



B E Y O N D

GROWING
BEYOND

For some years now, our annual reports have presented the story of our organization and it's successful, profitable growth. Since our establishment 12 years ago, we have evolved into a leading feature of Sri Lanka's financial landscape. All through those years we stuck to our values, elaborating and perfecting our reputation as a dynamic, up-to-the-minute financial-services provider for worldly-wise customers who are used to and demand the best.

None of that is changing. But now, we're going beyond the classic paradigm, moving to secure a bigger piece of the banking action country-wide. We've started reaching out to customers beyond the relatively affluent urban base that hitherto provided us with the bulk of our business, thereby supporting the nation's inclusive economic and industrial development.

Watch this space, as the newspapers say.
There will be exciting times ahead.

NTB is implementing plans to reach out across the island, to make our presence felt in the remotest regions of the country. This report will reveal how we're doing this, so that wherever people are, at whatever time or location they need us, we will become the bank they prefer to choose.



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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 be the most profitable and respected Sri Lankan bank by 2015.

Values

- Inspirational leadership
- Integrity in all our dealings
- Open communication
- Learning focused
- Meritocracy
- Prudent risk management
- Respect for all
- Innovation and continuous improvement
- Nurture relationships
- Socially and environmentally responsible

Financial Highlights

DEPOSITS

66.43Bn

Up 38%

NET PROFIT

Rs.1,534Mn

Up 41%

LOANS & ADVANCES

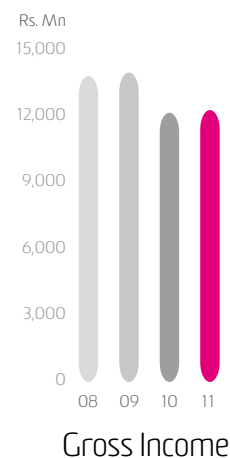
Rs.62.02Bn

Up 39%

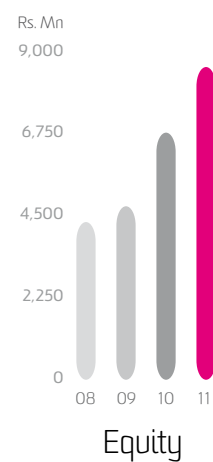
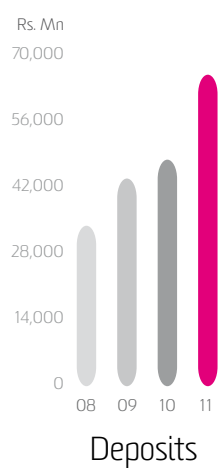
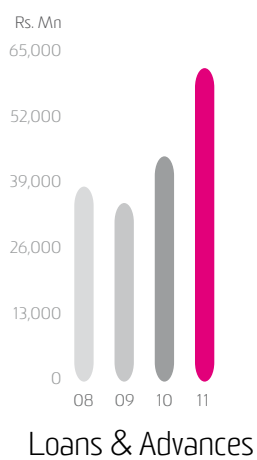
ASSETS

Rs.102Bn

Up 23%



	Group 2011 Rs. Mn.	Group 2010 Rs. Mn.	Change %
Results for the year			
Gross Income	12,337	12,215	1
Net Profit before Tax	2,210	2,029	9
Provision for Taxation	676	944	(28)
Net Profit after Taxation	1,534	1,084	41
At the year end			
Shareholders' Funds	8,611	6,804	27
Deposits from Customers	66,439	48,315	38
Loans and Advances (Net)	62,026	44,571	39
Total Assets	102,006	83,248	23
Information on Ordinary Share			
Earnings Per Share (Rs.)	6.73	5.04	33
Net Assets Value per share (Rs.)	37.34	32.46	15
Market Value at the year end	57.00	83.40	(32)
Ratios			
Return on Average Assets (%)	1.66	1.41	18
Return on Average Shareholders' Funds (%)	19.90	18.72	6
Capital Adequacy Ratios			
Tier I (%)	13.42	13.43	-
Tier II (%)	17.44	15.74	11



02:35 pm Colombo



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Message

"The Sri Lanka Banking Industry is well placed to benefit from the expected growth in the local economy and emergence of Asia as an economic bloc which is second to none. Major investments in infrastructure development, both ongoing and planned, bring unprecedented growth opportunities for the country as a whole."

Ronnie Peiris
Chairman

Growth story continues...

In keeping with the country's development plans, your Bank, accelerated its own expansion plans with a view to satisfying the banking needs of its customers and the needs of all its other stakeholders. In the process, Nations Trust Bank surpassed all its previous achievements to record a post-tax profit of Rs 1,534 Mn in 2011 - the highest in our 12 year history, and our total assets recorded a remarkable growth of 23% to cross the Rs 100 Bn mark.

It is against this back-drop that I take pleasure in presenting to you the Annual Report of your Bank for 2011.

Global and Regional Developments – An Opportunity for Sri Lanka

There is no denying that the mood of business at the end of 2011 was extremely downbeat as the world experienced an economic crisis in Europe, social revolutions in the Arab and Middle Eastern countries, continued uncertainty in the US economy and as a result of the foresaid, a slight slowdown in the emergence of a new Asian economy.

Sri Lanka, thankfully, has so far, been not too severely affected by the above described global scene. The economy has grown at over 8 % for two years running while inflation and interest rates have, in general, been kept under control during most of

2011. The fourth quarter of 2011, and the early part of 2012, have however seen significant volatility in both the exchange rate and interest rates as monetary and fiscal policies came into play in addressing the widening external trade deficit and its consequent impact on the balance of payments and foreign reserves.

We believe that the recent hiccups experienced by Asia, as a whole, are temporary. A review of some basic economic statistics, published by leading authorities, indicates a significant shift in world economic power over the next 10 years. It is estimated that by 2013, the EU, the USA and Asia will be contributing equally to global GDP at approximately 25% each and that by 2020, China, Japan and India will be among the top 5 economies of the world together with the USA and Germany. In this light, the 3 Asian countries are estimated to contribute 27% of the global GDP. As per reports, Asia is expected to consume US Dollar 21 trillion of global produce by 2020, this being US Dollars 15 trillion more than what it consumes today and more than 3 times what the USA is expected to add to its current consumption in the same period.

The Banking Industry in Sri Lanka ...

2011 was a year of growth for the Sri Lanka Banking Industry. Total assets grew by 20%, while deposits and advances recorded growth of 19% and 32% respectively. A steady rise in demand for credit took the total asset base in the Banking Sector to over Rs. 4 trillion by the end of 2011.

The Sri Lanka Banking Industry is well placed to benefit from the expected growth in the local economy and emergence of Asia as an economic bloc which is second to none. Major investments in infrastructure development, both ongoing and planned, bring unprecedented growth opportunities for the country as a whole. The Agricultural Sector, Small and Medium Sized Enterprises and Tourism which contributed significantly to the growth in 2011 are expected to contribute in a similar vein, or better, in 2012. Consumer demand which grew rapidly in 2011 will continue at reasonable levels albeit not at the pace as was in the past.

Your Bank.... Rising to the Occasion

As highlighted in the prelude to my message, your Bank had a great year. A detailed analysis of the Bank's performance is provided in the CEO's Review, Management Discussion and Analysis and the Financial Statements of this Annual Report. It is therefore in that light, I am pleased to recommend for the approval of the Shareholders at the AGM, a First and Final Dividend of Rs. 2.10 per share. This will amount to a Dividend Payout of Rs. 484.28 Mn, this being an increase of Rs. 23.06 Mn over the previous year.

The Bank's performance during 2011 would not have been possible if not for the unstinted support of all the Bank's Employees, from the CEO, the Senior Management team down to the lowest possible level. To them, on behalf of the Board of NTB, I say a big "Thank You".

Your Bank... Today and Tomorrow

Strategic investments in key areas, innovations such as 365 day banking with extended banking hours, prudent and robust risk management practices, an appropriate and effective governance system and a dynamic and energetic team have created a very special financial institution in the short span of 12 years. Our goal now is to take this acclaimed proposition to different regions of the country and to offer our bespoke financial solutions to all Customer segments across Sri Lanka. In achieving this, your Bank will dare to be different. We will craft products and establish levels of service to delight our Customers, and other Stakeholders, under an overarching umbrella of effective risk management. We will do this by listening to, and learning from, them. Your Bank will, in 2012, review its cost structures in seeking sources of advantage. We will understand what Customers truly value and how they weigh the trade-offs between the price and components of an offer. Your Bank will continually question and challenge the conventional wisdom which has pervaded the financial services industry. These internalised assumptions have, in general, led to the same strategies. Your Bank will develop the human resources, and will establish the infrastructure, which are critical for the delivery of our products and services.

Taking a Bow

Our accomplishments drew applause from several external entities. Your Bank steadily moved up in the LMD and 'Brand Finance' rankings and was ranked as the 14th most valuable brand in 2011 with a brand value of Rs. 3.35 Bn. The Bank was the joint runner-up in the banking category at the 2011 'National Business Excellence Awards' while 'World Finance', recognized the Bank as the most innovative Bank in Sri Lanka in 2011. As an institution that considers innovation to be a part of its DNA, it is gratifying to be recognized by a global entity for the changes we have brought to the Banking industry.

Changing of the Guard

Mr. Ajit Gunewardene, the former Chairman and Mr. Eranjith Wijenaik, the former Deputy Chairman, stepped down from the Board with effect from 31st December 2011. On behalf of all the Stakeholders of the Bank, I take this opportunity to express my gratitude to both of them for their invaluable services to the Bank. The current stature of the Bank and its above average growth in the past years are a testimony of their vision and stewardship.


I also welcome Mr. Prasanna de Silva and Ms. Shalini Panditaratne who joined the Board on 1st January 2012. They both bring with them a wealth of knowledge and substantial experience in financial services and allied sectors. We are fortunate to have them.

Appreciations

I thank our Customers, and other Stakeholders, for the trust they have placed in the Bank and I have no doubt that the mutually beneficial partnership already established will further flourish in the years to come. We are truly humbled by the confidence that you continue to place in the Bank.

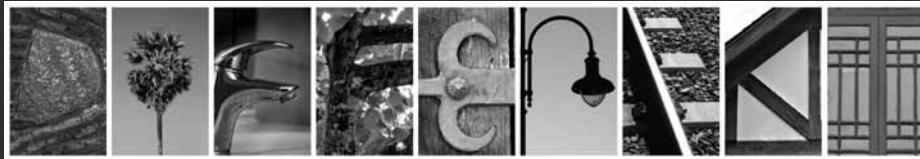
The Board joins me once again in applauding the efforts of all our employees ably led by Mr. Saliya Rajakaruna, the Chief Executive Officer and his management team. We look forward to your continued support. I would also like to acknowledge the support and guidance of the Governor and officials of the Central Bank of Sri Lanka. Finally, I acknowledge the wholehearted support of my colleagues on the Board. Thank you for your contribution, your guidance and your robust participation in all Board matters.

I look forward to another rewarding year.



Ronnie Peiris
Chairman

23rd February 2012

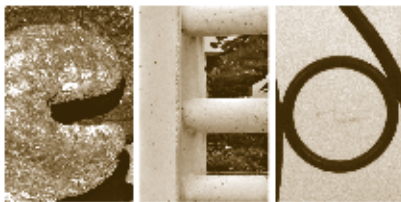


Your Bank will, in 2012, review its cost structures in seeking sources of advantage. We will understand what Customers truly value and how they weigh the trade-offs between the price and components of an offer. Your Bank will continually question and challenge the conventional wisdom which has pervaded the financial services industry.

