

**NATIONS TRUST BANK PLC AND ITS FULLY OWNED SUBSIDIARIES**

Company Number PQ 118



**Nations  
TrustBank**

## NATIONS TRUST GROWTH MOMENTUM CONTINUES

### 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".

## INCOME STATEMENT

	BANK						GROUP					
	Nine months ended 30th September			Quarter ended 30th September			Nine months ended 30th September			Quarter ended 30th September		
	2013	2012	Change	2013	2012	Change	2013	2012	Change	2013	2012	Change
	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	17	5,057,757	4,801,577	5	15,185,485	12,942,380	17	5,158,804	4,877,006	6
Interest Income	13,134,513	10,680,868	23	4,351,543	3,998,844	9	13,315,491	10,832,935	23	4,419,875	4,048,214	9
Less : Interest Expense	(7,791,191)	(6,708,925)	16	(2,437,790)	(2,589,846)	(6)	(7,799,818)	(6,691,040)	17	(2,445,834)	(2,580,059)	(5)
<b>Net Interest Income</b>	<b>5,343,322</b>	<b>3,971,943</b>	<b>35</b>	<b>1,913,753</b>	<b>1,408,998</b>	<b>36</b>	<b>5,515,673</b>	<b>4,141,895</b>	<b>33</b>	<b>1,974,041</b>	<b>1,468,155</b>	<b>34</b>
Fees and Commission Income	1,865,769	1,568,499	19	705,891	598,306	18	1,974,439	1,649,709	20	744,254	626,465	19
Less : Fees and Commission Expense	(140,873)	(118,946)	18	(48,495)	(45,839)	6	(140,879)	(118,107)	19	(48,495)	(45,005)	8
<b>Net Fees and Commission Income</b>	<b>1,724,896</b>	<b>1,449,553</b>	<b>19</b>	<b>657,396</b>	<b>552,467</b>	<b>19</b>	<b>1,833,560</b>	<b>1,531,602</b>	<b>20</b>	<b>695,759</b>	<b>581,460</b>	<b>20</b>
Net Trading Income / (Expense)	(308,220)	329,057	(194)	(61,623)	109,543	(156)	(309,976)	317,085	(198)	(67,286)	107,439	(163)
Other Operating Income	220,185	161,142	37	61,946	94,884	(35)	205,531	142,651	44	61,961	94,888	(35)
<b>Total Operating Income</b>	<b>6,980,183</b>	<b>5,911,695</b>	<b>18</b>	<b>2,571,472</b>	<b>2,165,892</b>	<b>19</b>	<b>7,244,788</b>	<b>6,133,233</b>	<b>18</b>	<b>2,664,475</b>	<b>2,251,942</b>	<b>18</b>
Impairment Charges /(Reversal ) for												
Loans and Advances	490,316	274,132	79	208,580	89,382	133	491,985	273,307	80	209,622	90,110	133
Individual Impairment	29,899	156,750	(81)	20,112	73,849	(73)	29,899	156,750	(81)	20,112	73,849	(73)
Collective Impairment	460,417	117,382	292	188,468	15,533	1,113	462,086	116,557	296	189,510	16,261	1,065
<b>Net Operating Income</b>	<b>6,489,867</b>	<b>5,637,563</b>	<b>15</b>	<b>2,362,892</b>	<b>2,076,510</b>	<b>14</b>	<b>6,752,803</b>	<b>5,859,926</b>	<b>15</b>	<b>2,454,853</b>	<b>2,161,832</b>	<b>14</b>
<b>Less : Expenses</b>												
Personnel Expenses	1,721,023	1,456,268	18	580,596	543,243	7	1,747,408	1,483,634	18	589,215	552,031	7
Depreciation of Property, Plant and Equipment	177,706	194,433	(9)	63,176	64,206	(2)	186,355	203,114	(8)	66,073	66,582	(1)
Amortization of Intangible Assets	94,262	81,096	16	32,838	27,843	18	96,397	82,313	17	33,609	29,060	16
Other Operating Expenses	2,061,447	1,548,117	33	759,368	538,714	41	2,057,024	1,550,607	37	757,349	538,123	41
<b>Total Operating Expenses</b>	<b>4,054,438</b>	<b>3,279,914</b>	<b>24</b>	<b>1,435,978</b>	<b>1,174,006</b>	<b>22</b>	<b>4,087,184</b>	<b>3,319,668</b>	<b>23</b>	<b>1,446,246</b>	<b>1,185,796</b>	<b>22</b>
<b>Operating Profit before Value Added Tax (VAT)</b>	<b>2,435,429</b>	<b>2,357,649</b>	<b>3</b>	<b>926,914</b>	<b>902,504</b>	<b>3</b>	<b>2,665,619</b>	<b>2,540,258</b>	<b>5</b>	<b>1,008,607</b>	<b>976,036</b>	<b>3</b>
Less : Value Added Tax (VAT) on Financial Services	347,051	323,330	7	125,555	123,494	2	361,238	337,311	7	130,374	128,411	2
<b>Profit before Income Tax</b>	<b>2,088,378</b>	<b>2,034,319</b>	<b>3</b>	<b>801,359</b>	<b>779,010</b>	<b>3</b>	<b>2,304,381</b>	<b>2,202,947</b>	<b>5</b>	<b>878,233</b>	<b>847,625</b>	<b>4</b>
Less : Income Tax Expense	643,080	640,841	-	240,614	251,709	(4)	707,931	692,884	2	262,090	270,744	(3)
<b>Profit for the Period</b>	<b>1,445,298</b>	<b>1,393,478</b>	<b>4</b>	<b>560,745</b>	<b>527,301</b>	<b>6</b>	<b>1,596,450</b>	<b>1,510,063</b>	<b>6</b>	<b>616,143</b>	<b>576,881</b>	<b>7</b>
<b>Earnings Per Share</b>												
	Rs.			Rs.			Rs.			Rs.		
<b>Basic Earnings Per Share</b>	6.27	6.04	4	2.43	2.29	6	6.92	6.55	6	2.67	2.50	7

