,832,692	11,832,692
Derivative Financial Instruments	528,472	-	528,472
Due to Customers	-	86,189,996	86,189,996
Debt Issued and Other Borrowed Funds	-	6,333,779	6,333,779
<b>Total Financial Liabilities</b>	<b>528,472</b>	<b>107,152,817</b>	<b>107,681,289</b>

HFT - Held for Trading

HTM - Held-to-Maturity

L & R - Loans and Receivables

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

4.3 Bank	2011				
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	L & R at Amortised Cost	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>					
Cash and Cash Equivalents	-	-	-	3,694,381	3,694,381
Balances with Central Bank of Sri Lanka	-	-	-	4,284,336	4,284,336
Reverse Repurchase Agreements	-	-	-	7,262,949	7,262,949
Derivative Financial Instruments	-	254,695	-	-	254,695
Financial Assets - Held for Trading	6,270,703	-	-	-	6,270,703
Financial Assets - Held to Maturity	-	-	11,197,758	-	11,197,758
Other Financial Assets	-	-	-	2,898,132	2,898,132
Loans and Advances to Customers	-	-	-	60,238,355	60,238,355
<b>Total Financial Assets</b>	<b>6,270,703</b>	<b>254,695</b>	<b>11,197,758</b>	<b>78,378,153</b>	<b>96,101,309</b>

	2011		
	Financial Derivatives at Fair Value	Other Financial Liabilities at Amortised Cost	Total
	Rs. '000	Rs. '000	Rs. '000
<b>Liabilities</b>			
Due to Banks	-	1,277,136	1,277,136
Repurchase Agreements	-	14,760,019	14,760,019
Derivative Financial Instruments	315,720	-	315,720
Due to Customers	-	67,691,749	67,691,749
Debt Issued and Other Borrowed Funds	-	4,808,100	4,808,100
<b>Total Financial Liabilities</b>	<b>315,720</b>	<b>88,537,004</b>	<b>88,852,724</b>

HFT -Held for Trading  
 HTM - Held-to-Maturity  
 L & R- Loans and Receivables

## Notes to the Financial Statements

### 4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

4.4 Group	2011				
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	L & R at Amortised Cost	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>					
Cash and Cash Equivalents	-	-	-	3,694,423	3,694,423
Balances with Central Bank of Sri Lanka	-	-	-	4,284,336	4,284,336
Reverse Repurchase Agreements	-	-	-	6,614,228	6,614,228
Derivative Financial Instruments	-	254,695	-	-	254,695
Financial Assets - Held for Trading	6,549,788	-	-	-	6,549,788
Financial Assets - Held to Maturity	-	-	11,817,619	-	11,817,619
Other Financial Assets	-	-	-	2,898,132	2,898,132
Loans and Advances to Customers	-	-	-	61,187,970	61,187,970
<b>Total Financial Assets</b>	<b>6,549,788</b>	<b>254,695</b>	<b>11,817,619</b>	<b>78,679,089</b>	<b>97,301,191</b>

	2011		
	Financial Derivatives at Fair Value	Other Financial Liabilities at Amortised Cost	Total
	Rs. '000	Rs. '000	Rs. '000
<b>Liabilities</b>			
Due to Banks	-	1,277,136	1,277,136
Repurchase Agreements	-	14,479,508	14,479,508
Derivative Financial Instruments	315,720	-	315,720
Due to Customers	-	67,633,066	67,633,066
Debt Issued and Other Borrowed Funds	-	5,408,963	5,408,963
<b>Total Financial Liabilities</b>	<b>315,720</b>	<b>88,798,673</b>	<b>89,114,393</b>

HFT -Held for Trading

HTM - Held-to-Maturity

L & R- Loans and Receivables



## 5 CASH AND CASH EQUIVALENTS

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Cash in Hand	1,836,568	1,370,877	873,295	1,836,576	1,370,885	873,303
Balances with Banks	395,146	674,843	652,439	395,237	674,877	652,439
Money at call and short notice	302,342	1,648,661	6,871	302,342	1,648,661	6,882
	2,534,056	3,694,381	1,532,605	2,534,155	3,694,423	1,532,624

## 6 BALANCES WITH CENTRAL BANK OF SRI LANKA

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Statutory Deposit with the Central Bank of Sri Lanka	5,089,342	4,284,336	2,416,235	5,089,342	4,284,336	2,416,235

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31 December 2012, the minimum cash reserve requirement was 8% of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

## 7 TRANSFERRED FINANCIAL ASSETS Reverse Repurchase /Repurchase Agreements

### 7.1 Reverse Repurchase Agreements

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Due from Banks	1,004,004	4,015,389	1,704,855	1,004,004	4,015,389	1,704,855
Due from Other Financial Institutions	2,226,620	2,606,417	2,353,010	1,651,273	1,957,696	1,159,825
Due from Other Counterparties	56,650	641,143	619,401	56,650	641,143	619,401
	3,287,274	7,262,949	4,677,266	2,711,927	6,614,228	3,484,081

### 7.2 Repurchase Agreements

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Due to Banks	3,578,026	1,034,267	258,888	3,578,026	1,034,267	258,888
Due to Other Financial Institutions	4,103,732	6,697,631	6,195,787	4,103,732	6,632,204	6,195,787
Due to Other Counterparties	4,150,934	7,028,121	10,936,236	4,150,934	6,813,037	10,936,236
	11,832,692	14,760,019	17,390,911	11,832,692	14,479,508	17,390,911

## **Notes to the Financial Statements**

The Bank has a programme to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos').

The securities sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. The counterparty is allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Bank, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under terms based on the applicable International Swaps and Derivative Association (ISDA) Collateral Guidelines.

The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received.

Similarly, the Bank may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Bank, which instead records as a separate asset for the collateral given.

The carrying amount / fair value of securities sold under agreements to repurchase at 31 December 2012 was Rs 12,569 Mn (2011- Rs14,064 Mn) of which securities with a fair value of Rs. 4,919 Mn (2011- Rs 4,740 Mn) were classified as held for trading and securities with a carrying value of Rs. 7,649 Mn (2011- Rs 9,324 Mn) were classified held to maturity. Those securities are presented in the Statement of Financial Position as 'Financial Assets Held for Trading and Held to Maturity pledged as Collateral', respectively.

As at 31 December 2012, the Bank had purchased under agreements to resell securities with a fair value of Rs 3,679 Mn (2011- Rs 6,913 Mn).

### **8 DERIVATIVE FINANCIAL INSTRUMENTS**

The table below shows the fair values of Interest Rate Swaps and Forward Foreign Exchange Contracts recorded as assets or liabilities, together with their notional or transactional amounts.

Interest Rate Swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest based on the notional amount agreed. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Forward Foreign Exchange Contracts are contractual agreements either with customers or banks to exchange two currencies at an agreed rate on an agreed date in the future. Settlement of these contracts against customers is on delivery against payment basis which eliminates the credit risks. Settlement against banks is on a gross basis subject to approved credit limits.

Both these transaction types are exposed to market risks due to fluctuation of market rates.

Most of the Bank's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in rates. Also included under this classification are derivatives entered into for risk management purposes that do not meet the hedge accounting criteria.

8.1 Derivative Assets - Held for Trading  
At a Gain Position

	Bank / Group		Bank / Group		Bank / Group	
	Fair Value of Assets	Notional / Contract Amount	Fair Value of Assets	Notional / Contract Amount	Fair Value of Assets	Notional / Contract Amount
	2012 Rs. '000	Rs. '000	2011 Rs. '000	Rs. '000	As at 01 January 2011 Rs. '000	Rs. '000
Forward Foreign Exchange Contracts	327,843	14,156,216	254,695	10,092,953	62,072	5,660,154
	327,843	14,156,216	254,695	10,092,953	62,072	5,660,154

Out of the Forward Foreign Exchange Contracts at a gain position as at 31 December 2012, Rs.5.328 Mn (contract value) are on account of funding swaps where Sri Lankan Rupee funds are generated for lending purposes by converting the excess foreign currency funds.

8.2 Derivative Liabilities - Held for Trading  
At a Loss Position

	Bank / Group		Bank / Group		Bank / Group	
	Fair Value of Liabilities	Notional / Contract Amount	Fair Value of Liabilities	Notional / Contract Amount	Fair Value of Liabilities	Notional / Contract Amount
	2012 Rs. '000	Rs. '000	2011 Rs. '000	Rs. '000	As at 01 January 2011 Rs. '000	Rs. '000
Interest Rate Swaps	-	-	56,721	1,639,000	231,517	2,665,750
Forward Foreign Exchange Contracts	528,472	19,874,722	258,999	10,598,169	128,339	8,250,942
	528,472	19,874,722	315,720	12,237,169	359,856	10,916,692

Out of the Forward Foreign Exchange Contracts at a loss position as at 31 December 2012, Rs.10,888 Mn (contract value) are on account of funding swaps where Sri Lankan Rupee funds are generated for lending purposes by converting the excess foreign currency funds.

The Bank's exposure under derivative contracts are closely monitored as part of the overall management of the Bank's market risk.

## Notes to the Financial Statements

### 9 FINANCIAL ASSETS HELD FOR TRADING

	2012 Rs. '000	Bank		2012 Rs. '000	Group	
		2011 Rs. '000	As at 01 January 2011 Rs. '000		2011 Rs. '000	As at 01 January 2011 Rs. '000
Government Treasury Bills and Bonds - Held for Trading	15,334,093	1,530,374	3,906,791	15,468,861	1,559,459	4,702,313
Government Treasury Bills and Bonds - Held for Trading pledged as Collateral	4,919,065	4,740,329	11,289,000	5,619,065	4,990,329	11,331,000
	20,253,158	6,270,703	15,195,791	21,087,926	6,549,788	16,033,313

### 10 FINANCIAL ASSETS AT AMORTISED COST

	2012 Rs. '000	Bank		2012 Rs. '000	Group	
		2011 Rs. '000	As at 01 January 2011 Rs. '000		2011 Rs. '000	As at 01 January 2011 Rs. '000
<b>10.1 Financial Assets-Held to Maturity</b>						
Government Treasury Bills and Bonds	2,588,450	957,918	1,383,837	2,588,450	1,112,799	1,952,909
Sri Lanka Sovereign Bonds	-	916,107	883,066	-	916,107	883,066
	2,588,450	1,874,025	2,266,903	2,588,450	2,028,906	2,835,975
<b>10.2 Financial Assets - Held to Maturity pledged as collateral</b>						
Government Treasury Bills and Bonds	7,649,454	9,323,733	5,406,000	7,649,454	9,788,713	5,406,000
	10,237,904	11,197,758	7,672,903	10,237,904	11,817,619	8,241,975

## 11 OTHER FINANCIAL ASSETS

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Sri Lanka Development Bonds *(Note 11.1)	1,549,834	1,142,224	1,224,039	1,549,834	1,142,224	1,224,039
Unquoted Preference Shares *(Note 11.2)	-	120,134	240,161	-	120,134	240,161
Unquoted Debentures *(Note 11.3)	337,691	487,776	-	337,691	487,776	-
Other Placements *	-	1,142,892	1,671,164	-	1,142,892	1,671,164
Unquoted Investments (Note 11.4)	5,397	5,106	5,046	5,397	5,106	5,046
	1,892,922	2,898,132	3,140,410	1,892,922	2,898,132	3,140,410

\*All other financial assets are measured at amortised cost and treated as L & R.

11.1 The Investment in Sri Lanka Development Bonds amounts to USD 12 Mn (2011 - USD 10 Mn) and mature in year 2014 and 2015.

### 11.2 Unquoted Preference Shares

The above represents Rated Cumulative Redeemable Preference shares of Rs. 1/- each of Dialog Axiata PLC and matured during the year 2012.

### 11.3 Unquoted Debentures

The above represents Unsecured, Redeemable Debentures of a par value of Rs.1,000/-each of Peoples' Leasing and Finance PLC.

### 11.4 Unquoted Investments

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Lanka Clear (Private) Limited 150,000 Ordinary Shares of Rs.10/- each	1,500	1,500	1,500	1,500	1,500	1,500
Credit Information Bureau 9,000 Ordinary Shares of Rs.10/- each	90	90	90	90	90	90
Lanka Financial Services Bureau Limited 112,500 Ordinary Shares of Rs.10/- each	1,125	1,125	1,125	1,125	1,125	1,125
SWIFT Shares (Society of Worldwide Interbank Financial Telecommunication)	2,682	2,391	2,331	2,682	2,391	2,331
	5,397	5,106	5,046	5,397	5,106	5,046

## Notes to the Financial Statements

### 12 LOANS AND ADVANCES TO CUSTOMERS

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Corporate Loans	20,695,425	21,074,102	17,583,575	19,995,719	21,022,629	16,080,773
Retail, SME and Consumer	31,823,128	24,483,941	16,141,909	33,486,286	25,482,019	18,335,504
Housing Loans	1,408,377	1,318,996	1,455,057	1,408,377	1,318,996	1,455,057
Leases	19,361,556	14,061,122	9,267,150	19,361,556	14,061,122	9,267,150
	73,288,486	60,938,161	44,447,691	74,251,938	61,884,766	45,138,484
Less : Allowance for Impairment Losses	(1,825,290)	(1,490,016)	(1,924,894)	(1,823,148)	(1,487,006)	(1,915,182)
	71,463,196	59,448,145	42,522,797	72,428,790	60,397,760	43,223,302
Staff Loans	1,861,546	1,625,791	1,417,784	1,861,546	1,625,791	1,417,784
Less : Allowance for Day 1 Difference	(866,385)	(835,581)	(702,944)	(866,385)	(835,581)	(702,944)
	995,161	790,210	714,840	995,161	790,210	714,840
	72,458,357	60,238,355	43,237,637	73,423,951	61,187,970	43,938,142

#### 12.1 Gross Loans and Advances by Currency

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
<b>By Currency</b>						
Sri Lankan Rupee	68,947,923	56,628,390	42,614,355	69,911,375	57,574,995	43,305,148
United States Dollar	6,126,370	5,858,820	3,025,009	6,126,370	5,858,820	3,025,009
Others	75,739	76,742	226,111	75,739	76,742	226,111
	75,150,032	62,563,952	45,865,475	76,113,484	63,510,557	46,556,268

#### 12.1.1 Gross Loans and Advances by Product

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
<b>By Product</b>						
Bills of Exchange	315,600	708,513	510,432	315,600	708,513	510,432
Overdrafts	18,372,394	14,656,208	10,979,783	18,372,395	14,656,208	10,979,783
Term Loans	20,228,331	20,469,076	13,588,785	20,228,331	20,469,073	13,649,694
Staff Loans	1,861,546	1,625,791	1,417,784	1,861,546	1,625,791	1,417,784
Import Loans	3,226,090	1,760,311	1,344,787	3,226,090	1,760,311	1,344,787
Packing Credit Loans	1,023,032	1,194,154	1,038,144	1,023,032	1,194,154	1,038,144
Other Advances	9,962,649	6,859,110	6,264,335	10,926,100	7,805,718	6,880,002
Leases	19,361,556	14,061,122	9,267,150	19,361,556	14,061,122	9,267,150
Corporate Debt Securities	798,834	1,229,667	1,454,275	798,834	1,229,667	1,468,492
	75,150,032	62,563,952	45,865,475	76,113,484	63,510,557	46,556,268