...we will dare to be different

Ronnie Peiris
Chairman

10:40 am Colombo



'S Message

"Our bank had its best year ever in 2011 posting an after-tax profit of Rs 1.5 Bn, up 40% over 2010. Not only were we able to report a significant uplift in earnings but also a stable balance sheet recording a balanced growth in deposits and advances. Essentially we were able to grow the business - advances up 39% and deposits up 38% - that resulted in a liquid and a well capitalized Balance Sheet."

Saliya Rajakaruna
Director/Chief Executive Officer

It is with much pride and satisfaction that I present the Annual Report for 2011, my second full year of stewardship at Nations Trust Bank. For the second year running I report on a truly exceptional performance that saw contributions from across the bank amidst testing operating conditions.

The Global Economy

As 2011 drew to a close the global economy remained mired in turmoil. The viability of the Euro, the single currency for 17 nation states with an aggregate GDP of €24 trillion and 332 Mn people was under threat. In the United States with a GDP of \$15.5 trillion the economy struggled for most of the year with consumer demand and employment at low levels. In Asia, its two largest and populous economies, India and China, also began to exhibit signs of stress and a slowdown. The Middle East, home to large quantities of energy, was engulfed in political conflicts threatening normal supply adding to escalating oil prices.

Among the many issues so confronting the global economy, the European Debt Crisis remains the most intractable threatening to engulf other geographies. Debt has been an important driver of the European economies. Over the years their private sectors, households and governments borrowed heavily to finance growth and remain significantly leveraged. The mis-match, particularly of public finances and resulting sovereign borrowings, has now transferred to the financial system threatening their banks and

perhaps those in other countries. Hence austerity measures, lack of growth and limited credit now widely visible is likely to delay recovery and will need some skillful financial management.

For Sri Lanka, an import dependent export economy underpinned by external remittances and tourist earnings, what happens overseas is inextricably linked to her wellbeing. Now emerging out of a 3-decade insurgency and looking for a fresh but accelerated growth, the state of the global economy will not only affect its performance but also offers some lessons in economic management. Diversification of export markets and energy supply, less reliance on debt and a more balanced slower longer term approach for sustained growth are among them.

Sri Lanka: growth pangs

The Sri Lankan economy grew at 8.4% during the first three quarters of the year and is expected to have grown by 8% once final figures come in. The banking sector was both a driver and a beneficiary of this growth. Demand for credit was substantial reaching Rs.1.9 trillion by end November 2011, a growth of 34% over the previous year.

The strong demand for credit as exhibited by the above numbers meant that in the near term strains were likely on both the balance of payments via the trade account and liquidity. The efforts of the Central Bank of Sri Lanka (CBSL) in defending the exchange rate and the several IPOs during the year impacted the availability of rupee funds in the market. Interest rates inched upwards as liquidity evaporated thereby reversing the previous trend of low rates. To manage the shortage of liquidity, CBSL injected rupees via the purchase of Treasury Bills thereby accumulating a significant portfolio of them, some Rs.200 Bn, a new phenomenon since the end of terrorist activity. Given the escalating pressure on the balance of payments and slowing exports, the Government took the unusual step of depreciating the rupee thereby slowing imports and providing a boost to exporters. By year end 2011 both the balance of payments and rupee liquidity remained under some strain.

Given the above economic environment, our bank had to manage inflows and outflows carefully to avoid liquidity related issues. Equally a good mix of deposits and advances was required to ensure we remained profitable and generated capital to grow and maintain stability.

NTB: sustained growth

Our bank had its best year ever in 2011 posting an after-tax profit of Rs 1.5 Bn, up 40% over 2010. Not only were we able to report a significant uplift in earnings but also a stable balance sheet recording a balanced growth in deposits and advances. Essentially we were able to grow the business - advances up 39% and deposits up 38% - that resulted in a liquid and a well capitalized Balance Sheet. The Bank has grown at a compounded rate of 15% over the past three years and performance in 2011 is a continuation of this progressive growth somewhat mirroring the growth of Sri Lanka. Such growth was achieved through a prudent mix of risk and return in the midst of intense competition and several regulatory changes.

The enhanced demand for credit and competition put pressure on interest margins across the industry. With the Card Products contributing significantly to overall business of the bank, we had to contend with an exceptional event with a mandatory interest rate cap on cards coming into full force in 2011. It shaved a sizable portion of interest income from our top line revenue. We were, however, quick to reconfigure our cards model to mitigate the revenue impact. Income from fee based services, including trade services and cards also increased considerably helping swell our after-tax profits.

Despite the strong demand for credit during the year, we focused on lending to customers with good capacity for repayment coupled to reliable business models and relied less on collateral. The NPA Ratio declined from 4.8% to 2.8% and we were able to reverse provisions from previous years whilst keeping current year provisions also low. Our prudent management of the lending portfolio had a substantial impact on our overall performance during the year. In line with trends visible globally as well as in Sri Lanka, such continuous focused work on the loan book from origination to disbursement resulted in a reversal of provisions of over Rs.200 Mn in contrast to a provision last year of similar magnitude, enhancing our earnings in 2011.

We continued with our expansion plan and branched out of our stronghold in Western Province to take the Nations Trust brand to the emerging geographies of Sri Lanka. During 2011 we added 8 branches to the network which now totals 48.

NTB Businesses: balanced & growing

I now briefly review each of our five business ---

Retail & SME

The deposit mobilizing thrust of our bank is largely vested with the Retail Division. Last year the Division attracted over 35,000 in new customers and mobilized over Rs. 11 Bn in deposits. The SME Sector is vital if there is to be a more equitable inclusive growth across Sri Lanka. SMEs also play a vital role in the economy constituting some 70% of GDP. Accordingly our bank has continued to grow its SME portfolio. During the year our bank engaged in several programs to support this sector not only in terms of educating them in modern business methods but also our staff to understand and respond appropriately. The Retail SME Division is the largest single business in the bank covering all our branches with some 500 people playing a role in its daily activities.

Corporate Banking

Working with many of the largest most respected quoted and unquoted enterprises in Sri Lanka, the Corporate Banking Division of our bank grew its portfolio despite intense competition. Although characterized by large volumes and thin margins, the business offers relatively strong risk and potential for fee income. We have cultivated a diverse group of customers from a variety of different sectors and in 2011 the Division engaged in several fund raising activities and focused on trade related business. We were also involved in a Cash Management Agreement with Citibank Colombo to enhance their services to the same customer group.

Leasing

Another very large business for our bank, the Leasing Division added some Rs.10 Bn in new business to the portfolio in 2011. Much of the growth resulted from demand for vehicles that remained strong despite an upward revision of duties. The Division was able to capitalize on the growing demand structuring a variety of bespoke facilities for its different customers. The rates of recovery on our leases also improved in 2011. Both new business and enhanced recovery rates enabled us to manage the impact of new regulatory rules that came into force during 2011.

Cards

In the latter part of 2010, CBSL looking to stabilize the expansion and concentration of clean unsecured credit and any resulting difficulties in repayments across the banking system, placed a "cap" on credit card interest rates. The full impact of this regulatory intervention in the form of dwindling interest income was felt in 2011 as profitability of the Cards Business declined. The Division, however, performed well by reconfiguring its business model whilst expanding into new markets and customer segments thereby mitigating the declining income. American Express continued to lead the premium end of the card landscape in Sri Lanka during the year.

Treasury

The Division ensured that our bank remained well funded and equipped with adequate resources to undertake its traditional role of intermediation between depositors and borrowers. In addition the Division also generated significant revenue by engaging in customer transactions for foreign exchange and participating in margin trading in the equities market. Unlike 2010, however, given a rising trend in interest rates, the fixed income portfolio had to be reduced during the latter part of 2011 to avoid mark to market losses.

Operations, Support, Compliance & Controls

During 2011 our bank invested and initiated several systems to uplift both operations and support areas and ensure we engage in business within a robust control framework. Several million rupees were invested in Operations to uplift straight through processing and increase data storage capacity. Working with the assistance of IFC, the Risk Management Division strengthened the middle office across the bank focusing on operational risk and rating models among several other initiatives. Adapting to IFRS requirements were among the initiatives undertaken by the Finance Division. Internal Audit also played their part in undertaking over a 100 audits in 2011 that covered not only the branches but also several business areas. Recognizing the vital role played by people in the progress of the bank, HR also contributed substantially in delivering a motivated and a trained workforce.

Recognition and accolades

External recognition came in several forms. The Bank was ranked as the 14th most valuable brand in 2011 by LMD and Brand Finance with a brand value of Rs.3.35 Bn. At the 2011 National Business Excellence Awards, our bank was the joint runner up and World Finance recognized us as the most innovative bank in Sri Lanka. All these are proud accomplishments for an institution that is a mere 12 years old!

Towards a new environment and a new paradigm

The global financial crisis and its aftermath of economic and regulatory change present significant challenges to the traditional operating models of banks. Essentially the changes are undermining their ability to deliver a sustainable level of returns to shareholders.

Profit performance globally for the banking industry in 2010 (full year 2011 numbers are not yet available) was on the strong side. Global banking revenues reached a record \$3.8 trillion and after-tax profits went from \$400 Bn in 2009 to \$712 Bn in 2010. In contrast their return on equity (ROE) is yet to recover to the level where it covers their cost of equity. The gap is likely to widen in the wake of new regulatory requirements. Without radical action to shrink balance sheets, cut costs and increase revenues, banks are unlikely to attract sufficient fresh capital from the investment community and play their critical role in underpinning economic recovery and growth. Declining cross-border capital flows, high bank credit-default-swap rates, widespread de-leveraging and persistently low market valuations all pointed to declining investor confidence in the future of the industry before the alarm bells over sovereign debt began to ring in 2011.

As a result, investors have been re-evaluating the longer-term growth prospects of the banking industry and re-rating the sector. The major problems include the rising cost of doing business due to new regulation requiring banks to hold more capital and liquidity to ensure they better withstand future shocks. Scarcity of capital, liquidity and changing consumer behavior as a growing number of customers move to mobile and online channels are among the other issues.

It is clear that business as usual is not an option for banks. Indeed as noted in the recent 2012 DAVOS Meeting, banks may have to think in terms of a return to basics. For the time being banks are squeezed for capital and liquidity, profits are under pressure, and growth opportunities in many markets appear to be in short supply. Emerging markets, however, are expected to contribute nearly half of all banking revenues around the world by 2020, compared with just one-third today and will represent some 60% of all revenue growth in banking over the next decade.

The process of transformation to generate the longer-term returns needed to attract investors is already under way at many banks. As noted below, they seem to involve three strategic moves:

- Shrink balance sheets and work with less capital by shifting a part of the lending to the debt capital markets. Such a move will enable the banks to engage in less direct lending and help revive the corporate-bond markets.
- Rethink operating costs as across many banking systems expenses look very sticky and unyielding - only 1 bank in 50 achieved annual cost reductions of 4% or more in the 10 years since 2000. In contrast several other industries such as telecommunications have achieved significant cost reductions and improved productivity. Banking also remains one of the most fragmented industries globally. Depending on the view and policy of national regulators, some institutions should be able to pursue mergers and acquisitions. Many have halved the cost of their branches by moving sales and service online. Some banks have shown what can be achieved through the application of lean technologies - shortening the time to process a mortgage to days instead of months.
- Find innovative ways to increase the top line. Although opportunities may seem to be limited, scope to improve pricing, to modify products to the needs of customers by closer segmentation and to find new pockets of growth leveraging better risk-management processes are examples now in play. Opportunities also lie in the application of disruptive technology including digital strategies across both the consumer and wholesale banking businesses.