## STATEMENT OF COMPREHENSIVE INCOME

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

## SELECTED PERFORMANCE INDICATORS

	BANK		GROUP	
	As at 30.09.2013	As at 31.12.2012 (Audited)	As at 30.09.2013	As at 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>				
Highest	65.50	63.60		
Lowest	57.00	45.80		
Last Traded Price	60.50	61.90		

## STATEMENT OF FINANCIAL POSITION

As at	BANK			GROUP		
	30.09.2013 Rs. '000	31.12.2012 Rs. '000 (Audited)	Change (%)	30.09.2013 Rs. '000	31.12.2012 Rs. '000 (Audited)	Change (%)
<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>
<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

12th November 2013, Colombo

(Sgd.)

**M.E. Wickremesinghe**

Director

(Sgd.)

**Renuka Fernando**

Director/Chief Executive Officer

## STATEMENT OF CHANGES IN EQUITY

	Stated Capital	Retained Earnings	Reserve Fund	Investment Fund Account*	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>BANK</b>					
<b>As at 01 January 2012</b>	<b>5,101,369</b>	<b>2,284,243</b>	<b>224,242</b>	<b>248,123</b>	<b>7,857,977</b>
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>	<b>5,101,369</b>	<b>2,938,937</b>	<b>224,242</b>	<b>502,632</b>	<b>8,767,180</b>
<b>As at 01 January 2013</b>	<b>5,101,369</b>	<b>3,153,852</b>	<b>313,663</b>	<b>593,236</b>	<b>9,162,120</b>
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>	<b>5,101,369</b>	<b>3,751,215</b>	<b>313,663</b>	<b>956,896</b>	<b>10,123,143</b>
<b>GROUP</b>					
<b>As at 01 January 2012</b>	<b>5,101,369</b>	<b>3,034,047</b>	<b>224,242</b>	<b>268,761</b>	<b>8,628,419</b>
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>	<b>5,101,369</b>	<b>3,787,946</b>	<b>224,242</b>	<b>540,650</b>	<b>9,654,207</b>
<b>As at 01 January 2013</b>	<b>5,101,369</b>	<b>4,044,303</b>	<b>313,663</b>	<b>635,925</b>	<b>10,095,260</b>
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>	<b>5,101,369</b>	<b>4,777,160</b>	<b>313,663</b>	<b>1,015,243</b>	<b>11,207,435</b>

\* 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.