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)  
12.2 Impairment allowance for Loans and Advances to customers  
12.2.1 Bank

	Corporate Loans 2011 Rs. '000	Retail, SME and Consumer 2011 Rs. '000	Housing Loans 2011 Rs. '000	Leases 2011 Rs. '000	Total 2011 Rs. '000
As at 01 January	1,102,666	407,830	93,867	320,531	1,924,894
Charge / (Reversal) for the year	(195,056)	71,125	3,681	(121,217)	(241,467)
Amounts written off	(1,234)	(136,617)	-	(55,560)	(193,411)
As at 31 December	906,376	342,338	97,548	143,754	1,490,016
Impairment - As at 01 January					
Individual Impairment	808,221	61,194	44,428		913,843
Collective Impairment	294,445	346,636	49,439	320,531	1,011,051
	1,102,666	407,830	93,867	320,531	1,924,894
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	880,832	126,223	78,269	-	1,085,324
Impairment - As at 31 December					
Individual Impairment	763,603	82,706	60,814	-	907,123
Collective Impairment	142,773	259,632	36,734	143,754	582,893
	906,376	342,338	97,548	143,754	1,490,016
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,472,636	302,002	110,397	-	1,885,035

## Notes to the Financial Statements

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

#### 12.2 Impairment allowance for Loans and Advances to customers (Contd.)

##### 12.2.2 Group

	Corporate Loans 2011 Rs. '000	Retail, SME and Consumer 2011 Rs. '000	Housing Loans 2011 Rs. '000	Leases 2011 Rs. '000	Total 2011 Rs. '000
As at 01 January	1,092,954	407,830	93,867	320,531	1,915,182
Charge/ (Reversal) for the year	(188,354)	71,125	3,681	(121,217)	(234,765)
Amounts written off	(1,235)	(136,617)	-	(55,559)	(193,411)
As at 31 December	903,366	342,338	97,548	143,754	1,487,006
Impairment - As at 01 January					
Individual Impairment	808,221	61,194	44,428	-	913,843
Collective Impairment	284,733	346,636	49,439	320,531	1,001,339
	1,092,954	407,830	93,867	320,531	1,915,182
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	880,832	126,223	78,269	-	1,085,324
Impairment - As at 31 December					
Individual Impairment	763,603	82,706	60,814	-	907,123
Collective Impairment	139,763	259,632	36,734	143,754	579,883
	903,366	342,338	97,548	143,754	1,487,006
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,472,636	302,002	110,397	-	1,885,035

##### 12.2.3 Movement in Individual Impairment during the year

	Bank 2011 Rs. '000	Group 2011 Rs. '000
As at 01 January	913,843	913,843
Charge/ (Reversal) for the year	(6,720)	(6,720)
As at 31 December	907,123	907,123



12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)  
 12.3 Impairment allowance for Loans and Advances to customers (Contd.)  
 12.3.1 Bank

	Corporate Loans 2012 Rs. '000	Retail, SME and Consumer 2012 Rs. '000	Housing Loans 2012 Rs. '000	Leases 2012 Rs. '000	Total 2012 Rs. '000
As at 01 January	906,376	342,338	97,548	143,754	1,490,016
Charge/ (Reversal) for the year	118,786	248,937	17,606	45,636	430,965
Amounts written off	(1,138)	(66,207)	-	(28,346)	(95,691)
As at 31 December	1,024,024	525,068	115,154	161,044	1,825,290
Impairment - As at 01 January					
Individual impairment	763,603	82,706	60,814	-	907,123
Collective impairment	142,773	259,632	36,734	143,754	582,893
	906,376	342,338	97,548	143,754	1,490,016
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,472,636	302,002	110,397	-	1,885,035
Impairment - As at 31 December					
Individual impairment	859,037	172,278	71,797	17,390	1,120,502
Collective impairment	164,987	352,790	43,357	143,654	704,788
	1,024,024	525,068	115,154	161,044	1,825,290
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	2,688,463	627,414	133,554	393,028	3,842,459

## Notes to the Financial Statements

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

#### 12.3 Impairment allowance for Loans and Advances to customers (Contd.)

##### 12.3.2 Group

	Corporate Loans 2012 Rs. '000	Retail, SME and Consumer 2012 Rs. '000	Housing Loans 2012 Rs. '000	Leases 2012 Rs. '000	Total 2012 Rs. '000
As at 01 January	903,366	342,338	97,548	143,754	1,487,006
Charge/ (Reversal) for the year	119,655	248,937	17,606	45,636	431,834
Amounts written off	(1,139)	(66,208)	-	(28,345)	(95,692)
As at 31 December	1,021,882	525,067	115,154	161,045	1,823,148
Impairment - As at 01 January					
Individual impairment	763,603	82,706	60,814	-	907,123
Collective impairment	139,763	259,632	36,734	143,754	579,883
	903,366	342,338	97,548	143,754	1,487,006
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,472,636	302,002	110,397	-	1,885,035
Impairment - As at 31 December					
Individual impairment	859,037	172,278	71,797	17,390	1,120,502
Collective impairment	162,845	352,789	43,357	143,655	702,646
	1,021,882	525,067	115,154	161,045	1,823,148
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	2,688,463	627,414	133,554	393,028	3,842,459

##### 12.3.3 Movement in Individual impairment during the year

	Bank 2012 Rs. '000	Group 2012 Rs. '000
As at 01 January	907,123	907,123
Charge for the year	213,379	213,379
As at 31 December	1,120,502	1,120,502

13 INVESTMENTS IN SUBSIDIARIES

Unquoted

Name of Company	Country of Incorporation	2012		Bank 2011		As at 01 January 2011	
		Holding %	Cost Rs. '000	Holding %	Cost Rs. '000	Holding %	Cost Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	-	100	-	100	-
Allied Properties Limited	Sri Lanka	100	652,907	100	652,907	100	652,907
Nations Insurance Brokers Limited	Sri Lanka	100	25,803	100	25,803	100	25,803
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,496	100	3,496	100	3,496
Provision for Diminution in Value			(3,496)		(3,496)		(3,496)
Net Carrying Amount			678,710		678,710		678,710

14 OTHER ASSETS

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Deposits and Prepayments	257,107	202,704	150,562	245,300	208,452	142,762
Unamortised Staff Cost	866,385	835,581	702,944	866,385	835,581	702,944
Items in Transit	1,123,444	785,530	769,397	1,123,444	785,530	769,397
Other Receivables	323,680	399,879	181,107	355,461	450,644	242,977
	2,570,616	2,223,694	1,804,010	2,590,590	2,280,207	1,858,080

## Notes to the Financial Statements

### 15 PROPERTY, PLANT AND EQUIPMENT

#### 15.1 Bank

	Land	Buildings	Motor Vehicles	Other Equipment	Computer Hardware	Furniture and Fittings	Leasehold Improvements	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>15.1.1 Gross Carrying Amounts - at Cost</b>								
As at 01 January 2011	559,440	103,969	36,512	244,537	911,834	350,631	165,768	2,372,691
Additions	-	2,395	16,100	51,791	176,039	78,546	8,891	333,762
Disposals	-	-	(21,153)	-	(976)	-	-	(22,129)
<b>As at 31 December 2011</b>	<b>559,440</b>	<b>106,364</b>	<b>31,459</b>	<b>296,328</b>	<b>1,086,897</b>	<b>429,177</b>	<b>174,659</b>	<b>2,684,324</b>
Additions	-	952	-	78,228	78,242	97,695	28,339	283,456
Disposals	-	-	(4,232)	(3,065)	(98,639)	(19,810)	(35,162)	(160,908)
<b>As at 31 December 2012</b>	<b>559,440</b>	<b>107,316</b>	<b>27,227</b>	<b>371,491</b>	<b>1,066,500</b>	<b>507,062</b>	<b>167,836</b>	<b>2,806,872</b>
<b>15.1.2 Depreciation</b>								
As at 01 January 2011		23,181	33,383	123,394	697,715	145,972	95,027	1,118,672
Charge for the year		2,324	1,870	28,156	122,472	40,051	23,140	218,013
Disposals		-	(19,152)	-	(949)	-	-	(20,101)
<b>As at 31 December 2011</b>		<b>25,505</b>	<b>16,101</b>	<b>151,550</b>	<b>819,238</b>	<b>186,023</b>	<b>118,167</b>	<b>1,316,584</b>
Charge for the year		2,353	4,025	38,260	133,444	51,339	25,563	254,984
Disposals		-	(3,931)	(3,065)	(98,609)	(19,810)	(35,163)	(160,578)
<b>As at 31 December 2012</b>		<b>27,858</b>	<b>16,195</b>	<b>186,745</b>	<b>854,073</b>	<b>217,552</b>	<b>108,567</b>	<b>1,410,990</b>
<b>15.1.3 Net Book Value</b>								
As at 01 January 2011	559,440	80,788	3,129	121,143	214,119	204,659	70,741	1,254,019
As at 31 December 2011	559,440	80,859	15,358	144,778	267,659	243,154	56,492	1,367,740
As at 31 December 2012	559,440	79,458	11,032	184,746	212,427	289,510	59,269	1,395,882

15.1.4 During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of Rs. 283 Mn (2011- Rs. 334 Mn). Cash payments amounting to Rs.283 Mn (2011 - Rs. 319 Mn) were made during the year for purchase of Property, Plant and Equipment.

15.1.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 899.8 Mn (2011 - Rs. 885.7 Mn).

15 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

15.2 Group

	Land	Buildings	Motor Vehicles	Other Equipment	Computer Hardware	Furniture and Fittings	Leasehold Improvements	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>15.2.1 Gross Carrying Amounts- at Cost</b>								
As at 01 January 2011	707,440	543,352	39,405	245,777	919,593	350,862	165,767	2,972,196
Additions	-	2,395	16,100	51,791	176,929	79,595	8,891	335,701
Disposals	-	-	(23,820)	-	(976)	-	-	(24,796)
Transfers during Year	-	-	-	-	(1,130)	-	-	(1,130)
<b>As at 31 December 2011</b>	<b>707,440</b>	<b>545,747</b>	<b>31,685</b>	<b>297,568</b>	<b>1,094,416</b>	<b>430,457</b>	<b>174,658</b>	<b>3,281,971</b>
Additions	-	951	-	78,228	78,319	97,759	28,339	283,596
Disposals	-	-	(4,288)	(3,065)	(98,639)	(19,810)	(35,162)	(160,964)
<b>As at 31 December 2012</b>	<b>707,440</b>	<b>546,698</b>	<b>27,397</b>	<b>372,731</b>	<b>1,074,096</b>	<b>508,406</b>	<b>167,835</b>	<b>3,404,603</b>
<b>15.2.2 Depreciation</b>								
As at 01 January 2011		78,082	35,651	124,635	704,155	146,203	95,026	1,183,752
Charge for the year		13,309	1,870	28,156	123,105	40,153	23,139	229,732
Disposals		-	(21,195)	-	(949)	-	-	(22,144)
Transfers during Year		-	-	-	(638)	-	-	(638)
<b>As at 31 December 2011</b>		<b>91,391</b>	<b>16,326</b>	<b>152,791</b>	<b>825,673</b>	<b>186,356</b>	<b>118,165</b>	<b>1,390,702</b>
Charge for the year		13,338	4,025	38,260	133,875	51,475	25,562	266,535
Disposals		-	(3,988)	(3,065)	(98,608)	(19,810)	(35,162)	(160,633)
<b>As at 31 December 2012</b>		<b>104,729</b>	<b>16,363</b>	<b>187,986</b>	<b>860,940</b>	<b>218,021</b>	<b>108,565</b>	<b>1,496,604</b>
<b>15.2.3 Net Book Value;</b>								
As at 01 January 2011	707,440	465,270	3,754	121,142	215,438	204,659	70,741	1,788,444
As at 31 December 2011	707,440	454,356	15,359	144,777	268,743	244,101	56,493	1,891,269
As at 31 December 2012	707,440	441,969	11,034	184,745	213,156	290,385	59,270	1,907,999

15.2.4 During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of Rs. 283.5 Mn (2011- Rs. 335.7 Mn) Cash payments amounting to Rs.283.5 Mn (2011 - Rs. 321.2 Mn) were made during the year for purchase of Property, Plant and Equipment.

15.2.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs 907.2 Mn (2011 - Rs. 893.2 Mn).

## Notes to the Financial Statements

### 16 INTANGIBLE ASSETS

16.1 Bank	Computer Software Rs. '000	Other License Fees Rs. '000	Total Rs. '000
<b>Cost</b>			
As at 01 January 2011	664,414	488,655	1,153,069
Additions	54,706	-	54,706
Cost Adjustments to Opening Balance	(37,335)	(1,860)	(39,195)
<b>As at 31 December 2011</b>	<b>681,785</b>	<b>486,795</b>	<b>1,168,580</b>
Additions	138,542	-	138,542
Disposals	(27,607)	-	(27,607)
<b>As at 31 December 2012</b>	<b>792,720</b>	<b>486,795</b>	<b>1,279,515</b>
<b>Amortisation</b>			
As at 01 January 2011	307,333	166,679	474,012
Charge for the Year	62,004	32,996	95,000
<b>As at 31 December 2011</b>	<b>369,337</b>	<b>199,675</b>	<b>569,012</b>
Charge for the Year	77,833	33,129	110,962
Disposals	(25,645)	-	(25,645)
<b>As at 31 December 2012</b>	<b>421,525</b>	<b>232,804</b>	<b>654,329</b>
<b>Net Book Value</b>			
As at 01 January 2011	357,081	321,976	679,057
As at 31 December 2011	312,448	287,120	599,568
As at 31 December 2012	371,195	253,991	625,186

16.2 Group	Computer Software Rs. '000	Other License Fees Rs. '000	Total Rs. '000
<b>Cost</b>			
As at 01 January 2011	664,414	488,654	1,153,068
Additions	54,706	-	54,706
Reclassifications*	1,130	-	1,130
Cost Adjustments to Opening Balance	(37,333)	(1,860)	(39,193)
<b>As at 31 December 2011</b>	<b>682,917</b>	<b>486,794</b>	<b>1,169,711</b>
Additions	157,630	-	157,630
Disposals	(28,357)	-	(28,357)
<b>At 31 December 2012</b>	<b>812,190</b>	<b>486,794</b>	<b>1,298,984</b>
<b>Amortisation</b>			
As at 01 January 2011	307,333	166,678	474,011
Charge for the year	62,125	32,996	95,121
Reclassifications*	638	-	638
<b>As at 31 December 2011</b>	<b>370,096</b>	<b>199,674</b>	<b>569,770</b>
Charge for the year	79,687	33,129	112,816
Disposals	(26,059)	-	(26,059)
<b>As at 31 December 2012</b>	<b>423,724</b>	<b>232,803</b>	<b>656,527</b>
<b>Net Book Value</b>			
As at 01 January 2011	357,081	321,976	679,057
As at 31 December 2011	312,821	287,120	599,941
As at 31 December 2012	388,466	253,991	642,457

\* Reclassification under Intangible Assets relates to the change in Property, Plant and Equipment classification.