Appreciations

The strong performance delivered would not have been possible without the skilled and committed management and staff. Their passion in the pursuit of customer convenience and delivering outstanding service is fundamental to the reported profitability and remains intact. I also thank the Chairman and Board of Directors for their continued advice, wise counsel and unwavering support. A special thank you is also due to Mr. Ajit Gunewardene and Mr. Eranjith Wijenaike, respectively Chairman and Deputy Chairman until December 2011, for their long association with the bank, fulsome support and able guidance.

My appreciation also goes to the Governor and Officers of the Central Bank of Sri Lanka for their guidance and support at all times. I also thank Messrs Ernst & Young, our external auditors, for their valuable input.

Conclusion - a sustainable financial services model

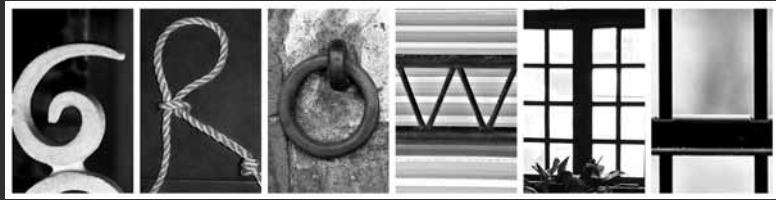
The delivery of financial services is undergoing a transformation. The shocks generated by the crises in Europe and North America have forced regulators, financial institutions, investors and customers, to take a fresh look at the current business models for banking. Investor confidence, customer security and the public interest are beginning to gain an edge over the pure pursuit of profit and self - interest. While the franchise of a bank to engage in responsible wealth creation is still recognized, maintaining the stability of the financial system has become an equally important if not a preeminent consideration.

As a relatively young player in financial services, NTB is proud to be associated with this search for a more responsible and sustainable model of wealth creation. We are proud of the innovations we have brought to the market and the trust we have garnered. We now look to participate in the evolution of a stable, secure and vibrant financial services industry in Sri Lanka and perhaps in the region.



Saliya Rajakaruna
Director/CEO

23rd February 2012



Although opportunities may seem to be limited, scope to improve pricing, to modify products to the needs of customers by closer segmentation and to find new pockets of growth leveraging better risk-management processes are examples now in play.

Saliya Rajakaruna
Director/CEO



Beyond the metropolitan

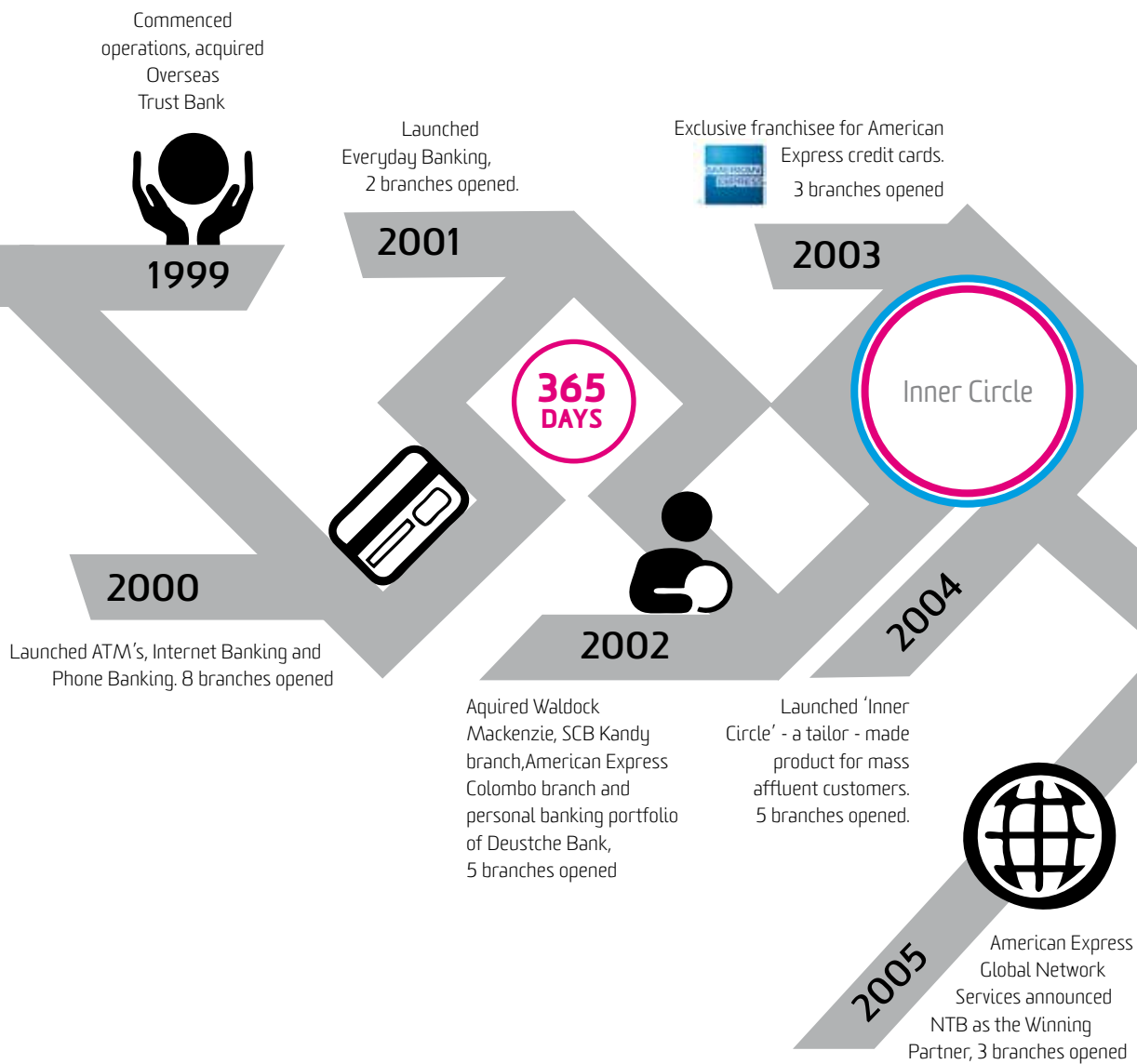
You used to know us as a city centric bank. Now, we're bringing the quality and service standards of sophisticated urbanites to customers all over the nation.



10:42 am Galle



Our Journey



Ranked within the Top 50 listed companies in Sri Lanka, Fitch rating upgraded to A(1ka)

Merged with Mercantile Leasing Limited



2006

Assets top Rs. 100 Bn
Credit Cards exceed 100,000
Brand rating improve to 14
Profit after Tax lift beyond Rs. 1.5 Bn
48 Branches, over 1,800 staff.



2011

2008

New Brand identity, 5 branches,
6 PBCs opened.



2010



New Strategic Plan
Brand rating improve to 17
Significant inroads to North and East through branch expansion
Rs. 1Bn profit after tax.

2009

Opened 2 branches, made inroads to the North & East with opening of Vavuniya branch.

Launch of Sri Lankan Airlines American Express co-branded Platinum Card.

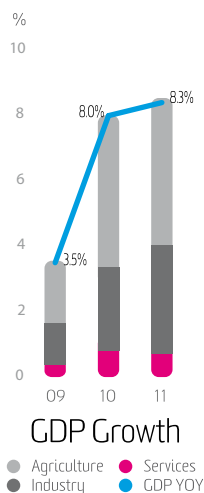
Brand Value ranked at 21, LMD ranking uplifted to 22.



LMD ranking improved to 40
2007

Optimism Fuels Growth

The post-war optimism that uplifted the country since 2009 prevailed during much of 2011. Consumer confidence grew and consumer spending was buoyant during the year. The banking industry had a positive year with advances and deposits growing steadily with NPLs recording significant improvement. Exports and tourism did well and agriculture rebounded after the floods of 2010. Despite liquidity concerns and slow inflow of FDI s during 2011, the country entered 2012 looking forward for further but tempered growth. Nation Trust Bank had its best year growing its balance sheet by 23% and posting after-tax profits of Rs 1.5Bn, the largest in its 12 year history.



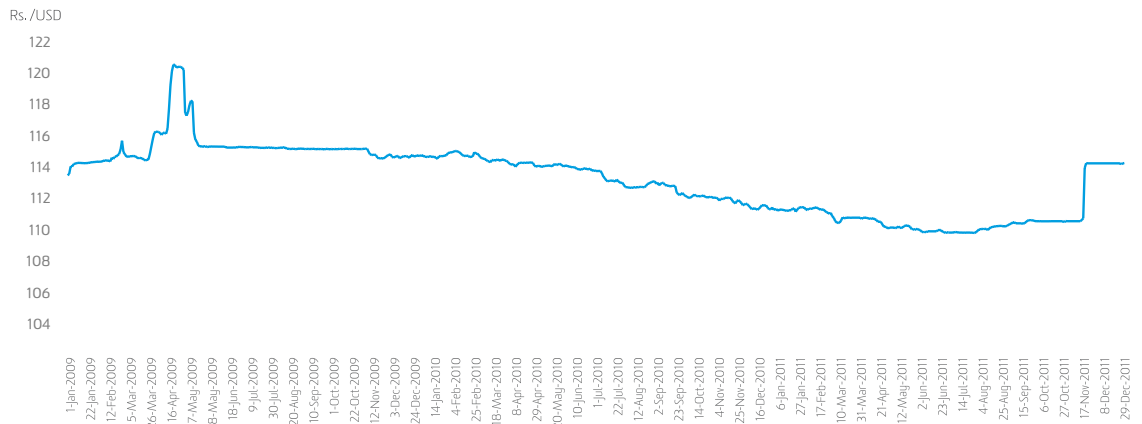
The Economy Grows

Sri Lankan economy in the third quarter had grown by a robust 8.4% as against 8.2% in the previous quarter, up from 8.0% achieved in the corresponding period in 2010. The economic growth of 8.4% had been bolstered by resilient performance by the industry and services sectors. The high GDP figure achieved was despite severe challenges in the global economy. Given the impact of adverse weather conditions in the early part of 2011 and global recession, the third quarter performance of the economy was encouraging.

Although commodity prices have continued to remain high in international markets, improved domestic supply conditions and the managed stability of the Sri Lankan rupee did help contain domestic inflation which was at mid single digit levels during the year. Year-on-year inflation declined to 4.9% in December 2011 from 6.8% at end December 2010. Year-on-year core inflation was less volatile recording 4.7% in December 2011.

Both exports and imports continued to grow. Even though the deficit in the trade account expanded, inflows into the services account as well as continued higher worker remittances helped contain the deficit in the current account which had reached a somewhat alarming US\$ 9 Bn by November 2011 and maintain stability on the external front. Worker remittances is estimated to be around US\$ 5.2 Bn in 2011, up 27% from the previous year which resulted from higher level of skilled labour migration and rise in average wages. Improved arrangements to channel remittances through banking sources and diversification in terms of employment destinations also contributed positively.