## STATEMENT OF CASH FLOW

For the 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	8,555,604	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)
	<b>(403,563)</b>	<b>(271,088)</b>	<b>(406,017)</b>	<b>(290,320)</b>
<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)
	<b>(3,599,128)</b>	<b>233,957</b>	<b>(3,155,820)</b>	<b>647,607</b>
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	<b>6,370,254</b>	<b>9,234,915</b>	<b>6,420,354</b>	<b>9,269,488</b>
<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)
	<b>6,370,254</b>	<b>9,234,915</b>	<b>6,420,354</b>	<b>9,269,488</b>
<b>A. Reconciliation of Operating Profit</b>				
<b>Profit before Taxation</b>	<b>2,088,378</b>	<b>2,034,319</b>	<b>2,304,381</b>	<b>2,202,947</b>
(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)
	<b>2,315,411</b>	<b>3,535,651</b>	<b>2,499,428</b>	<b>3,715,093</b>

## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

	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>BANK</b>										
<b>Rs. '000</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	-	-	-	-	-	-	76,553,281	72,643,812	76,553,281	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>

	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>GROUP</b>										
<b>Rs. '000</b>										
<b>Assets</b>										
Cash and Cash Equivalents	-	-	-	-	-	-	2,860,209	2,534,155	2,860,209	2,534,155
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	-	-	-	-	-	-	520,355	2,711,927	520,355	2,711,927
Financial Assets - Held for Trading	29,864,216	21,087,926	-	-	-	-	-	-	29,864,216	21,087,926
Other Financial Assets	-	-	-	-	-	-	2,140,514	1,892,922	2,140,514	1,892,922
Loans and Advances to Customers	-	-	-	-	-	-	77,933,811	73,609,406	77,933,811	73,609,406
Financial Assets - Held to Maturity	-	-	-	-	6,891,536	10,237,904	-	-	6,891,536	10,237,904
<b>Total Financial Assets</b>	<b>29,864,216</b>	<b>21,087,926</b>	<b>319,337</b>	<b>327,843</b>	<b>6,891,536</b>	<b>10,237,904</b>	<b>87,208,877</b>	<b>85,837,752</b>	<b>124,283,966</b>	<b>117,491,425</b>

	Financial Derivatives at Fair Value		Other Financial Liabilities at Amortised Cost		Total	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012
<b>Rs'000</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>112,498,862</b>	<b>107,057,679</b>	<b>112,683,610</b>	<b>107,586,151</b>

	Financial Derivatives at Fair Value		Other Financial Liabilities at Amortised Cost		Total	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012
<b>Rs'000</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	-	-	94,636,696	86,189,996	94,636,696	86,189,996
Debt Issued and Other Borrowed Funds	-	-	4,503,856	6,333,779	4,503,856	6,333,779
<b>Total Financial Liabilities</b>	<b>184,748</b>	<b>528,472</b>	<b>112,861,225</b>	<b>107,152,817</b>	<b>113,045,973</b>	<b>107,681,289</b>

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



## ADDITIONAL QUARTERLY DISCLOSURE

	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>1) Loans and Advances To Customers</b>				
<b>Gross Loans and Advances</b>	<b>77,467,687</b>	<b>73,288,486</b>	<b>78,867,743</b>	<b>74,251,937</b>
(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>	<b>2,074,492</b>	<b>1,861,546</b>	<b>2,074,492</b>	<b>1,861,546</b>
Less : Allowance for Day 1 Difference	(779,728)	(680,930)	(779,728)	(680,930)
	<b>1,294,764</b>	<b>1,180,616</b>	<b>1,294,764</b>	<b>1,180,616</b>
	<b>76,533,281</b>	<b>72,643,812</b>	<b>77,933,811</b>	<b>73,609,406</b>
<b>2) Gross Loans and Advances to Customers-By Product</b>	<b>30.09.2013 Rs. '000</b>	<b>31.12.2012 Rs. '000 Audited</b>	<b>30.09.2013 Rs. '000</b>	<b>31.12.2012 Rs. '000 Audited</b>
<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
Term Loans	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
Term Loans	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>