**17 DUE TO BANKS**

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Money Market Borrowing	2,598,830	864,960	611,726	2,598,830	864,960	611,726
Deposits from Other Banks	197,520	412,176	589,780	197,520	412,176	589,780
	2,796,350	1,277,136	1,201,506	2,796,350	1,277,136	1,201,506

**18 DUE TO CUSTOMERS**

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
<b>18.1 Due to Customers - By Products</b>						
Demand Deposits	7,740,861	6,906,267	6,585,726	7,717,910	6,847,584	6,546,527
Savings Deposits	11,134,759	9,367,874	7,061,789	11,134,759	9,367,874	7,061,789
Call Deposits	248,146	2,843,048	912,523	248,146	2,843,048	912,523
Fixed Deposits	62,444,096	44,995,644	31,764,131	62,059,529	44,995,644	31,764,131
Certificate of Deposits	5,029,652	3,578,916	2,739,965	5,029,652	3,578,916	2,739,965
	86,597,514	67,691,749	49,064,134	86,189,996	67,633,066	49,024,935
<b>18.2 Due to Customers - By Currency</b>						
Sri Lankan Rupee	71,062,440	56,865,267	38,852,532	70,654,922	56,806,585	38,813,334
United States Dollar	12,414,692	7,201,913	7,246,038	12,414,692	7,201,913	7,246,038
Great Britain Pound	1,603,821	1,725,835	1,579,968	1,603,821	1,725,835	1,579,968
Others	1,516,561	1,898,734	1,385,596	1,516,561	1,898,733	1,385,595
	86,597,514	67,691,749	49,064,134	86,189,996	67,633,066	49,024,935

**19 DEBT ISSUED AND OTHER BORROWED FUNDS**

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
<b>19.1 Senior Debt</b>						
Euro 8,000,000 - Senior Loan (Note 19.4)	308,622	610,369	1,100,265	308,622	610,369	1,100,265
Rs. 500 Mn rated, unsecured, redeemable Debentures (Senior Debt) due in 2013 (Note 19.5)	500,281	500,281	500,281	500,281	500,281	500,281
	808,903	1,110,650	1,600,546	808,903	1,110,650	1,600,546
<b>19.2 Subordinated Debt</b>						
Euro 5,000,000 - subordinated Loan 1 (Note 19.4)	208,255	344,672	482,734	208,255	344,672	482,734
US Dollar 13,000,000 - subordinated Loan 2 (Note 19.4)	1,660,882	-	-	1,660,882	-	-
Rs. 3.1 Bn rated, unsecured, redeemable Debentures (Note 19.6 & 19.7)	3,152,323	3,323,168	1,419,363	3,152,323	3,323,168	1,419,363
	5,021,460	3,667,840	1,902,097	5,021,460	3,667,840	1,902,097
<b>19.3 Other Borrowings</b>						
Refinance Loan	-	-	422	-	-	422
Trust certificates due in 2012 (Note 19.8)	760	29,610	178,704	760	29,610	159,613
Other Short Term Borrowings	-	-	-	502,656	600,863	402,291
	760	29,610	179,126	503,416	630,473	562,326
<b>Total</b>	<b>5,831,123</b>	<b>4,808,100</b>	<b>3,681,769</b>	<b>6,333,779</b>	<b>5,408,963</b>	<b>4,064,969</b>

## Notes to the Financial Statements

### 19 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

#### 19.4 Senior / Subordinated Debt

These borrowings are from foreign Development Finance Institutions with an original maturity ranging from 5-10 years. Interest is payable on a variable base with a fixed spread.

#### 19.5 Senior Debentures

In 2009, the Bank issued Rs.500 Mn worth of unsecured redeemable debentures (Senior Debt) that will be matured in 2013. The debentures were listed on the Colombo Stock Exchange and have not been traded from the date of listing up to 31 December 2012.

#### 19.6 Subordinated Debentures

In 2006, the Bank issued Rs.560 Mn worth of unsecured redeemable debentures that were fully subscribed by DFCC Bank PLC, who also arranged the issue. The tenor of the debentures ranges from 1 to 6 years which were redeemed in the year 2012. The debentures are secured by a negative pledge over specified lease agreements of motor vehicles.

In 2008, the Bank issued a Rs.1,000 Mn worth of unsecured subordinated redeemable debentures that will mature in 2013.

In 2011, the Bank issued further Rs. 2 Bn rated, unsecured, subordinated redeemable debentures that will mature in 2016, by way of a private placement. All the debentures were listed on the Colombo Stock Exchange. However, those have not been traded from the date of listing up to 31 December 2012.

#### 19.7 Details of Debentures Issued

Type	Face Value Rs. '000	Interest Rate	Repayment Terms	Issued Date	Maturity Date	Bank/Group	
						2012 Rs. '000	2011 Rs. '000
Issued by the Bank							
Subordinated Debentures	1,000,000	21.00%	Annually	19-Aug-08	9-Aug-13	1,077,671	1,250,383
Senior Debentures	500,000	20.53%	Semi-Annually	18-Apr-09	30-Apr-13	500,281	500,281
Subordinated Debentures	1,725,000	11.50%	Semi-Annually	04-Aug-11	4-Aug-16	1,788,851	1,786,954
Subordinated Debentures	275,000	11.50%	Semi-Annually	29-Aug-11	29-Aug-16	285,801	285,830
	3,500,000					3,652,604	3,823,449

#### 19.8 Trust certificates

Trust Certificates include Bank's borrowings through securitisation of lease receivables. The Securitisation is a process whereby finance can be raised from external investors by enabling them to invest in parcels of specified financial assets. This arrangement is facilitated through a trustee.

All the liabilities were issued by Nations Trust Bank PLC, except when otherwise indicated. The bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2012.



## 20 OTHER LIABILITIES

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Accounts Payable and Sundry Creditors	1,219,841	1,144,315	1,427,832	1,232,554	1,157,723	1,399,514
Obligations under Financial Guarantees (Note 20.1)	35,711	52,662	30,557	35,711	52,662	30,557
Margin Balances	181,491	481,175	342,183	181,491	481,175	342,183
Pay Orders	338,696	304,285	242,884	338,696	349,577	244,432
Amounts due to Related Parties	-	-	164,308	-	-	-
Items in Transit	1,108,125	772,054	782,430	1,108,125	772,054	782,430
Employee Benefit Liability	252,600	222,967	175,066	259,250	230,835	182,270
Others	675,479	812,747	751,874	690,232	814,804	806,146
	3,811,943	3,790,205	3,917,134	3,846,059	3,858,830	3,787,532

20.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows.

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
As at 01 January	52,662	30,557	52,662	30,557
Arising during the Year	(71,151)	(74,348)	(71,151)	(74,348)
Utilized	54,200	96,453	54,200	96,453
As at 31 December	35,711	52,662	35,711	52,662

### 20.2 Employee Benefit Liability

The Group measures the Present Value of Defined Benefit Obligation (PVDBO) which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit obligation is based on the actuarial valuation as of 31 December 2012, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following:

	2012	2011
Rate of Interest	11%	10%
Rate of Salary Increase	10%	10%
Retirement Age	55-60 years	55-60 years

20.2.1 Net benefit expense categorised under personal expenses.

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Interest Cost	22,297	17,507	23,083	18,227
Current Service Cost	37,328	34,197	38,156	35,056
Actuarial Losses / (Gains) on Obligation	(14,080)	3,617	(16,044)	3,622
	45,545	55,321	45,195	56,905

## Notes to the Financial Statements

20.2.2 Movement in the present value of the Retirement Benefit Plan are as follows;

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
As at 01 January	222,966	175,066	230,835	182,270
Interest Cost	22,297	17,507	23,083	18,227
Current Service Cost	37,328	34,197	38,156	35,056
Benefits Paid	(15,911)	(7,420)	(16,780)	(8,340)
Actuarial Losses / (Gains) on Obligation	(14,080)	3,617	(16,044)	3,622
As at 31 December	252,600	222,967	259,250	230,835

20.2.3 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation, a sensitivity analysis for all employees of the Banks assuming the above is as follows.

	2012				2011			
	Salary Escalation Rate	Discount Rate	PVDBO Rs. '000	Net Benefit Expense Rs. '000	Salary Escalation Rate	Discount Rate	PVDBO Rs. '000	Net Benefit Expense Rs. '000
	11%	11%	279,593	72,538	9%	10%	212,488	44,842
	9%	11%	240,983	33,928	11%	10%	251,582	83,936
	10%	12%	242,276	35,221	10%	9%	250,635	82,989
	10%	10%	278,431	71,376	10%	11%	213,610	45,964

## 21 DEFERRED TAXATION

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
As at 01 January	235,711	13,237	235,711	13,237
Charge during the Year	45,170	222,474	44,444	222,474
As at 31 December	280,881	235,711	280,155	235,711

### 21.1.1 Deferred Tax Liability

	Bank			Group		
	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	As at 01 January 2011 Rs. '000
Accelerated Depreciation Allowances for tax Purposes- Lease Rentals Receivable	330,454	297,972	191,864	330,454	297,972	191,864
Accelerated Depreciation Allowances for Tax Purposes- Property, Plant and Equipment and Intangible Assets	109,358	97,666	81,666	109,508	97,666	81,666
	439,812	395,638	273,530	439,962	395,638	273,530
<b>21.1.2 Deferred Tax Assets</b>						
Specific Provision for Loans and Advances and Lease Receivables	-	-	(64,526)	-	-	(64,526)
Adjustment Due to Change in Accounting Base and Tax Base	(88,203)	(97,497)	(146,749)	(88,203)	(97,497)	(146,749)
Retirement Benefit Plan -Gratuity	(70,728)	(62,430)	(49,018)	(71,604)	(62,430)	(49,018)
	(158,931)	(159,927)	(260,293)	(159,807)	(159,927)	(260,293)
<b>Bank</b>						
Net Deferred Tax Liability	280,881	235,711	13,237	280,155	235,711	13,237

21.1.3 Deferred tax has been determined based on the effective tax rate of 28%.

21.1.4 The Group has a Tax Loss which arose in Mercantile Leasing (Financial Services) Limited that is available indefinitely for offset against future taxable profit of the Company subject to a limit of 35% of taxable profit in one year of assessment. A deferred tax asset has not been recognised in respect of this tax loss as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

## 22 STATED CAPITAL

### Ordinary Shares

Issued and fully paid	Bank /Group 2012		Bank /Group 2011	
	Number	Rs. '000	Number	Rs. '000
As at 01 January	230,607,283	5,101,369	209,643,340	4,367,631
Issued on 24 March 2011 for cash on exercise of Share Warrants	-	-	20,963,943	733,738
<b>As at 31 December</b>	<b>230,607,283</b>	<b>5,101,369</b>	<b>230,607,283</b>	<b>5,101,369</b>

## 23 STATUTORY RESERVE FUND

23.1 Five per centum of profits after tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No.30 of 1988. This Reserve Fund will be used only for the purposes specified in Section 20(2) of the Banking Act No.30 of 1988.

## Notes to the Financial Statements

23.2	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
As at 01 January	224,242	155,696	224,242	155,696
Transfers during the year	89,421	68,546	89,421	68,546
<b>As at 31 December</b>	<b>313,663</b>	<b>224,242</b>	<b>313,663</b>	<b>224,242</b>

### 24 RETAINED EARNINGS

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
As at 01 January	2,284,243	1,622,036	3,034,047	2,225,398
Dividend Paid	(484,275)	(461,215)	(484,275)	(461,215)
Profit for the Year	1,788,418	1,440,091	1,951,116	1,607,171
Transfers to Investment Fund Account (Note 25.1.2)	(345,113)	(248,123)	(367,164)	(268,761)
Transfers to Statutory Reserve Fund (Note 23.2)	(89,421)	(68,546)	(89,421)	(68,546)
<b>As at 31 December</b>	<b>3,153,852</b>	<b>2,284,243</b>	<b>4,044,303</b>	<b>3,034,047</b>

### 25 OTHER RESERVES

#### 25.1 Investment Fund Account (IFA Reserve)

25.1.1 Investment Fund Account is established and operated based on the Guidelines on the Operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner - General of Inland Revenue.

25.1.2 Tax saving on the reduction of tax rates are transferred to the Investment Fund as per the guidelines issued by Central Bank of Sri Lanka. Loans amounting to Rs. 533 Mn (2011 - Rs. 215 Mn) were granted under this scheme.

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
As at 01 January	248,123	-	268,761	-
Transfers during the year	345,113	248,123	367,164	268,761
<b>As at 31 December</b>	<b>593,236</b>	<b>248,123</b>	<b>635,925</b>	<b>268,761</b>

25.1.3 Utilization of Investment Fund Account (IFA Reserve)

				Bank 2011 Rs. '000	Group 2011 Rs. '000
A) Total Transferred to IFA				248,123	268,761
B) Total Loans Granted					
Sector Description	No of Loans	Interest Rate %	Tenure	Disbursed Amount	Disbursed Amount
(a) Agriculture	3	10.00 to 11.06	5 Years	150,000	150,000
(b) Small and Medium Enterprises	3	9.50 to 10.50	5 Years	64,918	64,918
				214,918	214,918
C) Total Investments in Government Securities - Short Term				-	20,638
<b>Total Granted</b>				214,918	235,556
D) Balance Available for Utilization				33,205	33,205

25.1.4 Utilization of Investment Fund Account (IFA Reserve)

				Bank 2012 Rs. '000	Group 2012 Rs. '000
A) Total Transferred to IFA				593,236	635,925
B) Total Loans Granted					
Sector Description	No of Loans	Interest Rate %	Tenure	Disbursed Amount	Disbursed Amount
(a) Agriculture	6	11.00 to 15.57	5-7 Years	270,000	270,000
(b) Small and Medium Enterprises	18	9.50 to 16.00	5-7 Years	204,989	204,989
(c) Infrastructure Development	1	16.00	5 Years	15,000	15,000
(d) Restructuring of Loans extended for above purposes	1	9.50	7 Years	42,769	42,769
				532,758	532,758
C) Total Investments in Government Securities - Short Term				60,478	103,167
<b>Total Granted</b>				593,236	635,925
D) Balance Available for Utilization				-	-

## Notes to the Financial Statements

### 26 INTEREST INCOME

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Reverse Repurchase Agreements	237,618	294,318	198,338	209,363
Due from Banks	63,207	26,563	63,207	26,563
Loans and Advances to Customers	10,929,686	6,897,609	11,063,125	7,056,935
Financial Assets-Held to Maturity	1,007,437	881,809	1,055,225	990,801
Financial Assets-Held for Trading	2,203,985	1,397,164	2,258,198	1,494,492
Other Financial Assets	230,312	259,442	229,842	260,186
Interest Income accrued on Impaired Financial Assets	245,182	(242,881)	245,182	(242,881)
	14,917,427	9,514,024	15,113,117	9,795,459

Interest Income from Government Securities earned during the year 2012 amounts to Rs. 3,290 Mn. (2011 - Rs. 3,357 Mn.) and the Group, Rs. 2,323 Mn. (2011 - Rs. 2,529 Mn). The Government Securities represents; Treasury Bills, Treasury Bonds, Sri Lanka Sovereign Bonds and Sri Lanka Development Bonds.