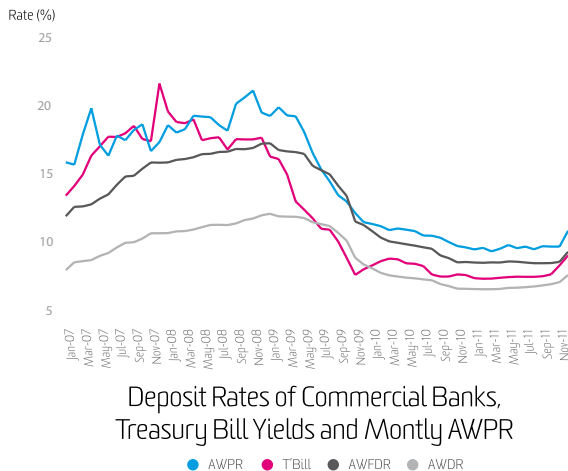


Daily Exchange Rates

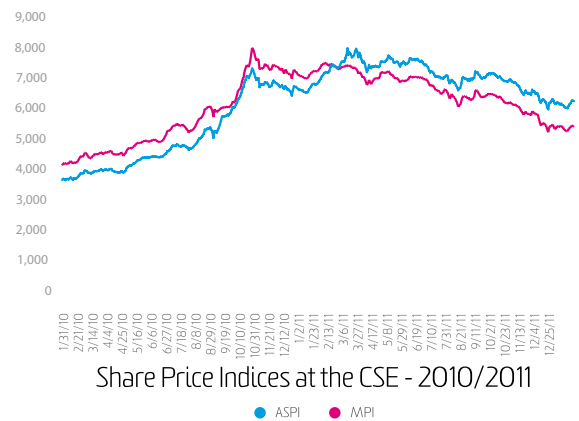
Tourist arrivals are poised to record over 800,000 for 2011. Tourist arrivals for the period January-November 2011 recorded a year on year increase of 33%. Earnings from tourism increased by 47% to US\$ 736 Mn and tourism as a percentage of GDP stood at 1.4%.

Exchange rate remained competitive and stable in a highly volatile external environment for most part of the year. Central Bank of Sri Lanka (CBSL) absorbed and supplied foreign currency to avoid excessive volatility in the domestic foreign exchange market and to maintain stability. CBSL also accommodated the high growth driven demand for increased import of intermediate and investment goods. Overall, the Rupee depreciated against the US dollar by 2.6% in 2011.

The CBSL monetary policy stance in 2011 was cautious and delivered stability. Policy interest rates in 2011 remained unchanged after one downward adjustment in January 2011. Weighted average call money rate continued to remain largely stable within the policy rate corridor. Market interest rates also remained broadly stable throughout the year but increased towards the end of the year.



Deposit Rates of Commercial Banks, Treasury Bill Yields and Monthly AWPR



Share Price Indices at the CSE - 2010/2011

Colombo Stock Exchange (CSE) experienced mixed results in 2011. CSE improved in the early months of 2011, while recording a decline in the second half. Funds raised through Initial Public Offerings (IPOs) and rights issues increased in 2011. The number of companies listed on the CSE increased by 26 to 267. The net foreign outflow was Rs.19 Bn in 2011, which was 0.9% of the market capitalization of Rs.2,214 Bn.

The country's foreign reserves reached US \$ 8.1 Bn in July 2011, an all time high. This was boosted by the country's 4th international sovereign bond which was oversubscribed by more than seven times. The country's sovereign rating was also upgraded with a BB- rating from Fitch and B+ rating from Standard & Pooors'.

The revival of exports and tourism and the upturn in transport, construction and manufacturing sectors made a significant contribution towards the resurgence in economic growth. Indications are that the country will once again exceed the 8% growth rate when the final figures come in. This compares well with the projected rate of growth for South Asia which is 7.2% and 7.5% for the rest of Asia.

The World Struggles to Revive

On the other hand Europe and North America are wrapped in clouds of gloom as global economy struggles to revive. Some of the richer economies continue to support the more beleaguered ones in Europe, and the United States is still struggling to unleash a new wave of growth. The forecast for the world real GDP was 4.5% for 2011.

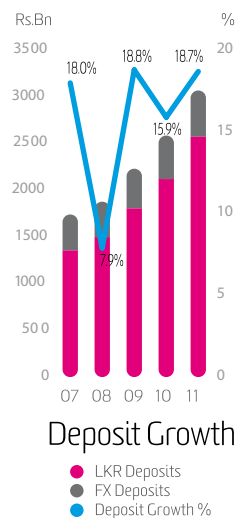
Developing Asia maintained its growth momentum through the first half of 2011, putting it on course to grow by 7.5% over the whole year. Despite sluggish recovery in the major industrial economies, the region is expected to continue to grow at that rate through 2012 on the back of its buoyant domestic demand and intraregional trade. Combating inflation slowed South Asian growth. Despite firm tightening of monetary policies, inflation stayed high in 2011.

The Industry Grows

The banking sector benefited from higher credit growth, driven by increased confidence and expanding economic activities. The direction of CBSL has been positive in continuously reviewing and bringing interest rates and inflation levels under control, enabling the Banking sector to become stable and grow. Demand for credit was fuelled by increased levels of confidence among all sectors. Private sector credit growth continued unabated with the cumulative figure surpassing the Rs. 1.8 trillion mark in October and recording a year on year growth of 34.1%.

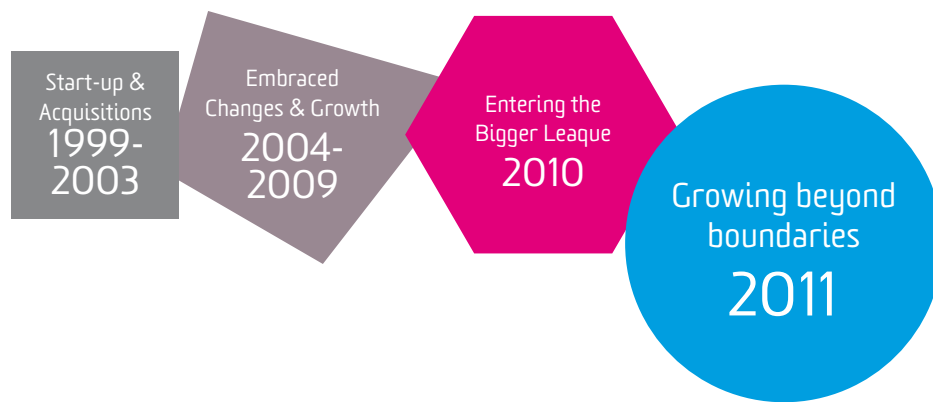
Total assets of the sector grew by 20% whilst deposits and advances recorded growth rates of 19% and 32% respectively. The asset quality of the banking sector has improved from mid 2010 signaling a decline in credit risk. NPLs continued to decline in both amount and ratios through out 2011 with provision coverage improving further.

Indications are that the country will once again exceed the 8% growth rate when the final figures come in. This compares well with the projected rate of growth for South Asia which is 7.2% and 7.5% for the rest of Asia.



Profitability at pre-tax levels declined due to slower growth in net interest income and drop in non-interest income.

The private sector banking industry is well placed to play its role in the growth in a post-war environment. About two thirds of the banks' lending activities are focused in five major areas: construction and housing; trading; manufacturing; agriculture; and consumption. All five sectors showed higher rates of growth in 2011.



Our Strategy Evolves

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.

From inception, we changed the banking landscape. We were the first bank to bring 365 day banking. We were the only bank to have extended banking hours until 8.00pm in our branches and we pioneered the Supermarket banking concept.

A series of selective acquisitions propelled the Bank into a diversified financial powerhouse in a very short span of time. In 2002 we acquired Waldock Mackenzie, the investment arm of John Keells. We also began our association with American Express in 2003 when we signed up as the exclusive franchisee to issue and acquire American Express cards in Sri Lanka. In 2006 we merged with Mercantile Leasing, a long established specialized leasing company.

Nations Trust Bank has been able to offer a unique combination of financial solutions that have emerged out of long years of experience in diverse areas of the financial services industry.

During the five years from 2004-2009 we made large strides and implemented significant changes to our business model. In 2004 in order to make a quantum leap into the future, we reviewed our strategy and identified sustainable customer segments. We decided to move from being a traditional model of "all things to all people" to a focused, customer centric model where we chose which segments to play in. As the money flows and wealth was predominantly concentrated in the Western Province, we established our foot print within it. We anticipated tremendous opportunity in creating a unique proposition for the growing mass affluent and decided to focus our efforts on building a strong deposit franchise and significant customer assets business from this segment. We moved into a Hub and Spoke model and centralized our processes, credit approval, risk management and consumer collections while our branches differentiated themselves by becoming extremely sales and service oriented aggressively acquiring, servicing, relationship managing and growing our various customer segments. We also moved in to the leasing arena when we merged the leasing and factoring businesses of Mercantile Leasing Limited (MLL) and married their expertise with the bank's strengths of risk management and collections.

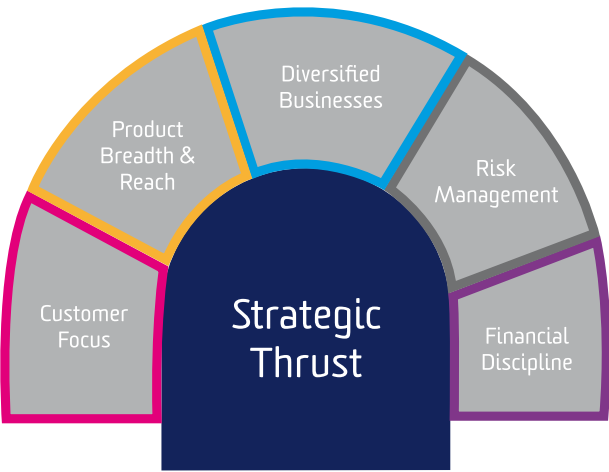
As a result, Nations Trust Bank has been able to offer a unique combination of financial solutions that have emerged out of long years of experience in diverse areas of the financial services industry. Our progressive financial performance, bench mark service excellence and brand positioning speaks volumes in the journey we have come so far.

Strategic Direction and Execution for the Future

In the past, war in Sri Lanka was deemed the single most serious retarding factor for economic growth and development. With the dawn of peace the country is poised at the threshold of an era of unimaginable opportunity. We revisited our strategy and developed a new Strategic Plan in 2010 to drive the Bank over the next three years to take a firm grip on opportunities that will arise in the years ahead. The plan outlined a very ambitious growth strategy, setting a new direction emphasizing on market development with continuous expansion of the delivery network, value added products and services and moving into strategically important customer segments which are poised for growth. Year 2011 witnessed the execution of this plan.

With the post war economic development spreading fast to the rest of the country, we also commenced the expansion of the bank operations away from a focus on the Western Province, to the other key cities of Sri Lanka. Our objective is to take our unique banking experience to different customer segments of emerging economies in the country. Our branches will also exploit the full potential of all customer segments within the geography in which they are present.

We have identified the SME sector as an area of growth and began equipping our branches with the skills and expertise, especially in SME credit, to support and grow this sector. We believe that SMEs will play an important role as Sri Lanka embarks on a process of recovery after the civil war.

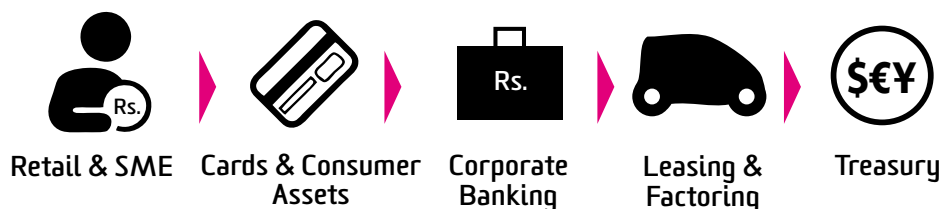


Strategic Thrust

We continue to believe that our integrated customer centric universal banking model is the best to serve our customers as well as optimize risk-adjusted returns for our shareholders.