	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>3) Movements in Individual and Collective Impairment during the period for Loans and Receivables to Other Customers</b>				
<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>1,828,147</b>
<b>4) Due to Other Customers-By Product</b>	<b>30.09.2013 Rs. '000</b>	<b>31.12.2012 Rs. '000 Audited</b>	<b>30.09.2013 Rs. '000</b>	<b>31.12.2012 Rs. '000 Audited</b>
<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>

## 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
<b>Rs. '000</b>										
<b>Operating Income</b>	<b>6,399,400</b>	<b>5,115,860</b>	<b>635,972</b>	<b>712,686</b>	<b>233,838</b>	<b>248,437</b>	<b>(24,422)</b>	<b>56,250</b>	<b>7,244,788</b>	<b>6,133,233</b>
Credit Loss Expense	490,316	274,133	-	-	-	-	1,669	(825)	491,985	273,307
<b>Net Operating Income</b>	<b>5,909,084</b>	<b>4,841,727</b>	<b>635,972</b>	<b>712,686</b>	<b>233,838</b>	<b>248,437</b>	<b>(26,091)</b>	<b>57,075</b>	<b>6,752,803</b>	<b>5,859,926</b>
<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>	<b>4,445,793</b>	<b>3,544,102</b>	<b>973,416</b>	<b>409,592</b>	<b>96,624</b>	<b>141,017</b>	<b>(160)</b>	<b>47,183</b>	<b>5,515,673</b>	<b>4,141,895</b>
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>	<b>1,739,879</b>	<b>1,421,476</b>	<b>(33,373)</b>	<b>(21,247)</b>	<b>138,971</b>	<b>107,420</b>	<b>(11,917)</b>	<b>23,953</b>	<b>1,833,560</b>	<b>1,531,602</b>
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>	<b>2,221,820</b>	<b>2,051,258</b>	<b>640,045</b>	<b>468,809</b>	<b>231,223</b>	<b>199,160</b>	<b>(427,469)</b>	<b>(178,968)</b>	<b>2,665,620</b>	<b>2,540,259</b>
Value Added Tax & Income Tax Expense	-	-	-	-	(64,851)	(17,482)	(1,004,318)	(1,012,714)	(1,069,170)	(1,030,196)
<b>Profit for the year</b>	<b>2,221,820</b>	<b>2,051,258</b>	<b>640,045</b>	<b>468,809</b>	<b>166,372</b>	<b>181,678</b>	<b>(1,431,787)</b>	<b>(1,191,682)</b>	<b>1,596,450</b>	<b>1,510,063</b>
<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>	<b>78,262,513</b>	<b>71,397,410</b>	<b>48,899,280</b>	<b>49,116,717</b>	<b>3,617,798</b>	<b>1,022,950</b>	<b>(409,525)</b>	<b>1,285,221</b>	<b>130,370,066</b>	<b>122,822,297</b>
<b>Total Liabilities</b>	<b>97,286,629</b>	<b>88,047,287</b>	<b>21,831,917</b>	<b>26,947,766</b>	<b>1,872,447</b>	<b>49,317</b>	<b>(1,828,362)</b>	<b>(1,876,278)</b>	<b>119,162,631</b>	<b>113,168,093</b>

## 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 30-09-2013 Rs. '000	Balance as at 30-09-2012 Rs. '000	Market Values			Interest Rates		Interest Rate of Comparable Government Security		Other Ratios as at date of last trade	
					Highest Rs.	Lowest Rs.	Year End Rs.	Coupon Rate %	Effective Annual Yield %	30-09-2013 %	30-09-2012 %	Interest Yield %	Yield to Maturity %
<b><u>Fixed Rate</u></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>			<u>2,000,000</u>	<u>3,500,000</u>									

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)



## SHAREHOLDERS INFORMATION

### Twenty Largest Shareholders as at 30th September 2013

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
	<b>182,939,838</b>	<b>79.33</b>
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	-



## 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.**

# 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 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.

## 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.