### 27 INTEREST EXPENSE

Due to Banks	65,986	53,293	67,152	46,668
Repurchase Agreements	1,698,434	1,372,474	1,677,387	1,361,556
Due to Customers	6,847,590	3,370,823	6,831,333	3,370,823
Debt Issued and Other Borrowed Funds	769,676	585,730	782,506	612,095
	9,381,686	5,382,320	9,358,378	5,391,142

### 28 NET FEES AND COMMISSION INCOME

#### 28.1 Fees and Commission Income

Portfolio and Other Management Fees	34,350	23,426	36,279	30,055
Credit Related Fees and Commissions	1,336,229	973,877	1,336,229	985,202
Commission on Trade Finance Facilities	328,697	383,947	328,697	395,150
Commission on Services-Loans	297,919	291,623	297,919	219,631
Commission on Services-Deposits	163,679	128,599	163,679	128,599
Other Fees	14,987	9,340	122,508	91,292
	2,175,861	1,738,812	2,285,311	1,849,929

#### 28.2 Fees and Commission Expenses

Brokerage Fees	(41,196)	(28,602)	(41,283)	(28,619)
Credit Related Fees	(122,063)	(115,750)	(122,067)	(115,750)
	(163,259)	(144,352)	(163,350)	(144,369)
	2,012,602	1,594,460	2,121,961	1,705,560

### 29 NET TRADING INCOME

Interest Rate Instruments	(6,856)	4,652	(6,856)	4,652
Foreign Exchange	197,651	290,218	197,651	290,218
Profit / (Loss) on Sale of Securities	(3,374)	45,735	(3,374)	64,101
Other Trading Income / (Expense)	108,523	(231,801)	100,247	(286,889)
	295,944	108,804	287,668	72,082

'Foreign Exchange' income includes gains and losses from spot and forward contracts and other currency derivatives. 'Other Trading Income/ (Expense)' includes the impact of fair value changes due to movement in the financial assets recorded as held for trading.

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>30 OTHER OPERATING INCOME</b>				
Dividend Income	19,404	12,428	908	503
Non-Trading Foreign Exchange	(32,170)	16,721	(32,148)	16,721
Recovery of Loans Written -Off	178,032	205,889	178,032	205,889
Other	81,012	89,138	81,017	88,656
	246,278	324,176	227,809	311,769
<b>31 IMPAIRMENT CHARGE / (REVERSAL ) FOR LOANS AND ADVANCES</b>				
<b>Loans and Advances to Customers</b>				
Corporate Loans	118,786	(195,056)	119,655	(188,354)
Retail, SME and Consumer	248,937	71,125	248,937	71,125
Housing Loans	17,606	3,681	17,606	3,681
Leases	45,636	(121,217)	45,636	(121,217)
	430,965	(241,467)	431,834	(234,765)
<b>32 PERSONNEL EXPENSES</b>				
Salaries	1,160,699	974,855	1,186,224	998,059
Employee Benefits - Defined Contribution Plan	171,615	145,465	175,242	148,854
Employee Benefits - Defined Benefit Plan	45,545	55,321	45,195	56,905
Amortisation of Staff Loan Day 01 Difference	64,940	65,313	64,940	65,313
Other Allowances	616,323	622,432	625,099	631,372
	2,059,122	1,863,386	2,096,700	1,900,503
<b>33 OTHER OPERATING EXPENSES</b>				
Business Promotion and Advertising	290,856	286,490	290,856	286,490
Administrative	417,966	314,379	449,136	345,090
Operating Lease Expenses	201,360	165,017	164,562	134,245
Professional Fees	120,509	21,980	120,597	22,247
Directors Fees*	10,840	9,233	10,840	9,233
Auditors Fees	6,167	6,625	8,168	8,438
Non Audit fees to auditors	2,841	5,893	3,389	6,177
Legal Fees	13,900	16,548	13,900	16,548
Transport	107,603	85,022	108,591	85,399
Loss on Disposal of Property, Plant and Equipment	1,378	-	1,378	-
Credit Related Operating Expenses	288,156	199,045	288,156	199,045
Other	822,439	676,578	823,166	678,295
	2,284,015	1,786,810	2,282,739	1,791,207

\*Total emoluments of Directors of the Bank / Group for the year ended 31 December 2012 amount to Rs. 51.55 Mn (2011 - Rs. 53.58 Mn). This includes the amount paid to Executive Directors including CEO which is recorded under Personnel Expenses in Note 32 above.

## Notes to the Financial Statements

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>34 INCOME TAX EXPENSE</b>				
The component of Income Tax expense for the Years ended 31 Decemebr 2012 and 2011 are;				
<b>Current Tax</b>				
- Current Income Tax on Profit for the Year (Note 34.1)	765,968	442,896	836,597	517,597
- Adjustments of Taxes in Respect of Prior Years	(66,000)	(19,519)	(66,000)	(11,312)
<b>Deferred Tax</b>				
- Charge for Deferred Tax	45,170	222,474	44,444	222,474
	745,138	645,851	815,041	728,759
<b>34.1 Reconciliation of Accounting Profit and Taxable Income</b>				
A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 December 2012 and 2011 is as follows.				
<b>Accounting Profit (Profit Before Taxation)</b>	2,533,556	2,085,942	2,766,157	2,335,930
Add: Disallowable Expenses	6,941,143	5,006,945	6,980,122	5,060,335
	9,474,699	7,092,887	9,746,279	7,396,265
Less: Allowable Expenses	(6,532,898)	(5,336,984)	(6,536,193)	(5,338,580)
Exempt Income	(206,201)	(174,132)	(206,201)	(174,132)
<b>Statutory Income</b>	2,735,600	1,581,771	3,003,885	1,883,553
Less: Tax Losses Brought Forward and Utilised	-	-	-	(396)
<b>Taxable Income</b>	2,735,600	1,581,771	3,003,885	1,883,157
Income Tax expenses for the Year is made up of ;				
Current Income Tax Expense	765,968	442,896	836,597	517,597
Adjustments of Taxes in Respect of Prior Years	(66,000)	(19,519)	(66,000)	(11,312)
Charge for Deferred Tax	45,170	222,474	44,444	222,474
	745,138	645,851	815,041	728,759
<b>Effective Income Tax Rate</b>	29.41%	30.96%	29.46%	31.20%

The Group Tax expense is based on the taxable profit of each Group Company, since at present the tax laws do not provide for Group taxation.



### 35 EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

The following table shows the income and share data used in the basic earnings per share calculation.

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Amount Used as the Numerator:</b>				
Net Profit Attributable to Ordinary Shareholders (Rs.'000)	1,788,418	1,440,091	1,951,116	1,607,171
<b>Number of Ordinary Shares Used as the Denominator:</b>				
Ordinary Shares at the Beginning of the Year	230,607,283	209,643,340	230,607,283	209,643,340
Weighted Average Number of the Shares Issued during the Year	-	18,433,785	-	18,433,785
Weighted Average Number of Ordinary Shares in Issue	230,607,283	228,077,125	230,607,283	228,077,125
Basic Earnings per Ordinary Share (Rs.)	7.76	6.31	8.46	7.05

### 36 DIVIDENDS PAID AND PROPOSED

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>36.1 Declared and Paid During the Year</b>				
Dividends on Ordinary Shares:				
First and Final Dividend for 2011 - Rs.2.10 per Share (2010 - Rs.2.00 per Share)	484,275	461,215	484,275	461,215
	484,275	461,215	484,275	461,215
<b>36.2 Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)</b>				
Dividends on Ordinary Shares:				
First and Final Dividend for 2012 - Rs.2.10 per Share (2011 - Rs.2.10 per Share)	484,275	484,275	484,275	484,275

## Notes to the Financial Statements

### 37 CASH FLOW INFORMATION

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>37.1 (Increase)/Decrease in Operating Assets</b>				
Reverse Repurchase Agreements	3,951,384	(2,585,683)	4,158,536	(2,866,097)
Derivative Financial Instruments	(73,148)	(192,623)	(73,148)	(192,623)
Financial Assets-Held for Trading	(14,053,822)	9,070,795	(14,610,988)	9,234,703
Financial Assets-Held to Maturity	514,886	(3,524,855)	1,136,229	(3,524,855)
Other Financial Assets	1,005,536	209,839	1,005,081	209,839
Loans and Advances to Customers	(12,682,952)	(16,842,913)	(12,699,644)	(17,133,896)
Other Assets	(346,210)	(421,953)	(345,076)	(231,791)
	(21,684,326)	(14,287,393)	(21,429,010)	(14,504,720)
<b>37.2 Increase/(Decrease) in Operating Liabilities</b>				
Repurchase Agreements	(2,733,376)	(2,659,617)	(2,660,127)	(1,600,903)
Due to Customers	18,059,496	18,229,654	17,711,228	18,170,971
Derivative Financial Instruments	212,752	(44,136)	212,752	(44,136)
Other Liabilities	(10,147)	(329,014)	(6,851)	(279,265)
	15,528,725	15,196,887	15,257,002	16,246,667
<b>37.3 Other Non cash items included in Profit before Tax</b>				
Depreciation of Property, Plant and Equipment	254,984	218,013	266,535	229,733
Amortisation of Other Intangible Assets	110,962	95,000	112,816	95,121
Provision for Fair Valuation of Trading Portfolio	(108,523)	(231,801)	(108,523)	(183,415)
	257,423	81,212	270,828	141,439

### 38 SEGMENT INFORMATION

For management purposes, the bank is organised into operating segments based on products and services, as follows:

**Retail and SME Banking :** Primary focus of business is deposit mobilization from individual and SME customer segments and providing lending facilities such as loans, overdrafts, and credit card facilities to this segment.

**Corporate Banking :** Primary focus of business is providing loans and other credit facilities and deposit and current accounts for top to mid tier corporates and institutional customers

**Leasing :** Primary focus of business is providing Finance Leases and Hire Purchase facilities.

**Treasury Functions :** Primary focus of business operations includes foreign exchange tradings, fixed income security tradings, asset & liabilities gapping management.

**Subsidiaries :** Includes fully owned subsidiaries of the Bank; WML, APL and NIB

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, are measured differently from operating profits or losses in the consolidated financial statements.

A fund transfer pricing mechanism is adopted for sourcing and utilizing of funds.

The following table presents income and profit and certain asset and liability information regarding the bank's operating segments.

38.1 Segment Information

Operating Segments	Corporate Banking		Retail, SME and Consumer Banking		Leasing		Treasury Functions		Investment Banking		Insurance Broking		Property Management		Unallocated / Eliminations		Total Group	
	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000	2012	Rs. '000
<b>Operating Income</b>	1,426,721	5,110,723	750,385	802,735	174,806	89,337	92,719	(55,250)	8,392,177									
Credit Loss Expense	118,786	266,543	45,636	-	-	-	-	869	431,834									
<b>Net Operating Income</b>	1,307,935	4,844,180	704,749	802,735	174,806	89,337	92,719	(56,119)	7,960,343									
Extracts of results																		
Interest Income	2,999,204	5,281,582	2,802,846	3,651,255	378,700	9,662	27,643	(37,774)	15,113,117									
Inter Segment	(381,603)	3,059,417	(2,104,009)	(573,805)	-	-	-	-	-									
Interest Expense	(1,463,176)	(5,163,989)	-	(2,571,982)	(195,370)	-	(1,166)	37,304	(9,358,378)									
<b>Net Interest Income</b>	1,154,426	3,177,011	698,837	505,468	183,330	9,662	26,477	(470)	5,754,739									
Fees and Commission Income	272,190	1,776,569	49,209	77,893	1,929	79,676	66,242	(38,397)	2,285,311									
Fees and Commission Expense	-	(96,640)	(20,063)	(46,556)	(2,180)	-	-	2,089	(163,350)									
Net Trading Income	-	-	-	295,944	(8,276)	-	-	-	287,668									
Other Income	105	253,784	22,402	(30,013)	4	-	-	(18,471)	227,809									
Depreciation of Property, Plant and Equipment	1,773	113,689	4,721	134,800	-	567	10,985	-	266,535									
Amortization of Intangible Assets	824	42,995	1,336	65,806	-	1,854	-	-	112,816									
Segment Profit / (Loss) before Tax	679,165	1,437,049	267,649	545,692	143,690	58,412	48,413	(413,913)	2,766,157									
Income Tax Expense	-	-	-	-	(44,990)	(15,848)	(9,065)	(745,138)	(815,041)									
<b>Profit for the year</b>	679,165	1,437,049	267,649	545,692	98,700	42,564	39,349	(1,159,050)	1,951,116									
<b>Capital Expenditures</b>																		
Property, Plant and Equipment	899	234,976	3,628	43,952	-	141	-	-	283,597									
Other Intangible Assets	8,904	31,581	53	98,002	-	19,090	-	-	157,630									
<b>Total Assets</b>	19,670,280	33,795,034	19,382,735	48,503,201	2,550,082	155,014	793,643	(2,402,973)	122,447,016									
<b>Total Liabilities</b>	16,753,990	69,843,524	271,977	25,319,639	1,847,203	28,162	28,044	(1,740,782)	112,351,756									

## Notes to the Financial Statements

### 38.2 Segment Information (Cont'd)

Operating Segments	Corporate Banking		Retail, SME and Consumer Banking		Leasing		Treasury Functions		Investment Banking		Insurance Broking		Property Management		Unallocated / Eliminations		Total Group	
	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Operating Income</b>	1,024,308	3,470,439	593,446	1,070,951	242,189	65,471	76,929	(60,005)	6,493,728									
Credit Loss Expense	(195,056)	74,806	(121,217)	-	-	-	-	6,701	(234,765)									
<b>Net Operating Income</b>	1,219,364	3,395,633	714,663	1,070,951	242,189	65,471	76,929	(56,706)	6,728,493									
<b>Extracts of results</b>																		
Interest Income	1,681,677	3,122,375	1,982,306	2,499,777	497,662	4,257	14,499	(7,094)	9,795,459									
Inter Segment	(488,113)	1,497,036	(1,433,634)	424,711														
Interest Expense	(503,351)	(2,696,311)	-	(1,954,768)	(243,336)	-	-	6,625	(5,391,142)									
<b>Net Interest Income</b>	690,213	1,923,099	548,671	969,720	254,326	4,257	14,499	(469)	4,404,317									
Fees and Commission Income	333,915	1,357,188	37,835	9,873	24,596	61,214	62,430	(37,122)	1,849,929									
Fees and Commission Expense	-	(92,261)	(13,376)	(38,716)	(17)	-	-	-	(144,369)									
Net Trading Income	-	-	-	108,804	(36,722)	-	-	(1)	72,082									
Other Income	180	282,412	20,315	21,268	6	-	-	(12,413)	311,769									
Depreciation of Property, Plant and Equipment	2,935	90,089	5,195	119,794	-	735	10,985	-	229,732									
Amortization of Intangible Assets	79	25,150	1,323	68,447	-	121	-	-	95,121									
<b>Segment Profit / (Loss) before Tax</b>	459,563	616,850	270,371	1,090,618	205,530	38,493	31,535	(377,031)	2,335,931									
Income Tax Expense	-	-	-	-	(64,589)	(4,594)	(5,311)	(654,265)	(728,759)									
<b>Profit for the year</b>	459,563	616,850	270,371	1,090,618	140,941	33,899	26,223	(1,031,296)	1,607,171									
<b>Capital Expenditures</b>																		
Property, Plant and Equipment	1,678	159,868	9,800	147,955	-	1,939	-	-	321,239									
Other Intangible Assets	27	9,080	107	45,493	-	-	-	-	54,706									
<b>Total Assets</b>	19,922,785	26,376,907	14,084,213	40,587,117	2,810,645	97,412	753,767	(2,560,239)	102,072,608									
<b>Total Liabilities</b>	16,235,577	51,456,172	374,904	25,046,391	2,191,967	9,874	24,717	(1,895,412)	93,444,189									

### 39 RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows:

#### 39.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank, Key employees of the Group including Directors of subsidiary companies and Corporate Management of the Bank.