Key elements of our strategy are aligned to this business model which determines the shape and direction of the Bank.





Business Pillars

Our organisation structure and business model is aligned and organized under five customer segments. 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 our customers.

Our Retail and SME customers are managed and serviced through our branches which are well recognized as setting benchmark standards in customer service. We have a strong customer segmentation framework with differentiated products and service propositions. Having established ourselves in the Western Province we are now moving our footprint to other geographies of the country and become a nation wide bank whilst penetrating into the SME segment.

We are recognized as the second largest cards player in the cards market and one of the few local banks which has a portfolio based consumer business. We are the largest player in the cards premier end and were the first local bank to establish the model of a central sales team and an expert collection shop.

We have re-organized ourselves in the corporate banking division into industry pillars based on growth sectors bringing in specialized sectorial knowledge.

We have added value to the leasing business by bringing our specialist knowledge in sales, central processing and collections to enhance the portfolio. We are the 7th largest player in the industry despite our relatively smaller branch network.

In our treasury division we are known to provide customized forex solutions to all our customers and is amongst the top players in dealing in fixed income securities. We are also the largest margin provider for equity trading.



RETAIL and SME

Riding the crest of a burst in consumer spending and business confidence, Retail and SME banking contributed 24% to the Bank's top line revenue, a growth of 12% over the previous year. Momentum in loan growth picked up after the first quarter to give the desired results and recorded a 72% growth for the year. In the meantime, the deposit mobilization drive exceeded expectations with a 30 % growth in total deposits and more importantly maintained the low cost deposit mix despite the rising interest rate scenario that prevailed towards the latter part of the year. In keeping in line with the strategy of expanding customer touch points to enhance accessibility and convenience, the branch network expanded its footprint by opening 8 new full service branches across the geographies offering a full suite of products.

Our Growing Network

During the year the Bank accelerated its network expansion to cater to key cities and towns of the country, beyond its presence in the Western Province. By end of 2011, 48 branches were opened for business, enabling people across the nation to have access to the unique financial services experience NTB offers. Also in line with the overall business strategy, the Bank continued its drive to upgrade its existing network to meet the standard “look and feel” and customer experience at branches.

41st Horana

A town in Kalutara district, has progressed as a regional business center with development of infrastructure. The town is also ranked high as having one of the most conducive environments for small and medium scale businesses in the Economic Governance Index.



42nd Kalmunai

The town of Kalmunai today is reaping in leaps & bounds and promises great prosperity in the years to come. NTB will serve customers in the area with unmatched service and a host of customized propositions to suit their financial needs





43rd Anuradhapura

The town of Anuradhapura, well known for picturesque ruins, ancient temples, and water reservoirs has today transformed into a business hub and NTB will connect with the people of Anuradhapura through an online banking network that's offering a wide range of products and services.



44th Piliyandala

Considered as a key gateway to Southern Colombo, with the entry to this market, NTB will be giving the people of Piliyandala a distinct banking experience that is backed by unprecedented customer service around the clock, 365 days of the year





A town which is regarded as a growing modern hi-tech city, the people of Malabe can experience banking the Nations Trust way

45th Malabe



Known as the "city of gems" situated in the South-Western part of Sri Lanka, it is the centre of a long-established industry of precious stone mining which includes rubies, sapphires, and other world renowned gems. Apart from being known for gem mining, this town is also popular for rice and fruit cultivation with large plantations of tea and rubber. The opening of NTB branch adds to the Banks' vision of offering customized financial solutions to a larger population in the country

46th Ratnapura



47th Nuwara Eliya

The second Branch in the highlands of Sri Lanka. With the Banks' entry to this market, we will continue to put our customers at the forefront of our business, constantly improving our product & service propositions, delivery channels and processes to cater to their changing needs.



48th Chilaw

City of Chilaw is known as the "Pearl" of the North-West Coastal belt. Our entry reiterates our commitment towards expansion and growth not only for the bank but also to support the development of the country by moving to locations outside the Western Province.





PBC opening at Keells Super Rajagiriya

All of the new branches opened offers 365 day banking with extended hours, bringing the Nations Trust's promise of customer centricity and convenience to the populations in these districts, along with the Banks' special service and relationship management propositions offered through Inner Circle and Private Banking. Each of these branches provide the full range of banking products and services including deposits, advances, leasing, factoring, cards and bancassurance to all the customer segments in the bank comprising of individuals, small and medium entrepreneurs and corporate clients.

Personal Banking Centre

Nations Trust Bank continued to bring transactional convenience to its customers with the expansion of the Personal Banking Centres. The Bank declared open its seventh Personal Banking Centre at Keells Super in Rajagiriya. The Centre at Keells Super offers 365-day convenient banking services to personal banking clients. The PBC is equipped with a state-of-the-art ATM machine that accepts cash deposits to any Nations Trust Bank account with or without the ATM card, which is instantly credited to the account. In addition, PBCs also facilitates opening of accounts, placement of fixed deposits, utility bill payments, American Express card payments, cheque deposits, payments for housing and personal loans, and a host of other financial solutions to suit all individual customer needs. Service personnel of the Bank are also available at the centre for any service related assistance or inquiries.

Expanding Product Offerings

High yielding fixed deposits were launched during the year to support the aggressive deposit mobilization strategy. Some of these offerings were also coupled with gift schemes adding value to the customer.

Evolving Role of Branches

It was year of transition for the Branches as they stepped into new terrain by transforming from the traditional model of only mobilizing deposits to a more holistic approach of both deposits and lending driven channels of delivery. More importantly, branches were also mapped out to implement the SME strategy of the Bank. Thus their primary focus area during the year was to roll out the branch lending proposition by deploying credit managers within the branch network in a concerted effort to tap into the SME sector. Having acknowledged that SMEs are a vital sector in the economy, they are in the process of strengthening the knowledge and experience base to be rooted in this burgeoning area on a much larger scale as the growth opportunities are significant.

Growing the SME Sector

SME is considered to be the backbone of Sri Lanka's economy in terms of the GDP contribution and as an employment provider. The government of Sri Lanka, highlighting its commitments to the development of SME sector, in its 2011 and 2012 annual budgets has made significant tax concessions to the banking industry to encourage and enhance credit and banking services to SMEs. The development of a vibrant SME sector is vital if economic growth is to be inclusive and spread across the different regions of the country.

The Bank earmarked the SME sector as an area for growth and a significant focus has been given to the growth of our SME customer segment especially in terms of the asset book as a sustainable segment into the future. The increase in the branch footprint with the enhancement in our branch credit and risk management structure compliments this goal. The Bank will bring a unique selling proposition to this sector by leveraging on its strengths in providing convenient solutions and unparalleled customer service together with the expertise in customer segmentation.

A broad range of products are developed to meet the diverse needs of entrepreneurs in this sector. The Bank offers SME customers a range of services including working capital finance, term financing for business expansion and investments, cash management services, trade services for importers and exporters, guarantee facilities, leasing and factoring solutions as well as special services such as Bank at Your Doorstep and delivery of trade document. During the year the Bank launched two new products: the Investment Planner and the Post Dated Cheque Discounting facility specifically targeting these customers.

Several business forums targeting small and medium entrepreneurs were also conducted in 2011. The business forums provided an opportunity for entrepreneurs based out of Colombo to engage in discussions with experts on a number of activities pertaining to their business. Tax benefits, access to finance, financial management and risk management were among the topics discussed at these forums. Customers who participated in these business forums included traders, importers, exporters, manufactures and distributors.

A session was also conducted by a Certified SME Toolkit Trainer who introduced the customers to the web-based SME Toolkit developed by the International Finance Corporation. This contains a range of very useful financial management tools, which any SME can access and use in improving the way they run their business.



CEO addressing at the SME Seminar in Galle

Nations Business Center

In line with the Nations Trust strategy of providing the full range of financial services to the SME customer, in a convenient and easily accessible manner, the Bank commenced the roll out of their SME centers across the country. It will service as a one stop shop for these customers to speak to their Account Relationship officer or other experts in relation to their requirements in trade finance, working capital and term financing to specialized products such as leasing or factoring. The center will also provide value added services such as the availability of the SME toolkit where the Bank has trained staff to assist customers to use this website, as part of its business advisory service.

During the year Nations Trust opened another Business Center in Galle bringing the number of Business Centres spread across the country to four. Other centres are located in Chilaw, Rathnapura and Kurunagala.



Nation Business Centre opening in Galle

Remittances Grow

Sri Lankans based overseas remitted Rs 4.1 Bn in 2010 and is expected to be around Rs 5.0 Bn for the year with expatriate worker remittances from the Middle East region being the highest contributor. The volume and velocity of inward remittances into the country continues to play a crucial role in supporting economic activity.

Remittances through the banks' channels grew during the year. With a view to providing more effective remittance channels the Bank entered into various partnerships with global brands during the year. These partnerships will enable Sri Lankans based overseas to remit instantly and securely.

The Bank entered into a partnership with Xpress Money to increase remittances across the bank's island wide branch footprint. Xpress Money is a UK based instant money transfer brand with a thriving presence in more than 95 countries in 5 continents across 85,000 agent locations worldwide. Xpress Money is an FSA licensed Authorized Payment Institution (API) that has come to be known as the fastest growing instant money transfer brand worldwide. Xpress Money provides its customers an instant, safe and affordable way to transfer money worldwide.

Through this remittance service funds could be collected over the counter at any of one of the Nations Trust Bank branches that are open 365 days of the year with extended banking hours. The Xpress Money remittance service is offered to all NTB customers and non customers alike.

Bank also partnered with Coinstar Money Transfer (CMT) to offer remittance services to individuals who want to send money to their families and friends in Sri Lanka from any of the Western & European regions. Coinstar Money Transfer is a leading remittance provider with an extensive footprint in the West & Europe with over 65,000 locations in 136 countries. One of their benefits is the ability to send money to the beneficiary's foreign currency or rupee account maintained at the Bank. Additionally, CMT offers convenient locations across the country where customers can easily pick up their money. Coinstar Money Transfer is a highly recognized and trusted brand with a reputation of providing excellent and personalized customer service.



**COLLECT
Remittances &
WIN Cash!**



**Win Rs.25,000/-
in cash weekly!**
15th November to
15th January 2012



Remittances Campaign

The Bank's existing partnership with MoneyGram, another major global player in the money transfer business continued to grow with promotions being held during the World Cup season to attract customers and potential customers to use the Nations Trust network for their remittance requirements.

The development of the remittances business will be a key strategy for the Retail and SME unit. The Bank will be entering into further partnerships across the world and will introduce the Nations web based proprietary money

transfer system in order to facilitate the fast receipt and disbursement of these remittances from across the world.

Pawning

The increasing interest in pawning had been spurred by the higher margins and the significant demand that the product commands. Rising gold prices and quick disbursement of pawning advances make pawning an attractive alternative borrowing for customers, especially in small business segments. Similar to the rest of the banking industry, pawning as a product has seen tremendous growth over 2010 and has emerged as a pivotal product in the retail-banking product



Nations Gold Advances Campaign

portfolio. The share of pawning advances in total loans of the banking industry had increased from 14% in August 2010 to 16% as at August 2011. Total pawning book for the industry is at Rs. 362Bn recording an annualized growth of 51%, up from 36% recorded for the corresponding period.

In recognition of the strategic importance of the product in the immediate and medium term, bank deployed a strategy aimed at growing the scale of business by extended pawning facilities to branches outside North & East for which the response has been encouraging. In 2011, the pawning portfolio witnessed a significant increase aiding in the growth of approximately Rs. 200 Mn in business for the year equivalent to 80% year on year growth from 2010.

Alternate Channels – Redefining Convenience

As a Bank, NTB has continuously explored innovative delivery mechanisms for offering its products and services to customers upholding its promise of providing “unparalleled and unprecedented levels convenience”. In an era where consumers are gaining sophistication in the

manner in which they transact and interact with service providers, there is a growing demand for alternate delivery channels which perfectly compliments with the growth of Internet and mobile telephone penetration in Sri Lanka.

In year 2011, the Bank invested in a state-of-the-art SMS & Mobile Banking solution with the above objective in mind. The product is expected to be launched in the first quarter of 2012. The Bank will continue to introduce new technology based innovative products and services in order to provide better solutions to customers’ growing needs of the future.

Rewarding our Staff

At Nations Trust, the Branches are regarded as the face of the bank. All our employees have worked untiringly and contributed immensely to bringing Nations Trust where it is today by building a strong brand, capturing market share and establishing the bank as being the best in customer service. In recognition of this effort Retail and SME unit celebrated the first Annual Retail Banking Awards during the year. It was a night of glitz and glamour, when NTB’s retail staff of over 600 were gathered to celebrate the coloursman of 2010 and their achievements. The evening kicked off with the lighting of a high “tech lamp” by members of the corporate management and Chief Manager, Branches & Personal Banking Centers. The night showcased spectacular performances by both the bank staff and the dance troupes which held the audience enthralled.

Awards were presented to individuals and teams who contributed in the fields of sales, profitability, service and business impact. The main category winners were the Thalawathugoda Branch, who emerged as the Best Branch of the year and Mr. Roshan Gunawardena - Best Branch Manager for the year.



Mr. Roshan Gunawardena - Best Branch Manager



Thalawathugoda Branch - Best Branch of the Year

The Retail and SME unit could not have concluded their mammoth achievements alone and the awards night also recognized and thanked the departments in support and corporate services areas. An award of appreciation was presented to the Senior Management of these divisions for their contribution and efforts.

CARDS and CONSUMER ASSETS



Cards

The American Express credit cards unit bounced back with alternative strategies to recover from the interest rate cap introduced in late 2010 which put significant pressure on its top line revenue and bottom-line. The Division performed well with timely re-configuring of the business model and planned strategic interventions to drive the bottom line. Initiatives were rolled out to build scale, enhance usage and invest in leveraging the brand. These investments have brought in increased consumer spending both locally and overseas, higher destination business generated through the increase in tourist inflows and higher new card acquisitions. All in all these initiatives generated revenue to bridge the vacuum in earnings created by the interest rate cap.

A significant milestone was achieved when the card base reached 100, 000 cards during the month of October. This milestone was celebrated aboard the Jetliner cruise ship with all the employees who contributed towards the cards business over the eight year history of Amex cards at Nations Trust Bank.



Celebrating the success of 100,000 cards

The highlight of the past year was the launch of the Centurion Platinum American Express card for high end customers. The Platinum card offers an enhanced credit limit and several lifestyle benefits.



Launch of American Express Centurion Platinum card

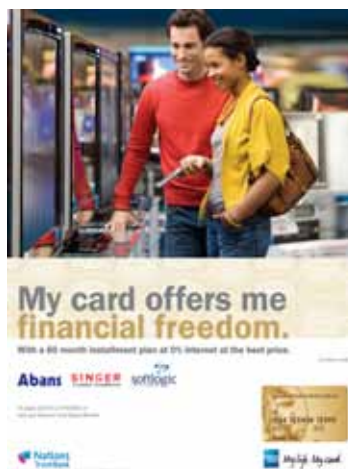
American Express entered into agreements with several leading companies in leisure and food and beverage sector to offer a variety of benefits to regular card users. 'One for one' dining offers and 'one for one' hotel stays were among such benefits.

One of the key promotions during the year was the Double Win fuel promotion on which 62 daily winners and 3 lucky grand prize winners were rewarded. The Double win promotion featured daily bill wipeouts, where one lucky cardmember received a re-imbursement of his fuel bill each day during the promotional period as well as a chance to enter the Grand Draw. At the end of the promotional period 3 lucky American Express cardmembers and one companion were provided with the unique opportunity to experience the Grand Prix 2011 live in Singapore. To be eligible for the daily draw as well as the grand draw cardmembers were simply required to use their American Express credit card to pump fuel at any fuel station island wide.



Double win fuel promotion

American Express Cards partnered with Sri Lanka's leading consumer electronic retailers Abans, Singer and Softlogic to provide cardmembers with the best price in store when purchasing any consumer electronic or furniture item on a 60-month installment scheme. This unique value addition was designed to provide cardmembers with the financial flexibility to purchase high-end priced electronic items and spread their financial commitment over a 60 month period with no additional interest being charged. Cardmembers also received special discounted rates on the item being purchased making it the best available price for the item within the partner outlet.



AMEX Campaign with consumer electronic retailers in Sri Lanka

American Express also partnered with the country's largest mobile network operator Dialog Axiata and introduced exciting promotions bringing forth significant savings as well as convenience via Automated Bill Settlement (ABS) scheme. ABS is one of the many convenience features on the card which enables automatic settlement of monthly recurrent bills. This facility aids cardmembers to consolidate all monthly bills in to one statement, ensuring convenience and timely payment of recurring bills thus avoiding the risk of late payments and resultant penalties.



AMEX partnered with Dialog
Aixiata

Cards unit also hosted an 'American Express Explore the World Series' at Cinnamon Lakeside in July 2011. The event featured a wildlife presentation and screening of a documentary by world renowned wild life photographer and naturalist couple Jonathan and Angela Scott of the BBC's Big Cat Diary Fame.



American Express "Explore the World Series" with Jonathan and Angela Scott

The "Sri Lankan Art" Exhibition organized by the George Keyt Foundation was held in November and presented in association with Nations Trust Bank, American Express Cards at the National Art Gallery. The exhibition included Sri Lanka's Best Artists, Sculptors and Painters. The art loving public were able to see the developments in contemporary art in Sri Lanka. The exhibition provided an opportunity for Sri Lankan artists to present their most recent work.

Consumer Assets

The consumer assets portfolio demonstrated a remarkable growth with loan disbursements increasing by 114% during the year on the back of pent up demand and penetration into new customer segments and geographies. The growth was also fuelled by growing consumer confidence and enhanced levels of spending power which further stimulated the growth of the portfolio. NPAs in the personal loan portfolio reduced during the year in both volume and value, thereby increasing the overall health of the portfolio. With recoveries on past loans growing the Bank was able to post net write backs to its bottom line.

One of the key highlights of the year was the launch of Nations Car Loans. The product targeted at the higher management and senior executives of recognized companies contributed towards the high volumes booked in the portfolio. Introduction of the special personal loan product for permit holders opened up fresh market opportunities contributing towards the volume growth, as the market situation was conducive for vehicle purchases. The affiliation with General Medical Officers Association (GMOA) continued. Sponsorship of events organized by the Medical Council and the GMOA resulted in many opportunities for the bank.



Campaigns held for Consumer Assets





LEASING and FACTORING

Leasing

The reduction of tariffs for motor vehicles has given the leasing industry a new vigour and the bank has seen a sharp growth in this sector over the past two years. Leasing volumes expanded substantially due to the booming vehicle market which resulted in a growth in the leasing book of 51%. The unit sustained their sales drive from both centrally located teams and through branches. They also explored and ventured into new customer segments with selective product offerings and unrivalled customer service. Again a focused recovery effort coupled with a healthy NPL ratio improved profits for the period.



NTB stall at Batticaloa Trade Fair

The unit engaged in several promotional activities with leading vehicle brands, making available cost effective leasing solutions to customers so they would benefit from the vehicle boom and participate in the growing prosperity of the country. We also demonstrated our convenient leasing service to customers in Batticaloa at the Batticaloa International Trade Exhibition, as well as through leasing counters in our growing outstation branch network.



Leasing Campaign



Promotion with AMW



Launch of Green Lease

Nations Leasing also launched the Nations Green Lease designed especially for hybrid vehicles. The main objective of this product is to create a change in the mind-set of the motorists to become more environmentally conscious. Hybrid vehicles most popular in the market today are those that use both fossil fuel and electric power which are stored in the vehicle batteries. The unique feature of this offering is that the rental is structured with a residual value payable at the last rental. This make the lease more affordable and within reach of many. Further to make the offer more exciting, the Bank tied up with a well recognized vehicle dealer to offer an exclusive two year warrantee on the hybrid system of cars whilst also entering into a strategic partnership with a leading insurance company to offer a special insurance package where amongst other features the cover on the battery is unlimited. Nations Leasing will also donate 100 trees for every hybrid lease granted, thereby making a positive contribution to the environment.

Factoring

Nations Factors with over a decade of experience in the field recorded yet another excellent year. Our factoring portfolio expanded by 89% for the period as a result of acquisition of new customers and improved utilization of facilities extended to existing customers. The tailor made product campaign re-launched during the year gave the much needed media coverage for the business thereby positioning it more in line with customer needs.

NTB extended its factoring operations to Kandy, Galle and Negombo to service SME businesses in these areas. The bank is also in the process of expanding the product offering further to outstation areas to reach out to fast developing businesses, as part of the overall SME product offering.

Leasing and factoring customers had an opportunity to rub shoulders with banks' Brand Ambassador Kumar Sangakkara and listen to him delivering a speech on 'Motivation through Thick and Thin'. The former captain used examples from his own life as he spoke about batting in good times and in bad.



Our brand ambassador Kumar Sangakkara sharing his experience with our Leasing and Factoring Customers

Rs.

CORPORATE BANKING

The unit recorded an exceptional performance despite having to balance volume growth vis a vis bottom line growth throughout the year as intense competition put pressure on margins. Asset growth in 3rd quarter picked up significantly, resulting in a 23% growth for the year whilst containing the NPL ratio to previous year levels. Concentration of the loan book across the key economic sectors were appropriately balanced by keeping a constant watch over industries and sectors which were particularly vulnerable to changing market dynamics.

Corporate banking unit also spearheaded the growth in the bank trade finance business both on exports and imports. A range of financial solutions are offered to customers, including cash management services, working capital finance, foreign exchange services, term loans for expansion and diversification, pre and post shipment financing and attractive lease rentals for vehicles and machinery. The Bank also offers concessionary tariffs, advisory services and value added services second to none. The unique 'Trade at Your Doorstep' facility enables customers to effect trade-related transactions such as the issuance of shipping guarantees, bank guarantees, endorsement of invoices, collection of letters of credit applications and outward remittance requests via a mobile service.

The Corporate banking unit in 2011 participated in the deposit mobilizing efforts of the Bank by focusing on transactional accounts which derived significant benefits.

The unit takes pride in serving its corporate clientele which comprise of the cream of the country's business community with a well experienced team of relationship managers.

For five years running NTB has been organizing the Corporate Quiz for employees of leading private sector companies. For year 2011, the corporate quiz was held in October and structured along the lines of the cricket world cup. The theme of the quiz was 'cricket' and it attracted over 60 teams from some of the leading companies in the country.

The team from Hayleys emerged as the winner with Aitken Spence becoming the runners up. Prizes including a mini cricket bat autographed by Kumar Sangakkara were also distributed. While growing knowledge and skills on one hand, the quiz also fosters goodwill and friendship among employees from a variety of different sectors and industries.