##### (a) Compensation to Key Management Personnel

	2012 Rs. 000	2011 Rs. 000
Short Term Employee Benefits	183,294	181,578
Post Employment Benefits	19,074	17,499
	202,368	199,077

In addition to the salaries, the Group has also has arranged non cash benefits such as vehicle & insurance to Key Management Personnel in line with approved employment benefits plan of the Group.

##### (b) Transactions, Arrangements and Agreements involving Key Management Personnel;

	Key Management Personnel & their Close Family Members (CFM)				Entities in which KMP and CFM have control or joint control			
	2012 Rs.'000'	2011 Rs.'000'	Maximum Balances		2012 Rs.'000'	2011 Rs.'000'	Maximum Balances	
			2012 Rs.'000'	2011 Rs.'000'			2012 Rs.'000'	2011 Rs.'000'
<b>Items in the Statement of Financial Position</b>								
<b>Assets</b>								
Loans & Advances	80,804	39,508	81,209	45,334	-	-	-	11
Credit Cards	7,341	3,094	7,341	3,625	-	-	-	-
Reverse Repurchase Agreements	-	200	1,850	1,090	-	-	-	-
<b>Liabilities</b>								
Due to Customers	213,093	204,438	243,660	453,260	2,239	100,314	9,407	100,357
Borrowings	900	16,215	60,884	38,762	-	-	-	-
<b>Equity</b>								
Dividends Paid ( net )	655	11,108	-	-	-	-	-	-
<b>Commitments</b>								
Undrawn Facilities	32,044	25,254	-	-	-	-	-	-
<b>Items in Income Statement</b>								
Interest Income Earned	6,733	2,432	-	-	-	1	-	-
Interest Expenses Paid	23,985	15,561	-	-	707	58	-	-
Other Income Earned	137	717	-	-	1	2	-	-
Expenses Paid	-	-	-	-	-	2	-	-

#### 39.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members. The Bank for the year ended 31 December 2012 has contributed a sum of Rs. 139.30 Mn to the Fund. (2011 - Rs. 116.38 Mn)

As at 31 December 2012, the Fund has invested a sum of Rs. 567.01 Mn with the Bank. (2011- Rs. 711.09 Mn)

During the year the Bank has incurred a sum Rs. 104.27 Mn (2011 - Rs. 61.78 Mn) as Interest Expense to the Fund out of which a sum of Rs. 26.30 Mn (2011- Rs. 42.53 Mn) is payable as of 31 December 2012.

## Notes to the Financial Statements

### 39.3 Transactions with Related Entities

Items in the Statement of Financial Position	Subsidiaries *			Significant Investors **			Significant Investor Related Entities ***		
	Maximum Balances			Maximum Balances			Maximum Balances		
	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'
<b>Assets</b>									
Loans & Advances	738,757	908,850	1,446,881	192,961	208,461	699,469	390,757	34,365	400,058
Corporate Credit Cards	-	-	-	1,635	349	1,897	377	217	980
Reverse Repurchase Agreements	575,347	648,721	682,076	-	-	-	-	1,715	1,715
Derivative Financial Assets	-	-	-	-	-	-	1,718	4,784	-
Other Assets	39,167	12,246	37,167	-	-	-	-	-	-
<b>Liabilities</b>									
Due to Customers	407,518	58,683	407,518	1,459,981	2,300,223	4,044,045	1,858,077	1,266,314	4,085,504
Borrowings	-	280,511	333,000	846,229	931,187	1,895,800	712,867	959,284	1,559,550
Other Liabilities/Financial Guarantees	-	-	-	38	28	-	449	121	-
<b>Equity</b>									
Dividends Paid (net)	-	-	-	218,941	211,349	-	-	-	-
<b>Commitments</b>									
Undrawn Facilities	1,061,243	491,150	-	529,506	50,356	-	385,245	638,406	-
<b>Items in Income Statement</b>									
Interest Income	182,539	217,710	-	43,342	3,843	-	43,187	6,045	-
Interest Paid	37,304	17,543	-	316,785	176,098	-	267,558	89,630	-
Other Income	2,089	-	-	1,667	2,866	-	6,423	10,124	-
Dividend Received (Gross)	18,495	13,250	-	-	-	-	-	-	-
Expenses Paid	37,750	30,793	-	31,178	24,185	-	33,749	27,678	-

\* Subsidiaries of the Group includes Waldoock Macenze Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing Financial Services Limited.

\*\* Significant Investors include John Keells Holdings PLC, Mackinnon & Keells Financial Services Limited, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

\*\*\* Significant Investor Related Entities include entities controlled and/or jointly controlled by the Significant Investors of the Bank.

## 40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2012

	Within 12 Months Rs. '000	Bank After 12 Months Rs. '000	Total Rs. '000	Within 12 Months Rs. '000	Group After 12 Months Rs. '000	Total Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	2,534,056	-	2,534,056	2,534,155	-	2,534,155
Balances with Central Bank of Sri Lanka	5,089,342	-	5,089,342	5,089,342	-	5,089,342
Reverse Repurchase Agreements	3,287,274	-	3,287,274	2,711,927	-	2,711,927
Derivative Financial Instruments	327,843	-	327,843	327,843	-	327,843
Financial Assets - Held for Trading	18,618,637	1,634,521	20,253,158	19,267,528	1,820,398	21,087,926
Financial Assets - Held to Maturity	5,816,584	4,421,320	10,237,904	5,816,584	4,421,320	10,237,904
Other Financial Assets	166,425	1,726,497	1,892,922	166,425	1,726,497	1,892,922
Loans and Advances to Customers	47,007,692	25,450,665	72,458,357	47,971,145	25,452,806	73,423,951
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Other Assets	1,707,669	862,947	2,570,616	1,727,643	862,947	2,590,590
Property, Plant and Equipment	-	1,395,882	1,395,882	-	1,907,999	1,907,999
Intangible Assets	-	625,186	625,186	-	642,457	642,457
<b>Total Assets</b>	<b>84,555,522</b>	<b>36,795,728</b>	<b>121,351,250</b>	<b>85,612,592</b>	<b>36,834,424</b>	<b>122,447,016</b>
<b>Liabilities</b>						
Due to Banks	2,796,350	-	2,796,350	2,796,350	-	2,796,350
Repurchase Agreements	11,829,973	2,719	11,832,692	11,829,973	2,719	11,832,692
Derivative Financial Instruments	528,472	-	528,472	528,472	-	528,472
Due to Customers	83,167,958	3,429,556	86,597,514	82,760,440	3,429,556	86,189,996
Debt Issued and Other Borrowed Funds	2,129,221	3,701,902	5,831,123	2,631,877	3,701,902	6,333,779
Current Tax Liabilities	510,155	-	510,155	544,253	-	544,253
Other Liabilities	3,559,343	252,600	3,811,943	3,586,809	259,250	3,846,059
Deferred Tax Liabilities	-	280,881	280,881	-	280,155	280,155
<b>Total Liabilities</b>	<b>104,521,472</b>	<b>7,667,658</b>	<b>112,189,130</b>	<b>104,678,174</b>	<b>7,673,582</b>	<b>112,351,756</b>
<b>Net</b>	<b>(19,965,950)</b>	<b>29,128,070</b>	<b>9,162,120</b>	<b>(19,065,582)</b>	<b>29,160,842</b>	<b>10,095,260</b>

## Notes to the Financial Statements

### 40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD)

As at 31 December 2011

	Within 12 Months Rs. '000	Bank After 12 Months Rs. '000	Total Rs. '000	Within 12 Months Rs. '000	Group After 12 Months Rs. '000	Total Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	3,694,381	-	3,694,381	3,694,423	-	3,694,423
Balances with Central Bank of Sri Lanka	4,284,336	-	4,284,336	4,284,336	-	4,284,336
Reverse Repurchase Agreements	7,242,056	20,893	7,262,949	6,593,335	20,893	6,614,228
Derivative Financial Instruments	254,695	-	254,695	254,695	-	254,695
Financial Assets - Held for Trading	6,070,282	200,421	6,270,703	6,349,367	200,421	6,549,788
Financial Assets - Held to Maturity	5,305,249	5,892,509	11,197,758	5,422,976	6,394,643	11,817,619
Other Financial Assets	1,755,592	1,142,540	2,898,132	1,758,226	1,139,906	2,898,132
Loans and Advances to Customers	37,740,823	22,497,532	60,238,355	38,682,389	22,505,581	61,187,970
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Other Assets	1,277,573	946,121	2,223,694	1,332,982	947,225	2,280,207
Property, Plant and Equipment	-	1,367,740	1,367,740	-	1,891,269	1,891,269
Intangible Assets	-	599,568	599,568	-	599,941	599,941
<b>Total Assets</b>	<b>67,624,987</b>	<b>33,346,034</b>	<b>100,971,021</b>	<b>68,372,729</b>	<b>33,699,879</b>	<b>102,072,608</b>
<b>Liabilities</b>						
Due to Banks	1,277,136	-	1,277,136	1,277,136	-	1,277,136
Repurchase Agreements	14,152,008	608,011	14,760,019	13,871,497	608,011	14,479,508
Derivative Financial Instruments	315,720	-	315,720	315,720	-	315,720
Due to Customers	61,272,899	6,418,850	67,691,749	59,490,705	8,142,361	67,633,066
Debt Issued and Other Borrowed Funds	630,289	4,177,811	4,808,100	1,231,737	4,177,226	5,408,963
Current Tax Liabilities	234,404	-	234,404	235,255	-	235,255
Other Liabilities	3,567,239	222,966	3,790,205	3,627,996	230,834	3,858,830
Deferred Tax Liabilities	-	235,711	235,711	-	235,711	235,711
<b>Total Liabilities</b>	<b>81,449,695</b>	<b>11,663,349</b>	<b>93,113,044</b>	<b>80,050,046</b>	<b>13,394,143</b>	<b>93,444,189</b>
<b>Net</b>	<b>(13,824,708)</b>	<b>21,682,685</b>	<b>7,857,977</b>	<b>(11,677,317)</b>	<b>20,305,736</b>	<b>8,628,419</b>



## 41 FAIR VALUE OF FINANCIAL INSTRUMENTS

### Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### Derivatives

Derivative products (Interest Rate Swaps, Foreign Currency Swaps and Forward Exchange Contracts) are valued using valuation techniques incorporating various inputs such as foreign exchange spot rates, foreign exchange forward rates and interest rate curves.

#### Financial Assets Held for Trading

Financial Assets Held for Trading are valued using a valuation technique and consists of certain debt securities and asset-backed securities. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data published by Central Bank of Sri Lanka.

### 41.1 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

## Notes to the Financial Statements

### 41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

#### 41.1 Determination of Fair Value and Fair Value Hierarchy (contd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2012	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Forward Foreign Exchange Contracts	-	327,843	-	327,843
<b>Financial Assets Held for Trading</b>				
Government Treasury Bills & Bonds	20,253,158	-	-	20,253,158
<b>Total Financial Assets</b>	<b>20,253,158</b>	<b>327,843</b>	<b>-</b>	<b>20,581,001</b>
<b>Financial Liabilities</b>				
<b>Derivative Financial Instruments</b>				
Forward Foreign Exchange Contracts	-	528,472	-	528,472
<b>Total Financial Liabilities</b>	<b>-</b>	<b>528,472</b>	<b>-</b>	<b>528,472</b>
At 31 December 2011	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Forward Foreign Exchange Contracts	-	254,695	-	254,695
<b>Financial Assets Held for Trading</b>				
Government Treasury Bills & Bonds	6,270,703	-	-	6,270,703
<b>Total Financial Assets</b>	<b>6,270,703</b>	<b>254,965</b>	<b>-</b>	<b>6,525,398</b>
<b>Financial Liabilities</b>				
<b>Derivative Financial Instruments</b>				
Interest Rate Swaps	-	56,721	-	56,721
Forward Foreign Exchange Contracts	-	258,999	-	258,999
<b>Total Financial Liabilities</b>	<b>-</b>	<b>315,720</b>	<b>-</b>	<b>315,720</b>

#### 41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

##### 41.1 Determination of Fair Value and Fair Value Hierarchy (contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2012 Carrying Amount Rs. '000	2012 Fair Value Rs. '000	2011 Carrying Amount Rs. '000	2011 Fair Value Rs. '000
<b>Financial Assets</b>				
Cash and Cash Equivalents	2,534,056	2,534,056	3,694,381	3,694,381
Balances with Central Bank of Sri Lanka	5,089,342	5,089,342	4,284,336	4,284,336
Reverse Repurchase Agreements	3,287,274	3,287,274	7,262,949	7,262,898
Financial Assets - Held to Maturity	10,237,904	10,318,065	11,197,758	11,189,241
Other Financial Assets	1,892,922	1,892,922	2,898,132	2,898,132
<b>Total</b>	<b>23,041,498</b>	<b>23,121,659</b>	<b>29,337,556</b>	<b>29,328,988</b>
<b>Loans and Advances to Customers</b>				
Corporate Loans	20,695,425	20,686,504	21,074,102	20,868,287
Retail, SME and Consumer	31,823,128	31,583,112	24,483,941	24,354,289
Housing Loans	1,408,377	1,367,001	1,318,996	1,369,903
Leases	19,361,556	18,104,782	14,061,122	13,839,834
	73,288,486	71,741,399	60,938,161	60,432,313
Less :Allowance for Impairment Losses	(1,825,290)	(1,825,290)	(1,490,016)	(1,490,016)
	71,463,196	69,916,109	59,448,145	58,942,297
Staff Loans	995,161	1,078,978	790,210	998,896
<b>Total Loans and Advances</b>	<b>72,458,357</b>	<b>70,995,087</b>	<b>60,238,355</b>	<b>59,941,193</b>
<b>Total Financial Assets</b>	<b>95,499,855</b>	<b>94,116,746</b>	<b>89,575,911</b>	<b>89,270,181</b>
<b>Financial Liabilities</b>				
Due to Banks	2,796,350	2,796,350	1,277,136	1,277,136
Repurchase Agreements	11,832,692	11,830,999	14,760,019	14,407,209
Due to Customers	86,597,514	86,326,441	67,691,749	68,092,876
Debt Issued and Other Borrowed Funds	5,831,123	5,661,810	4,808,100	4,638,786
<b>Total Financial Liabilities</b>	<b>107,057,679</b>	<b>106,615,600</b>	<b>88,537,004</b>	<b>88,416,007</b>

#### Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

#### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

## **Notes to the Financial Statements**

### **Fixed Rate Financial Instruments**

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors have been used to arrive at the fair value of Debentures Issued.