Hayleys - The winner of the Corporate Quiz 2011

The 4th consecutive Nations Trust American Express Golf Extravaganza was held at the Royal Colombo Golf Club with the participation of 230 players. As always the objective of the event was to give valued customers of the Bank an exciting day of golf while allowing the relationship managers to entertain and be with the customers throughout the day. It was indeed gratifying to note that nearly all the participants of this years tournament were customers of the Bank.



Winners of Nations Trust American Express Golf Extravaganza

The tournament was conducted over two sessions with shotgun starts in the morning and afternoon and was open to players in the categories Men, Seniors & Ladies. A number of special recognition awards were presented to the winning customers of the Bank as well as the highest scorers. The event was concluded with an award ceremony followed by cocktails



TREASURY

Year 2011 commenced with high liquidity and a lot of optimism for increased level of economic activity. In pursuance of this, the Central Bank of Sri Lanka (CBSL) relaxed its monetary policy further by reducing its key policy rates in the month of January. As the high level of excess liquidity persisted in the inter bank market, CBSL followed this up with an increase in the Statutory Reserve Ratio from an all time low of 7 % to 8% in April. The excess liquidity in the inter bank market at one point rose to a staggering Rs.129 Bn but as the year progressed this position reversed to finish the year at around Rs. 15 Bn. Treasury Bills witnessed the lowest yields during mid year with 3 months bills recording 6.97 % at one auction. However, following from the devaluation of the Rupee in November and consequential intervention of CBSL to support the local currency, liquidity was drained out of the market which resulted in an increase in Government Securities yields.

The Forex desk was able to conclude the year on a high, recording profits which surpassed previous year by 22%. The increased focus on marketing to capture a larger share of imports and exports business paid rich dividends with commercial volumes doubling in 2011, which in turn not only assisted achieving healthy revenue but also strengthened our position amongst our clientele. This enabled us to establish a sustainable niche.

With sudden reversal in the yield curve in government securities, Treasury FIS desk had a challenging 4th quarter. The draining of liquidity and resultant decline in activity in the FIS market made FIS trading even more difficult in this period. When the interest rate cycle reverses and the yield curve moves upwards, it is customary for the local debt securities market to experience a lull period due to lack of short selling opportunities. However we were able to sustain the positive carry in our debt securities portfolio through a strong customer base achieving a healthy spread. The portfolio of Fixed Income Securities including Structured Debt Instruments stood at Rs 22.9 Bn at the year end.

On the back of negative sentiment experienced in equity markets across the world in the second half of the year, Margin Trading activities in the local market too had to be curtailed. Accordingly our portfolio contracted almost Rs. 500 Mn during the year to close the year at Rs. 1.8 Bn.

Treasury also continued to play a key role in supporting the growth of the banks' loan book and its core businesses. It was proactively engaged in driving the efforts in re-pricing assets and liabilities thus managing the pressure on both interest rates and liquidity. Medium term funding arrangements were also sourced to the tune of Rs. 2 Bn to support the accumulation of term assets and Tier 2 capital.

Through its investment arm Waldock Mackenzie, Treasury facilitated a private placement of unsecured redeemable debentures for a corporate client amounting to Rs. 600 Mn. The debenture issue provided attractive returns for short to medium term investors. Whilst the issue raised funds for the client, it also provided a secure and attractive return for Waldock's customers seeking higher returns on their investments.

Waldock Mackenzie, one of the early acquisitions of NTB provides a range of investment banking products and services. During the year it continued its innovative drive devising new and unique solutions.

AWARDS and ACCOLADES

National Business Excellence Awards

The Annual National Business Excellence Awards is a competition held with the view to recognizing enterprising businesses that demonstrate excellence whilst contributing to the economy of the country. It recognizes businesses that have created a capacity for economic growth, employment generation, built sustainable market competitiveness and institutionalized best practices and business excellence.



Joint Runner-up in the Banking Sector Category in the NBE award ceremony

The best performers in Sri Lankan businesses were evaluated through a stringent process. Firstly the entry application was evaluated based on pre-determined criteria aided by a software program, thereafter by a panel of independent judges through a focused interview. Weighted marks of both evaluations were placed before the judges for their final determination.

Nations Trust Bank, growing on a platform of customer convenience and service was named Joint Runner-Up in the Banking sector category. The awards event was a full house with Ms. Rita O' Sullivan, the ADB Country Director as the Chief Guest. The award was a first for the Bank. It recognizes not only the commitment of NTB to deliver excellence but also its superior position on a national scale in highly competitive market place.



Recipient of the Most Innovative Bank Award

Most Innovative Bank Award

In a day and age when banks and financial institutions are constantly placed under the microscope in terms of transparency, ethical behaviour and sound business planning, winning an award that judges all these aspects and more is certainly a noteworthy milestone. Nations Trust Bank was the proud recipient of the Most Innovative Bank in Sri Lanka award, presented by World Finance. The culmination of the judging period is preceded by intense valuations and assessments carried out by experts in capital markets, risk management, trading, technology, corporate governance issues and regional markets. The analysis process identifies business leaders, individuals, teams and organizations that in the course of the year have made significant progress in their area and whose achievements create new standards and new practices in the world of finance and business. The evaluation process is based on transparency with shareholders and stakeholders, financial disclosures with regard to strength, size, soundness, profits, and performance, innovation and flexibility, leadership and geographical spread. As the winner of this prestigious award, Nations Trust Bank believes that it has truly lived up to its vision of being the benchmark of innovation in the Sri Lankan banking and financial industry.

Vision Awards 2010

NTB Annual Report 2010 won the Silver Award in the Banks (Asia Pacific) category for the second consecutive year at the LACP vision awards. In addition the Annual Report was ranked 49 in the top 50 annual reports in the Asia Pacific Region.

League of American Communications Professionals LLC (LACP) was established in 2001 in order to create a forum within the public relations industry that facilitates discussion of best-in-class practices within the profession while also recognising those who demonstrate exemplary communication capabilities. The Vision Awards is one of the most premiere annual report competitions, which recognises the outstanding annual reports of organisations who compete against peers of similar size, staff, and means to earn recognition for their organisation's achievements. Judged across a broad range of criteria, awards are presented across five tiers: platinum, gold, silver, bronze, and honours. Ratings are based upon an evaluation point system, which considers a number of factors measuring the effectiveness of communication material. This year LACP awards attracted a record 5,000 entries from around the world.

NTB Annual Report 2010 revolved around the theme of "Growth" emphasizing the foundation build for pursuing sustainable growth and how growth is embedded as a way of life in the Bank.

MerComm Annual Report Competition - The ARC Awards

ARC Awards is one of the largest Annual Report Awards Schemes in the world and perhaps the most prestigious. It attracts nearly 3,000 entries from top companies around the world. These awards have been popularly dubbed as the Oscars of Annual Reports. The Awards are globally recognised, providing a platform for the highest standards in the annual report industry. NTB Annual Report 2010 won a Bronze award for Interior Design in the Banks: Local category.



Receiving the award at the ICASL Awards Ceremony

ICASL Annual Report Awards

NTB Annual Report 2010 also received a Certificate of Compliance in the Banking Sector category at the 47th Annual Report Awards organised by The Institute of Chartered Accountants of Sri Lanka. The grand finale of the Annual Report Awards was held at the Waters Edge amidst the country's corporate elite. The event was graced by the presence of Hon. Basil Rajapaksa, Minister of Economic Development who was the Chief Guest while Dr. P. B. Jayasundera, Secretary to the Treasury was the Guest of Honour at the evening.

A total of 47 certificates of compliance were given out to companies which complied with the statutory requirements which are expected in an Annual Report. A total of 60 awards were given spanning diverse sectors in the country including finance, banking, hotel, health, manufacturing, insurance and the non-government organisation sector. Held since 1964, the competition is seen as a platform which encourages excellence in the presentations of information covering transparency, social accountability and good governance among diverse Sri Lankan business entities in the field of financial reporting.

The Annual Reports entered into the competition went through an initial selection process by a panel of judges, after which the shortlisted reports were subjected to a more intensive technical review. The Annual Reports were evaluated against established criteria that assess how successful each entrant was in communicating their objectives, highlights and performance management to the intended audience. The overall winners were selected by a final panel of judges chaired by the Governor of Central Bank, Mr. Ajith Nivard Cabraal, who subjected the reports to an intensive screening process, and were selected purely on merit, irrespective of their business sector.

Brand Rating

Sri Lanka's pioneering business magazine LMD and Brand Finance, a global leader in quantifying and leveraging intangible assets publish an annual independent brand valuation of top 100 leading public brands. The brand rating is based on detailed analysis of data obtained from public and other sources, which is reviewed by an expert panel of brand analysts and consultants. Our brand rating has been steadily climbing up and increasing its value since 2009. In year 2011 NTB brand rating improved from the 17th position in 2010 to 14th position in the 'Most Valuable Brands' with a brand rating of A+ and a brand value of Rs 3,438Mn.

KEY DEVELOPMENTS IN SUPPORT AREAS

Quite apart from the activities that took place during the year under the business pillars to generate revenue and profits, we have also been focusing our time and effort in support areas to strengthen the business model. Given below are some key developments that took place in these support areas. Although not directly impacting business revenues in the short term, some of these developments are in support of several items impacting the very foundations of the business of banking currently taking root.

Risk Management

The Bank has in place a well articulated credit risk management and monitoring structure which operates on a framework of centralized approval and disbursement independent of the origination of the business. From 2010 onwards we have taken appropriate measures to strengthen this risk pillar with the establishment of an integrated risk management division under a Chief Risk Officer. This division currently not only manages and monitors credit but also market and operational risks of the Bank. To this end, in 2011 significant investments have been made to empower this pillar with technical know-how and system capabilities. An internal rating system has been developed with the expert assistance from IFC. We have also established an operational risk management framework and made good progress so far in implementing a Capital Adequacy Assessment Process by mid 2012. All of this will support in the implementation of the CBSL Directive on Integrated Risk Management by end March 2012. Investments have also been made in a fully integrated treasury system which will handle end-to-end treasury transactions facilitating the monitoring of market risk. The project is targeted to go live by end of the IQ 2012.

The Bank is committed to strengthening risk management functions across the businesses as an on-going initiative. Specific focus and emphasis is given for continuous improvement in risk management tools covering the SME Sector and strengthening of the integrated risk management unit in anticipation of not only escalating business volumes and the onset of new BASEL related regulations but also to better manage the downside risks.

Compliance

At a Board level compliance with policies, covenants, controls and regulatory conditions are overseen by several Board Committees. At a Management level the key operational risks and controls are managed through the Assets and Liability Committee and the Credit Committee. The IT Steering Committee oversees the IT investments and strategy while the Customer Service Steering Committee monitors and ensures the organizations adherence to its USP of Simplicity, Convenience and Service. All these committees have been extensively reviewing and overlooking operations of the Bank in 2011 as regulatory developments have been frequent and market dynamics challenging. The most significant being the CBSL directives on covering the implementation of BASEL II and the Customer Charter. In implementing BASEL II, the regulator is looking to place the banking system on stable and firm footing for the future. The Customer Charter equally looks to providing a more open and even market place for customers engaging in business with banks. On both directions we are well on-track to be compliant by the required timelines.

Application of International Financial Reporting Standards (IFRS)

As part of the convergence of local accounting standards with international standards, banks are required to adopt fresh local accounting standards. It requires the banks to report their financials on a fair-value basis that will, among many attributes, enable wider comparison. The key standards of concern to the Bank are standards pertaining to financial instrument presentation, financial instrument recognition and measurement and financial instrument disclosures for periods beginning 2012. The Bank has carried out the preliminary ground work and is well prepared for reporting financial statements on IFRS from the forthcoming financial year with the comparatives for the current period.