## **42. RISK MANAGEMENT**

### **42.1 Introduction**

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks. The goal of risk management is to optimize the risk-reward trade-off. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank monitors those business risks through the Bank's strategic planning process.

### **Risk Management Structure**

The Board of Directors is responsible for establishing the overall risk management framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different Executive Risk Committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on Market Risk management and Liquidity Risk management whilst Head Office Credit Committee focuses on the Credit Risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for capturing and monitoring the Bank's overall risk position against overall risk appetite and limits set by the Board by integrating the various risk exposures across business units and products within the Bank. They monitor compliance with risk management policies and procedures to ensure an independent control process is maintained. Exceptions are reported on a daily basis, where necessary, to the Chief Executive Officer and various management levels. Relevant actions are taken to address exceptions and any areas of weakness. IRMD is also responsible for developing risk management tools in line with industry best practice.

Treasury is responsible for managing the liquidity and market risks of the Bank on a day to day basis in line with the approved policies and procedures.

### **Risk Measurement and Reporting Systems**

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, BIRMC and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the regulatory allowance for credit losses on a monthly basis. The BIRMC receives a comprehensive risk assessment report once a quarter which is designed to provide a wide range of information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Chief Executive Officer and all other relevant members of the Bank on the utilization of market limits, liquidity and any other risk developments.

### **Risk Mitigation**

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies. The Bank uses and accept various types of collateral as a credit risk mitigant.

### **Excessive Risk Concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## **42.2 Credit Risk**

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. An appropriate risk rating mechanism is being implemented by the Bank and risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

## **Notes to the Financial Statements**

### **Impairment Assessment**

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment for 3 consecutive months
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter Bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes.

### **Individually Assessed Allowances**

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

### **Collectively Assessed Allowances**

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages, leases and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in Financial industry, revisions in the Interest rates, changes in Regulatory Environment and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, and expected receipts and recoveries once impaired) and economic data (such as current economic conditions and unemployment levels).

Description of approaches and statistical methods followed for impairment.

Business Line	Further Segmentation	Statistical Method Applied
Corporate Banking	Based on Internal Risk Rating	Rating Migration Matrix
Retail & SME	Based on Internal Risk Rating	Rating Migration Matrix
Housing Loans	DPD Buckets	Net Flow Rate Method
Consumer	DPD Buckets	Net Flow Rate Method
Leasing	DPD Buckets	Net Flow Rate Method

#### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions; cash
- For Corporate, Retail & SME lending, charges over Commercial/Residential properties; Cash or Cash Equivalents, Bank guarantees and Quoted Shares in the Colombo Stock Exchange that are acceptable to the bank

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

#### Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings for Corporate, Retail and SME customers and a credit scoring system for Consumer Loans and Credit cards. Financial Assets are categorized in to four categories based on the Rating Scale as follows.

Rating Category	Definition	Description
High Grade	Very High Safety	The ability to honour the terms of trade is very high. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions.
Investment Grade	High Safety	The ability to honour the terms of trade is high. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be insignificant likelihood of default associated with adverse economic events of significant scale.
Intermediary Grade	Moderate Safety	The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default
Speculative Grade	Low Safety	The ability to honour the terms of trade is low. Any adverse changes in the business/economic conditions may impair the obligor's/counterparty's ability to honour its commitments.

## Notes to the Financial Statements

### Credit risk exposure for each internal credit risk rating

Bank's internal credit rating	Historical default rates	Total 2012
	%	Rs '000
<b>Investment Grade</b>		
A	Less than 1%	17,561,735
B	Less than 4%	6,617,734
<b>Intermediary Grade</b>		
C + and C	Less than 4%	2,442,125
<b>Speculative Grade</b>		
C-	Less than 5%	4,855,399
D	Minimum of 20%	4,092
<b>Past Due</b>		414,620
<b>Individually Impaired</b>		3,306,199

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of Obligor risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. Shown above is internal credit rating classification of the Corporate, Retail & SME portfolios of the Bank. The attributable risk ratings are assessed and updated regularly.



The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on above credit grading system. The amounts presented are gross of impairment allowances.

Bank	Notes	Neither past due nor impaired					Past due but not	Individually impaired	Total 2012
		High Grades	Investment Grades	Intermediary Grades	Speculative Grades impaired	Rs '000			
		Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	
Cash and Cash Equivalents	5	2,534,056	-	-	-	-	-	2,534,056	
Balances with Central Bank of Sri Lanka	6	5,089,342	-	-	-	-	-	5,089,342	
Reverse Repurchase Agreements	7.1	1,579,351	-	1,707,924	-	-	-	3,287,275	
<b>Derivative Financial Instruments</b>									
Forward Foreign Exchange Contrats	8.1	303,378	24,067	-	398	-	-	327,843	
<b>Financial Assets - Held for Trading</b>									
Government Treasury Bills and Bonds	9	20,253,158	-	-	-	-	-	20,253,158	
<b>Financial Assets - Held to Maturity</b>									
Government Treasury Bills and Bonds	10	10,237,904	-	-	-	-	-	10,237,904	
<b>Other Financial Assets</b>									
Sri Lanka Development Bonds	11	1,549,834	-	-	-	-	-	1,549,834	
Unquoted Debentures		-	337,691	-	-	-	-	337,691	
Unquoted Equity Instruments		-	-	-	5,397	-	-	5,397	
		1,549,834	337,691	-	5,397	-	-	1,892,922	
<b>Loans and Advances to Customers (Gross)</b>									
Corporate Loans	12	-	14,011,640	677,055	237,956	3,080,311	2,688,463	20,695,425	
Retail, SME and Consumer		-	4,291,026	13,776,197	4,463,479	8,665,012	627,414	31,823,128	
Housing Loans		-	30,487	441,443	268,435	534,458	133,554	1,408,377	
Leases		-	-	11,869,623	-	7,098,905	393,028	19,361,556	
Staff Loans		-	64,515	207,458	1,526,265	63,308	-	1,861,546	
		-	18,397,668	26,971,776	6,496,135	19,441,993	3,842,460	75,150,032	
<b>Total</b>		41,547,022	18,759,427	28,679,699	6,501,931	19,441,993	3,842,460	118,772,531	

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 19.4 Bn categorized under "past due but not impaired" category Rs. 12.9 Bn ( 68%) is in arrears for less than 30 days, Rs. 5.6 Bn (28%) is in arrears for more than 30 days but less than 90 days & 0.8Bn (4%) is in arrears for more than 90 Days.

## Notes to the Financial Statements

Group	Notes	Neither past due nor impaired					Past due but not impaired Rs '000	Individually impaired Rs '000	Total 2012 Rs '000
		High Grades Rs '000	Investment Grades Rs '000	Intermediary Grades Rs '000	Speculative Grades Rs '000				
Cash and Cash Equivalents	5	2,534,155	-	-	-	-	-	2,534,155	
Balances with Central Bank of Sri Lanka	6	5,089,342	-	-	-	-	-	5,089,342	
Reverse Repurchase Agreements	7.1	1,004,004	-	1,707,924	-	-	-	2,711,928	
<b>Derivative Financial Instruments</b>									
Forward Foreign Exchange Contrats	8.1	303,378	24,067	-	398	-	-	327,843	
<b>Financial Assets - Held for Trading</b>									
Government Treasury Bills and Bonds	9	21,087,926	-	-	-	-	-	21,087,926	
<b>Financial Assets - Held to Maturity</b>									
Government Treasury Bills and Bonds	10	10,237,904	-	-	-	-	-	10,237,904	
<b>Other Financial Assets</b>									
Sri Lanka Development Bonds	11	1,549,834	-	-	-	-	-	1,549,834	
Unquoted Debentures		-	337,691	-	-	-	-	337,691	
Unquoted Equity Instruments		-	-	-	5,397	-	-	5,397	
		1,549,834	337,691	-	5,397	-	-	1,892,922	
<b>Loans and Advances to Customers (Gross)</b>									
Corporate Loans	12	-	13,304,641	677,055	245,249	3,080,311	2,688,463	19,995,719	
Retail, SME and Consumer		-	5,851,797	13,776,197	4,565,866	8,665,012	627,414	33,486,286	
Housing Loans		-	30,487	441,443	268,435	534,458	133,554	1,408,377	
Leases		-	-	11,869,623	-	7,098,905	393,028	19,361,556	
Staff Loans		-	64,515	207,458	1,526,265	63,308	-	1,861,546	
		-	19,251,440	26,971,776	6,605,815	19,441,993	3,842,460	76,113,484	
<b>Total</b>		41,806,543	19,613,198	28,679,699	6,611,611	19,441,993	3,842,460	119,995,505	

Note : Past Due loans include any loan that is in arrears for more than one day. Out of 19.4 Bn categorized under "past due but not impaired" category LKR 12.9 Bn ( 68%) is in arrears for less than 30 days, LKR 5.6 Bn (28%) is in arrears for more than 30 days but less than 90 days & 0.8 Bn (4%) is in arrears for more than 90 Days.

### Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the statement of financial position. Within the assets concentrated as "Other" include Consumer Loans and Leases. Major portion of the leases consist of leases granted to individuals for the purpose of facilitating their Small/Micro level business activities which cannot be directly attributable to a single identified sector, hence the classified under "other".

Bank - As at 31 December 2012	Agriculture & Fisheries Rs '000	Financial services Rs '000	Government Rs '000	Trading Rs '000	Construction and Housing Rs '000	Manufacturing Rs '000	Services Rs '000	Other Rs '000	Total Rs '000
Cash and Cash Equivalents	-	2,534,056	-	-	-	-	-	-	2,534,056
Balances with Central Bank of Sri Lanka	-	-	5,089,342	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	-	3,230,624	-	-	-	-	-	56,650	3,287,274
<b>Derivative Financial Instruments</b>									
Forward Foreign Exchange Contrats	-	326,126	-	1,320	-	-	398	-	327,843
<b>Financial Assets - Held for Trading</b>									
Government Treasury Bills and Bonds	-	-	20,253,158	-	-	-	-	-	20,253,158
<b>Financial Assets - Held to Maturity</b>									
Government Treasury Bills and Bonds	-	-	10,237,904	-	-	-	-	-	10,237,904
<b>Other Financial Assets</b>									
Sri Lanka Development Bonds	-	-	1,549,834	-	-	-	-	-	1,549,834
Unquoted Debentures	-	337,691	-	-	-	-	-	-	337,691
Unquoted Equity Instruments	-	-	-	-	-	-	5,397	-	5,397
	-	337,691	1,549,834	-	-	-	5,397	-	1,892,922
<b>Loans and Advances to Customers</b>									
Corporate Loans	6,167,560	4,111,826	-	4,876,818	430,901	3,446,161	1,594,594	67,565	20,695,425
Retail, SME and Consumer	1,007,773	470,777	-	6,072,592	1,071,398	688,622	4,218,887	18,293,079	31,823,128
Housing Loans	-	-	-	-	1,408,377	-	-	-	1,408,377
Leases	950,805	89,580	-	1,028,354	576,838	558,245	2,599,522	13,558,212	19,361,556
Staff Loans	-	1,861,546	-	-	-	-	-	-	1,861,546
	8,126,138	6,533,729	-	11,977,764	3,487,514	4,693,028	8,413,003	31,918,855	75,150,032
Impairment for Loans and Advances									(1,825,290)
Staff Loans Day 1 difference									(866,385)
<b>Net Loans and Advances</b>									72,458,356
	8,126,138	12,962,226	37,130,238	11,979,084	3,487,514	4,693,028	8,418,798	31,975,505	116,075,472

## Notes to the Financial Statements

Group - As at 31 December 2012	Agriculture & Fisheries Rs '000	Financial services Rs '000	Government Rs '000	Trading Rs '000	Construction and Housing Rs '000	Manufacturing Rs '000	Services Rs '000	Other Rs '000	Total Rs '000
Cash and Cash Equivalents	-	2,534,155	-	-	-	-	-	-	2,534,155
Balances with Central Bank of Sri Lanka	-	-	5,089,342	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	-	2,655,277	-	-	-	-	-	56,650	2,711,927
<b>Derivative Financial Instruments</b>									
Forward Foreign Exchange Contrats	-	326,126	-	1,320	-	-	398	-	327,843
<b>Financial Assets - Held for Trading</b>									
Government Treasury Bills and Bonds	-	-	21,087,926	-	-	-	-	-	21,087,926
<b>Financial Assets - Held to Maturity</b>									
Government Treasury Bills and Bonds	-	-	10,237,904	-	-	-	-	-	10,237,904
<b>Other Financial Assets</b>									
Sri Lanka Development Bonds	-	-	1,549,834	-	-	-	-	-	1,549,834
Unquoted Debentures	-	337,691	-	-	-	-	-	-	337,691
Unquoted Equity Instruments	-	-	-	-	-	-	5,397	-	5,397
	-	337,691	1,549,834	-	-	-	5,397	-	1,892,922
<b>Loans and Advances to Customers</b>									
Corporate Loans	6,167,560	3,373,069	-	4,883,314	430,901	3,446,161	1,627,148	67,565	19,995,719
Retail ,SME and Consumer	1,007,773	526,279	-	6,447,964	1,208,263	976,471	4,999,076	18,219,590	33,486,286
Housing Loans	-	-	-	-	1,408,377	-	-	-	1,408,377
Leases	950,805	89,580	-	1,028,354	576,838	558,245	2,599,522	13,558,212	19,361,556
Staff Loans	-	1,861,546	-	-	-	-	-	-	1,861,546
	8,126,138	5,850,475	-	12,359,632	3,624,379	4,980,877	9,225,746	31,845,368	76,113,484
Impairment for Loans and Advances									(1,823,148)
Staff Loans Day 1 difference									(866,385)
<b>Net Loans and Advances</b>									73,423,951
	8,126,138	11,703,724	37,965,006	12,360,952	3,624,379	4,980,877	9,231,541	31,902,018	117,305,970

### Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

Commitments and Guarantees	2012	
	Bank Rs.'000	Group Rs.'000
Bonds and Warranties	4,819,125	4,819,125
Acceptance	1,250,876	1,250,876
Guarantees	219,070	219,070
Letters of Credit	2,596,995	2,596,995
Undrawn Commitments		
Cards	16,192,459	16,192,459
Other	25,805,096	27,129,179
	41,997,555	43,321,638
<b>Total Commitment and Guarantees</b>	<b>50,883,621</b>	<b>52,207,704</b>

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

### 42.3 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Liquidity risk is measured through stock or flow approach. Bank maintains a minimum 20% ratio of liquid assets to total liabilities under stock approach based on the regulations of the Central Bank of Sri Lanka as given below.

Liquid assets mainly consist of cash, short-term Bank deposits and government securities.

In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 8% of Sri Lankan Rupee customer deposits.

Liquid Assets Ratio	2012	
	DBU	FCBU
As at 31 December 2012	27.5%	25.3%

## Notes to the Financial Statements

### Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2012 under the flow approach.

Bank-As at 31 December 2012	On demand (Less than 15 days) Rs '000	16 days - 3 Months Rs '000	3 to 12 months Rs '000	1 to 5 years Rs '000	Over 5 years Rs '000	Total Rs '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,534,056	-	-	-	-	2,534,056
Balances with Central Bank of Sri Lanka	5,089,342	-	-	-	-	5,089,342
Reverse Repurchase Agreements	2,030,272	227,479	1,097,915	-	-	3,355,666
<b>Financial Investments - Held for Trading</b>						
Government debt securities - Treasury Bills and Bonds	1,982,050	9,612,690	7,965,951	1,868,030	-	21,428,721
<b>Financial Investments Held to Maturity</b>						
Government debt securities - Treasury Bills and Bonds	795,125	2,641,438	2,969,313	5,343,188	-	11,749,064
Unquoted Equity Instruments	-	-	-	-	5,397	5,397
Loans & Advances	29,030,721	12,468,659	15,446,807	30,272,572	4,189,884	91,408,643
<b>Total Undiscounted Financial Assets</b>	<b>41,461,566</b>	<b>24,950,266</b>	<b>27,479,986</b>	<b>37,483,790</b>	<b>4,195,281</b>	<b>135,570,889</b>
<b>Financial Liabilities</b>						
Due to Banks	532,087	1,898,421	430,416	-	-	2,860,924
Repurchase Agreements	6,467,992	1,711,777	3,991,282	3,188	-	12,174,239
Due to Customers	26,693,346	29,532,144	31,020,093	5,383,455	32,600	92,661,638
Debt Issued and Other Borrowed Funds	170,656	-	2,445,452	4,627,241	-	7,243,349
<b>Total Undiscounted Financial Liabilities</b>	<b>33,864,081</b>	<b>33,142,342</b>	<b>37,887,243</b>	<b>10,013,884</b>	<b>32,600</b>	<b>114,940,150</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>7,597,485</b>	<b>(8,192,076)</b>	<b>(10,407,257)</b>	<b>27,469,906</b>	<b>4,162,681</b>	<b>20,630,739</b>
<b>Gross Settled Derivatives not Held for Trading</b>						
<b>Financial Assets</b>						
Contractual Amounts Receivable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
Contractual Amounts Payable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
<b>Financial Liabilities</b>						
Contractual Amounts Receivable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
Contractual Amounts Payable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
<b>Total Gross Settled Derivative Assets / (Liabilities) not Held for Trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>7,597,485</b>	<b>(8,192,076)</b>	<b>(10,407,257)</b>	<b>27,469,906</b>	<b>4,162,681</b>	<b>20,630,739</b>

Group-As at 31 December 2012	On demand (Less than 15 days) Rs 000'	16 days - 3 Months Rs 000'	3 to 12 months Rs 000'	1 to 5 years Rs 000'	Over 5 years Rs 000'	Total Rs 000'
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,534,155	-	-	-	-	2,534,155
Balances with Central Bank of Sri Lanka	5,089,341	-	-	-	-	5,089,341
Reverse Repurchase Agreements	1,454,925	227,479	1,097,915	-	-	2,780,319
<b>Financial Assets - Held for Trading</b>						
Government Debt Securities - Treasury Bills and Bonds	1,983,675	9,618,783	8,681,868	2,075,897	-	22,360,223
<b>Financial Assets - Held to Maturity</b>						
Government Debt Securities - Treasury Bills and Bonds	795,125	2,641,438	2,969,313	5,343,188	-	11,749,064
Unquoted Equity Instruments	-	-	-	-	5,397	5,397
Loans & Advances	29,994,173	12,468,659	15,446,807	30,272,572	4,189,884	92,372,095
<b>Total Undiscounted Financial Assets</b>	<b>41,851,394</b>	<b>24,956,359</b>	<b>28,195,903</b>	<b>37,691,657</b>	<b>4,195,281</b>	<b>136,890,594</b>
<b>Financial Liabilities</b>						
Due to Banks	532,087	1,898,421	430,416	-	-	2,860,924
Repurchase Agreements	6,467,992	1,711,777	3,991,282	3,188	-	12,174,239
Deposits	26,670,395	29,147,941	31,020,093	5,383,455	32,600	92,254,484
Debt Issued and Other Borrowed Funds	673,312	-	2,445,452	4,627,241	-	7,746,005
<b>Total Undiscounted Financial Liabilities</b>	<b>34,343,786</b>	<b>32,758,139</b>	<b>37,887,243</b>	<b>10,013,884</b>	<b>32,600</b>	<b>115,035,652</b>
<b>Net Undiscounted Financial Assets/ (Liabilities)</b>	<b>7,507,608</b>	<b>(7,801,780)</b>	<b>(9,691,340)</b>	<b>27,677,773</b>	<b>4,162,681</b>	<b>21,854,942</b>
<b>Gross Settled Derivatives not Held for Trading</b>						
<b>Financial Assets</b>						
Contractual Amounts Receivable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
Contractual Amounts Payable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
<b>Financial Liabilities</b>						
Contractual Amounts Receivable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
Contractual Amounts Payable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
<b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b>						
<b>Total Net Financial Assets/(Liabilities)</b>	<b>7,507,108</b>	<b>(7,801,780)</b>	<b>(9,691,340)</b>	<b>27,677,773</b>	<b>4,162,681</b>	<b>21,854,942</b>

## Notes to the Financial Statements

Whilst the management understands the above contractual maturity gaps, more emphasis is given for the behavioural nature of these cash flows when managing the overall liquidity profile by the ALCO. Also to further limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity on a daily basis.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Additionally, the Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. The Bank also has uncommitted lines of credit that it can access to meet liquidity needs.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Bonds and Warranties	357,571	1,182,815	2,849,782	428,956	-	4,819,125
Acceptance	245,185	614,283	391,408	-	-	1,250,876
Guarantees	58,502	160,568	-	-	-	219,070
Letters of credit	201,306	1,772,506	619,493	3,690	-	2,596,995
Undrawn Commitments	41,997,555	-	-	-	-	41,997,555
<b>Total Commitment and Guarantees</b>	<b>42,860,119</b>	<b>3,730,173</b>	<b>3,860,684</b>	<b>432,646</b>	<b>-</b>	<b>50,883,621</b>
Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Bonds and Warranties	357,571	1,182,815	2,849,782	428,956	-	4,819,125
Acceptance	245,185	614,283	391,408	-	-	1,250,876
Guarantees	58,502	160,568	-	-	-	219,070
Letters of credit	201,306	1,772,506	619,493	3,690	-	2,596,995
Undrawn Commitments	43,321,638	-	-	-	-	43,321,638
<b>Total Commitment and Guarantees</b>	<b>44,184,202</b>	<b>3,730,173</b>	<b>3,860,684</b>	<b>432,646</b>	<b>-</b>	<b>52,207,704</b>



#### 42.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange.

##### Interest Rate Risk

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose Banks' Net Interest Income to variations.

IRR exposure is primarily managed with Maturity Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term to their next re-pricing (floating rate) as shown below.

Bank-As at 31 December 2012	Total Rs '000	On demand (Less than 15 days) Rs '000	16 days- 3 Months Rs '000	3 to 12 months Rs '000	1 to 5 years Rs '000	Over 5 years Rs '000	Non-Interest Bearing Rs '000
<b>Assets</b>							
Cash and Balances with Central Bank of Sri Lanka	6,925,859	-	-	-	-	-	6,925,859
Loans & Advances	72,580,801	29,671,422	16,459,908	8,373,817	14,968,487	1,336,051	1,771,116
Investments	36,118,080	5,287,973	13,406,386	11,543,659	6,758,410	-	(878,348)
Other	41,090,564	10,462,411	15,623,128	8,857,505	-	-	6,147,520
<b>Total Assets</b>	<b>156,715,304</b>	<b>45,421,806</b>	<b>45,489,423</b>	<b>28,774,980</b>	<b>21,726,897</b>	<b>1,336,051</b>	<b>13,966,147</b>
<b>Liabilities</b>							
Deposits	84,694,556	17,535,840	27,601,696	28,148,170	3,387,220	15,050	8,006,580
Borrowings	20,886,023	7,792,285	3,471,049	7,486,363	2,001,953	-	134,374
Other	51,134,725	8,829,223	15,787,131	9,090,698	-	-	17,427,673
Total Shareholder Funds and Liabilities	156,715,304	34,157,348	46,859,876	44,725,231	5,389,173	15,050	25,568,627
<b>Total Interest Sensitivity Gap</b>		<b>11,264,458</b>	<b>(1,370,453)</b>	<b>(15,950,250)</b>	<b>16,337,724</b>	<b>1,321,001</b>	<b>(11,602,480)</b>

\*\* The Classifications are based on the way that ALCO monitors repricing gaps

Group-As at 31 December 2012	Total Rs 000	On demand (Less than 15 days) Rs 000	16 days- 3 Months Rs 000	3 to 12 months Rs 000	1 to 5 years Rs 000	Over 5 years Rs 000	Non-Interest Bearing Rs 000
<b>Assets</b>							
Cash and Balances with Central Bank of Sri Lanka	6,925,930	-	-	-	-	-	6,925,930
Loans & Advances	74,283,021	31,373,642	16,459,908	8,373,817	14,968,487	1,336,051	1,771,116
Investments	36,952,847	5,292,973	13,406,386	12,243,659	6,947,000	-	(937,170)
Other	41,070,736	10,462,411	15,623,128	8,857,505	-	-	6,127,692
<b>Total Assets</b>	<b>159,232,534</b>	<b>47,129,026</b>	<b>45,489,423</b>	<b>29,474,980</b>	<b>21,915,487</b>	<b>1,336,051</b>	<b>13,887,567</b>
<b>Liabilities</b>							
Due to customers	84,694,556	17,535,840	27,601,696	28,148,170	3,387,220	15,050	8,006,580
Borrowings	22,699,655	9,105,916	3,971,049	7,486,363	2,001,953	-	134,374
Other	51,838,323	8,829,223	15,787,131	9,090,698	-	-	18,131,271
Total Shareholder Funds and Liabilities	159,232,534	35,470,979	47,359,876	44,725,231	5,389,173	15,050	26,272,225
<b>Total Interest Sensitivity Gap</b>		<b>11,658,047</b>	<b>(1,870,453)</b>	<b>(15,250,250)</b>	<b>16,526,314</b>	<b>1,321,001</b>	<b>(12,384,659)</b>

\*\* The Classifications are based on the way that ALCO monitors repricing gaps

The Board has established limits on the interest rate gaps for stipulated periods. The Bank monitors positions on a daily basis and ensure that they maintained within the established limits.

## Notes to the Financial Statements

The ALCO monitors the above gaps and the sensitivity on the Income Statement for Sri Lankan Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the Income Statement is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Bank	Increase / (decrease) in basis points	Sensitivity to Profit after Tax
Asset/Liabilities	2012	Rs.000
LKR	+100/-100	+31,884/-32,217
USD	+50/-50	+1,295/-1,307
<b>Group</b>	<b>Increase / (decrease) in basis points</b>	<b>Sensitivity to Profit after Tax</b>
<b>Asset/Liabilities</b>	<b>2012</b>	<b>2012 Rs.000</b>
LKR	+100/-100	+28,359/-28,628
USD	+50/-50	+1,295/-1,307

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

### Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set the following limits to mitigate against currency risk exposures;

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-day Limits
- Cut-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2012. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Income Statement. A negative amount in the table reflects a potential net reduction in the Income Statement, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact. Given below is the sensitivity related to trading position in the DBU.

Currency	Change in Currency rate in % 2012	Effect on Profit after tax 2012 (Rs. 000)
USD	+5	652.8
GBP	+5	192.0
EUR	+5	(117.8)
AUD	+5	(130.2)
JPY	+5	(25.3)
Other	+5	75.5

In addition to above trading exposures, the Bank carries a structural position arising from the negative US Dollar reserves accumulated in FCBU books. The sensitivity to income statement from this exposure is as follows;

Currency	Change in Currency rate in %	Effect on Profit after tax (Rs. 000)
USD	+5	(14,261.8)

## Notes to the Financial Statements

### 43 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 42)

Letters of credit and guarantees commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

#### 43.1 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

#### 43.2 Capital Commitments

The Commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Capital Commitments for Property and Equipment</b>				
Approved and contracted for	106,027	82,192	107,613	82,192
Approved but not contracted for	26,868	30,009	26,868	30,009
	132,895	112,201	134,481	112,201
<b>Capital Commitments for Intangible Assets</b>				
Approved and contracted for	120,930	73,676	124,764	85,568
Approved but not contracted for	-	67,031	-	67,031
	120,930	140,707	124,764	152,599
	253,825	252,908	259,245	264,800

#### 43.3 Lease Arrangements

##### 43.3.1 Operating Lease Commitments – Bank as Lessee

The bank has entered into commercial leases for premises. These leases have an average life of ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	Bank	
	2012 Rs. '000	2011 Rs. '000
Within one year	123,172	160,477
After one year but less than five years	399,566	457,982
More than five years	19,099	76,836
	541,837	695,295

#### 44 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2012 that require disclosure or/and adjustments in these accounts, except for the following;

Subject to approval of the Shareholders at the forthcoming Annual General Meeting, the Directors have recommended the payment of a first and final dividend of Rs. 2.10 per share for the year ended 31 December 2012.

#### 45 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

#### 45.1 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises Share Capital, Share Premium, Retained Earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

# ***Annexure B***

# Credit Ratings Report by Fitch Ratings Lanka Ltd

3rd December 2013

Ms Renuka Fernando  
Director / CEO  
Nations Trust Bank PLC  
Union Place  
Colombo 2.

## FitchRatings

Dear Madam,

### Re: Nations Trust Bank PLC's Subordinated Debenture Rating

Fitch ("Fitch") (see definition below) assigned the following rating:

- Proposed subordinated debentures final rating of 'A-(lka)'.

### The final rating will be published on Fitch's public website under

[http://www.fitchratings.com/creditdesk/press\\_releases](http://www.fitchratings.com/creditdesk/press_releases)

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect of legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

Fitch seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given rating.

Fitch Ratings Lanka Limited  
#15-04 East Tower, World Trade Centre, Colombo 2, Sri Lanka. T + 94 11 2541900 F + 94 11 2541903 [www.fitchratings.lk](http://www.fitchratings.lk)

Ratings are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws. Fitch does not consent to the inclusion of its ratings nor this letter communicating our rating action in any offering document.

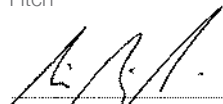
It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings. Nothing in this letter shall limit our right to publish, disseminate or license others to publish or otherwise to disseminate the ratings or the rationale for the ratings.

In this letter, "Fitch" means Fitch, Inc. and Fitch Ratings Ltd and any subsidiary of either of them together with any successor in interest to any such person.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at +94 112 541900.

Sincerely,  
Fitch



Maninda Wickramasinghe  
Country Head



# ***Annexure C***

# Collection Points

Copies of the Prospectus can be obtained free of charge from the following collection on points.

Managers to the Issue	Bankers to the Issue	Registrars to the Issue
<b>Waldock Mackenzie Limited</b>	<b>Nations Trust Bank PLC</b>	<b>SSP Corporate Services Pvt Ltd</b>
242, Union Place, Colombo 02.	242, Union Place, Colombo 02.	101, Inner Flower Road Colombo 03.
Tel: 011 4313100	Tel: 011 4313100	Tel: 011 2573894

## **Bartleet Religare Securities (Pvt) Limited**

Level "G", "Bartleet House",  
65, Braybrooke Place, Colombo 2.  
Tel: +94 11 5 220 200

## **John Keells Stock Brokers (Pvt) Ltd.**

186, Vauxhall Street,  
Colombo 2.  
Tel: +94 11 2 342066-7,

## **Assetline Securities (Pvt) Ltd.**

No.120, 120A, Pannipitiya Road,  
Battaramulla.  
Tel: +94 11 4 700 111

## **J B Securities (Pvt) Ltd.**

150, St. Joseph Street,  
Colombo 14.  
Tel: +94 11 2 490 900

## **Asia Securities (Pvt) Ltd.**

Level 21, West Tower, World Trade Centre,  
Echelon Square, Colombo 1  
Tel: +94 11 2 423 905

## **Capital Trust Securities (Pvt) Ltd.**

42, Mohamed Macan Markar Mawatha,  
Colombo 3.  
Tel:+94 11 2 174 174

## **Acuity Stockbrokers (Pvt) Ltd.**

Level 6, Acuity House,  
No. 53, Dharmapala Mawatha, Colombo 3.  
Tel: +94 11 2 206 206

## **Asha Phillip Securities Ltd.**

2nd Floor,  
Lakshmans Building,  
No. 321, Galle Road, Colombo 03.  
Tele : +94 11 2 429 100

## **Somerville Stockbrokers (Pvt) Ltd.**

137, Vauxhall Street,  
Colombo 2.  
Tel: +94 11 2 329 201-5

## **Lanka Securities (Pvt) Ltd.**

228/1, Galle Road,  
Colombo 04.  
Tel: +94 11 4 706 757

## **Nation Lanka Equities (Pvt) Ltd.**

44, Guildford Crescent,  
Colombo - 07.  
Tel:+94 11 4 889 061-3

## **S C Securities (Pvt) Ltd.**

2nd Floor, 55 D.R. Wijewardena Mawatha,  
Colombo 10.  
Tel:+94 11 4 711 000

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**CT Smith Stockbrokers (Pvt) Ltd.**

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4-14, Majestic City, 10,  
Station Road, Colombo 4.  
Tel. +94 11 2 552 290 - 4

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**NDB Securities (Private) Limited.**

---

5th Floor, NDB Building, 40,  
Navam Mawatha,  
Colombo 2.  
Tel:+94 11 2 314 170 to 2 314 178

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**First Guardian Equities (Pvt) Ltd.**

---

32nd Floor, East Tower, World Trade Centre, Echelon  
Square,  
Colombo 1.  
Tel: +94 11 5 884 400

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**Candor Equities Ltd.**

---

Level 8, South Wing,  
Millennium House, 46/58 Nawam Mawatha,  
Colombo 02.  
Tel: +94 11 2 359 100

---

**IIFL Securities Ceylon (Pvt) Ltd.**

---

27th Floor, East Tower,  
World Trade Centre, Echelon Square,  
Colombo 1  
Tel: +94 11 2 333 000

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**Richard Pieris Securities (Pvt) Ltd.**

---

No. 55/20, Vauxhall Lane,  
Colombo 02.  
Tel: +94 11 7 448 900

---

**LOLC Securities Limited.**

---

Level 18, West Tower,  
World Trade Centre,  
Echelon Square, Colombo 1.  
Tel: +94 11 7 880 880

---

**First Capital Equities (Pvt) Limited.**

---

No.01, Level 02, Lake Crescent,  
Colombo 02.  
Tel:+94 11 2 145 000

---

**SMB Securities (Pvt) Ltd.**

---

No. 47, Dharmapala Mawatha,  
Colombo 3.  
Tel: +94 5 232 091

---

**Taprobane Securities (Pvt) Ltd.**

---

2nd Floor, No. 10, Gothami Road,  
Colombo 08.  
Tel: +94 11 5 328 200

---

**Serendib Stock Brokers (Pvt) Ltd.**

---

No. 156, 3rd Floor,  
Walukarama Road,  
Colombo - 03.  
Tel : +94 11 2 565 635

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**TKS Securities (Pvt) Ltd.**

---

19-01, East Tower,  
World Trade Centre, Echelon Square,  
Colombo 1.  
Tel: +94 11 7 857 799

---

**Claridge Stockbrokers (Pvt) Ltd.**

---

No.10 Gnanartha Pradeepa Mawatha,  
Colombo 8.  
Tel: +94 11 2 697 974

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**First Capital Markets Limited (Trading Member - Debt).**

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No.75,  
Arnold Ratnayake Mawatha,  
Colombo 10.  
Tel: +94 11 2 639 898

# Custodian Banks

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## Bank of Ceylon

---

Head Office,  
11th Floor,  
04, Bank of Ceylon Mawatha,  
Colombo 01  
Tel: 011 2317777, 011 2448348

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## Commercial Bank of Ceylon PLC

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Commercial House,  
21, Bristol Street,  
P.O. Box 853,  
Colombo 01  
Tel: 011 244 5010-15, 011 238 193-5

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## Deutsche Bank

---

P.O. Box 314  
No. 86, Galle Road,  
Colombo 03  
Tel: 011 244 7062, 011 243 8057

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## People's Bank

---

Head Office, 5th Floor,  
Sir Chitt ampalam A Gardiner Mawatha  
Colombo 02  
Tel: 011 278 1481, 011 2446316

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## Sampath Bank PLC

---

110, Sir James Peiris Mawatha,  
Colombo 02  
Tel: 011 533 1458

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## Citi Bank

---

65 C, Dharmapala Mawatha,  
P.O. Box 888,  
Colombo 07  
Tel: 011 244 7316/8, 011 244 7318,  
011 244 9061, 011 232 8526, 011 479 4700

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## Hatton National Bank PLC

---

HNB Towers,  
479, T.B. Jayah Mawatha,  
Colombo 10  
Tel: 011 266 4664

---

## The Hong Kong and Shanghai Banking Corporation Limited

---

24, Sir Baron Jayathilake Mawatha,  
Colombo 01  
Tel: 011 232 5435, 011 244 6591

---

## Standard Chartered Bank

---

37, York Street,  
P. O. Box 112,  
Colombo 01  
Tel: 011 479 4400, 011 248 0000

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## State Bank of India

---

16, Sir Baron Jayathilake Mawatha,  
Colombo 01  
Tel: 011 232 6133-5, 011 243 9405-6

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**Seylan Bank PLC**

---

Level 8, Ceylinco Seylan Towers,  
90, Galle Road,  
Colombo 03  
Tel: 011 245 6789, 011 470 1812

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**National Savings Bank**

---

Savings House  
255, Galle Road, Colombo 03  
Tel: 5 730081-5

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**Public Bank Berhad**

---

340, R A De Mel Mawatha, Colombo 03  
Tel 011 2576 289, 0117290 200-07

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**Union Bank of Colombo PLC**

---

No 15A, Alfred Place,  
Colombo 03  
Tel: 011 2 370 870

---

**Pan Asia Banking Corporation PLC**

---

450, Galle Road  
Colombo 03  
Tel: 011 2 565565

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# Nations Trust Bank Branches

<b>Akkaraipattu</b>	<b>Balangoda</b>	<b>Havelock Town</b>
No 210, Main Street, Akkaraipattu.	No. 86/A, Bans Ratwatte Mawatha, Balangoda.	No 100, Havelock Road, Colombo 05.
<b>Akuressa</b>	<b>Chilaw</b>	<b>Horana</b>
No 73, Matara Road, Akuressa.	No 43, Kurunegala Road, Chilaw.	192 B Ratnapura Road, Horana.
<b>Anuradhapura</b>	<b>City</b>	<b>Homagama</b>
No.249A Maithripala Senanayake Mawatha, Anuradhapura.	No 76, York Street, Colombo 01.	No. 113/A, High Level Road, Homagama.
<b>Aluthgama</b>	<b>Cinnamon Gardens</b>	<b>Jaffna</b>
No. 156, Galle Road Aluthgama.	No. 4 A Independence Avenue, Colombo 07.	No 35, Stanley Road, Jaffna.
<b>Ambalangoda</b>	<b>Corporate</b>	<b>Ja-Ela</b>
No. 20, 5th Cross Street, Ambalangoda.	No 242 Union Place, Colombo 02.	No. 176, Colombo Road, Ja-ela.
<b>Ambalantota</b>	<b>Crescat</b>	<b>Kadawatha</b>
No 61, Main Street, Ambalantota.	B 14, Basement, Crescat Boulevard, Galle Road, Colombo 03.	No 25, Kandy Road, Kadawatha.
<b>Badulla</b>	<b>Dehiwala</b>	<b>Kaduruwela</b>
No 10, Bank Road, Badulla.	163, Galle Road, Dehiwela.	No 292, Sawmill Junction, Kaduruwela, Polonnaruwa.
<b>Bandarawela</b>	<b>Deniyaya</b>	<b>Kalmunai</b>
No 326, Badulla Road, Bandarawela.	No. 11, Main Street, Deniyaya.	174, Batticaloa Road, Kalmunai.
<b>"Battaramulla</b>	<b>Embilipitiya</b>	<b>Kandy</b>
103A Pannipitiya Road, Battaramulla.	No. 70, New Town Road, Embilipitiya.	No 147, Kotugodella Street, Kandy.
<b>Bandaragama</b>	<b>Gampaha</b>	<b>Katugastota</b>
No 18/2, Kalutara Road, Bandaragama.	No. 112, Baudhaloka Mawatha Gampaha.	146, Kurunegala Road, Katugastota.
<b>Borella</b>	<b>Galle</b>	<b>Kiribathgoda</b>
No. 67 D S Senanayake Mawatha, Borella, Colombo 8.	No.16, Matara Road, Galle.	No.69, Makola Road, Kiribathgoda.
<b>Batticaloa</b>	<b>Hambantota</b>	<b>Kohuwala</b>
No.29, Bar Road, Batticaloa.	Address -No - 39 , Main Road Hambantota.	No 96/B, Dutugamunu Street, Kohuwala.

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**Katugastota**

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146, Kurunegala Road, Katugastota.

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**Kiribathgoda**

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No.69, Makola Road,Kiribathgoda.

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**Kohuwala**

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No 96/B, Dutugamunu Street,  
Kohuwala.

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**Kollupitiya**

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No 314, R.A.De Mel Mawatha,  
Colombo 03.

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**Kotahena**

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No 258 , George R De Silva Mw,  
Colombo 13.

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**Kuliyapitiya**

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No 72A, Hettipola Road, Kuliyapitiya.

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**Kurunegala**

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No. 37, Puttalam Road, Kurunegala.

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**Liberty Plaza**

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Liberty Plaza, Colombo 03.

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**Mahabage**

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No 590, Negombo Road, Mahabage.

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**Maharagama**

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No. 129, High Level Road,  
Maharagama.

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**Malabe**

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No. 410/4 Athurugiriya Road, Malabe.

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**Matara**

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No. 56, Esplanade Road, Matara.

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**Millennium**

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46/58 Nawam Mawatha, Colombo 02.

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**Moratuwa**

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89, New Galle Road, Moratuwa.

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**Mt Lavinia**

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No 269, Galle Road, Mount Lavinia.

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**Nawala**

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No 267A, Nawala Road, Nawala.

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**Nelliady**

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171/1, Jaffna - Point Pedro Road,  
Nelliady.

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**Negombo**

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72/A, Old Chilaw Road, Negombo.

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**Nugegoda**

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No 128 High Level Road, Nugegoda.

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**Nuwara Eliya**

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No 86, Kandy Road, Nuwara Eliya.

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**Old Moor Street**

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No. 360, Old Moor Street, Colombo  
12.

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**Panadura**

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No 229, Galle Road, Panadura.

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**Pettah**

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244, Main Street, Pettah.

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**Pettah 2**

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No-54A Bankshall Street,Colombo-11.

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**Peradeniya**

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No. 903/18, Royal Mall Complex,  
William Gopallawa Mawatha, Kandy.

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**Piliyandala**

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No 30, Moratuwa Road, Piliyandala.

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**Ratnapura**

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No 189, Main Street, Ratnapura.

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**Sri Sangaraja Mawatha**

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No 545 A, Sri Sangaraja Mawatha,  
Colombo 10.

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**Thalawatugoda**

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No 755, Madhiwela Road,  
Thalawathugoda.

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**Trincomalee**

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No 96, Main Street, Trincomalee.

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**Vavuniya**

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No 222, Kandy Road, Vavuniya.

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**Wattala**

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No. 492, Negombo Road, Wattala.

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**Ward Place (ODEL)**

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ODEL, No 10, Ward Place, Colombo  
07.

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**Wellawatte**

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No 292, Galle Road, Wellawatte.

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**Wennappuwa**

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289, Chilaw Rd, Wennappuwa.