Operations and Technology

Having moved into a centralized processing model in year 2003 the Bank is beginning to reap the benefits as business operations scale up. Productivity and efficiency of these processes are being critically reviewed on an on-going basis to ensure the returns are generated. Some of the key areas are general banking transactions and end to end credit processes at retail, consumer and leasing from sourcing to collections. These are reviewed with a view to maximize process and cost efficiencies, increase productivity and bring synergies across various business pillars.

The year under review saw the Bank continue with its new initiatives in technological advancements through enhancements to investments already made and also through new investments where essential. The primary focus in these initiatives was the enhancement of customer convenience and retention of business.

In order to ensure smooth banking operations in line with expansion plans and new systems requirements, the Bank upgraded its production and disaster recovery site hardware. The upgrade is with enterprise class IBM XIV storage and IBM Power 7 server systems. This is the first IBM XIV implementation in Sri Lanka. The upgrade has provided increased performance, better scalability, and long term cost benefits. The solution fulfilled the database server requirements and storage capacity requirements in keeping abreast with the latest technology trends in the industry for the next five years.

A Record Year – Financial Review

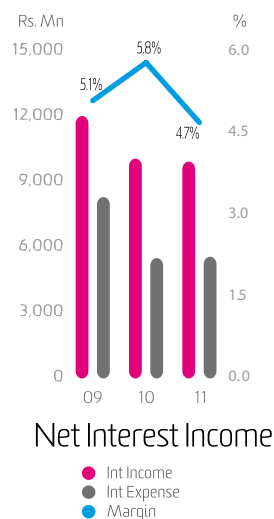
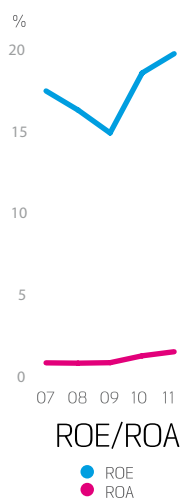
Summary

The Group closed the year with a post-tax profit of Rs 1.5 Bn, a growth of 41%. Growth was driven by maintaining the top line revenues in the midst of low interest rates, uplifted fee and trading income, controlled growth in operating expenses, provision reversals and lower taxation. The balance sheet recorded a growth of 23% and crossed the Rs 100 Bn mark for the first time. Deposits and advances grew by 38% and 39% respectively, better than the average growth rate for the rest of the industry.

Net Interest Income

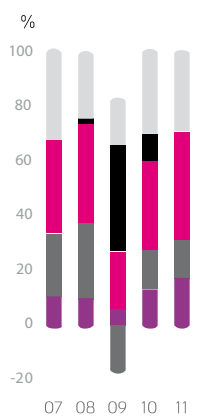
Across the industry NII margins contracted with intensifying competition. Lending rates across all customer segments have been driven down largely by lower market interest rates and increased competition with the revival of loan growth. On the other hand funding costs trended upwards as competition increased with liquidity diminishing alongside credit growth. Consequently, NIMs continued to come under pressure.

Bank also witnessed narrowing NIMs but shifting the asset mix to more high yielding assets softened the impact of falling NII margins. The interest rate cap on credit cards which came into full force during the year, shaving off 12% of the NII margin on the product also contributed significantly to the falling NII margins which was somewhat mitigated with the growth in the card receivables portfolio. Reconfiguring the business model of cards also supported the improvement of yields on the cards portfolio towards the second half of the year. The growth and shift in the deposit mix towards low cost funds during a greater part of the year eased the rising cost of deposits. In this context, new branches opened during the year contributed significantly by sourcing over 40% in low cost funds. However, during the latter part of the year attrition from low cost deposits was seen coinciding with the rising interest rate scenario. Thus, the low cost deposit mix which was maintained at 29% above previous year levels deteriorated to 25% by the yearend.

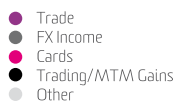


Non Fund Based Income

Non fund based (NFB) income on cards and trade recorded good growth against the previous period. Improvements in macro economic factors relating to import/export volumes, tourism and consumer spend bolstered these growth levels. Trade finance volumes, both on imports and exports picked up significantly compared to the previous year with the resultant income increasing by 34%. This also included income generated from capital market activities during the first half.



Composition of NFB Income



Credit card related non-fund based income grew by 29%. With the re-configuration of the cards business model coming into force, greater attention was paid to increase business drivers on spend and card acquisitions. The increase in resultant income on card fees was 24% and merchant discount commission was 29%.

Foreign exchange income growth momentum that continued upto the month of November was hindered somewhat by the currency devaluation.

Foreign exchange income for the year recorded a moderate growth of 9% with increased customer values contributing significantly to the overall number.

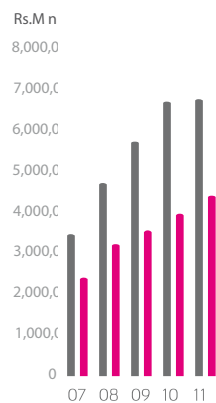
However, despite commendable performance of the core NFB income lines, its growth for the current year was reduced by the trading gains booked for 2010 in the Fixed Income Securities (FIS) portfolio. In 2011 bank managed to

restrict the negative impact of the upward movement in the yield curve which resulted in trading and mark to market losses on the FIS trading portfolio.

Operating Expenses

Rs.Mn	2011	2010	Growth	Growth %
Personnel Cost	1,836	1,677	159	9%
Premises & Establishment Expenses	800	785	15	2%
Other Overheads	1,524	1,471	53	4%
Total Operating Expenses	4,160	3,933	227	6%
Trading & Mark to Mkt Losses on FIS	223		223	
Provision/reversal for Bad & Doubtful Debts	(207)	203	(410)	(202%)
Financial VAT	363	526	(163)	(31%)
Total Expenses	4,539	4,662	(123)	-3%

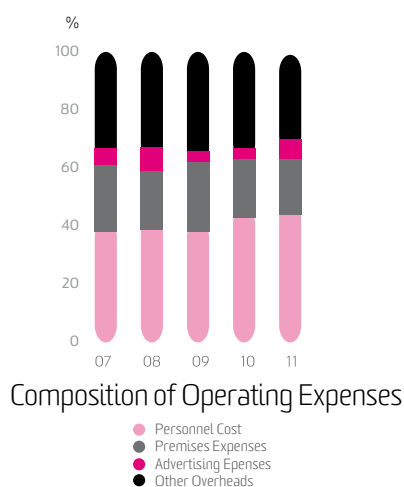
Operating cost efficiency in the bank has been improving over the years. The Bank continued its aggressive cost management strategies across business and support functions alike realizing the evermore important need to improve productivity to maintain profitability in a competitive environment. The Bank continued to manage costs, curtailing the increase in cost to a minimum despite rolling out an expansion strategy with investments in people, premises, systems and the NTB brand.



Revenue / Expense



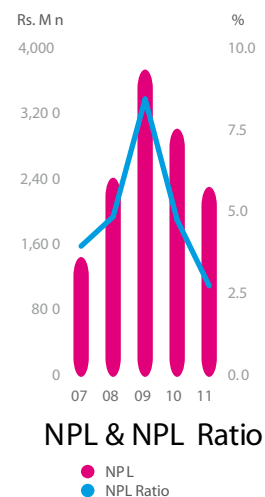
Cost Composition has been maintained at consistent levels over the years with personnel costs continuing to be the largest component for the bank, accounting for 42% of total operating expenses in 2011. Group managed to limit operating expense growth to 6% during the year despite the expansion drive. Group cost income ratio was at 63% compared to 59% for the previous period, mainly due to low net interest income margins and mark to market losses in the current year. The Bank has laid down strategies towards managing the cost to income ratio below 50% in the medium term.



Bank undertook several initiatives on productivity and efficiency to put in place a well structured reporting and monitoring process. As the first step, the in-house developed cost allocation framework was reviewed and a well articulated process and a product driven framework was built and adopted. The key objective of this exercise was to equip the management with better understanding of product cost for pricing decisions and capacity planning which in turn will result in improving productivity.

Provisions

The Bank has always had a strong credit risk management and monitoring structure. Several measures have been undertaken over the years to effect improvements to this area centering on tightening of underwriting standards, early identification of problem credits and revamping of collection recovery processes. The sound risk management framework coupled with the conducive economic environment resulted in the Bank recording a healthy NPL ratio at 2.8% compared to 4.82% in December 2010. Whilst NPLs contracted by 23% over previous year levels, growth in the loan book also assisted in the lowering of the NPL ratio. The lowering of the NPLs ratio is despite the upward pressure put via a more stringent regulatory environment in respect of NPL classifications coming into force at the beginning of the year. Focused intensive efforts at credit management over the entire cycle from origination to disbursement and ongoing review accounted for provision reversals during the year as well as the lower NPL.



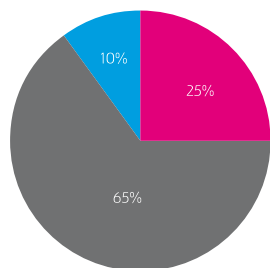
Balance sheet

The Bank surpassed the Rs.100Bn mark in total assets in 2011, a landmark achievement by any standards for a bank in its 12th year of operations. The structure and composition of the balance sheet is reflective of its position as a robust and sustainable business, demonstrating the bank's strategic direction and aptitude for prudent decision making.

Deposits

The balance sheet remains primarily deposit-funded, and hence not hostage to market sentiments. NTB has a fairly stable deposit base, stemming from the strategies adopted in developing the mass affluent and HNW propositions, resulting in over 65% of the deposits coming from personal banking customers giving the ability to enjoy a stable source of

funding and potential for cross selling of other products. Dependency on Corporate and Institutional deposits accounts for 25% of the deposit base.



Deposits Composition

● Institutional
● Individual
● SME

Current and savings accounts (CASA) account for 25% of total deposits at end-2011. The Bank need to compete aggressively to mobilize CASA as the larger banks are better positioned to compete with their wider footprint.

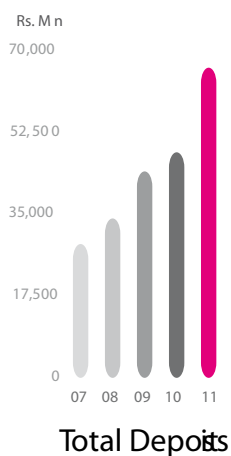
With the expansion of the branch network and the target market moving beyond mass affluent in the Western Province, the Bank has launched a focused savings drive to expand its savings product portfolio, thereby improving the low cost mix.

The single most challenging effort during the year has been funding the asset book with the optimal sources of funds as demand for funds exceeded the mobilisation of deposits for a greater part of the year, which was the case across the industry. However in anticipation of the interest rate hike the Bank pushed for deposit growth in the medium term which resulted in closing the year with a 38% growth in deposits, outpacing industry growth and the plans set for the year. To supplement deposit mobilisation, a Rs. 2.0 Bn five year debenture was issued. This supported the growth in the leasing book and term assets.

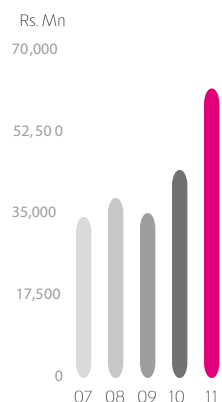
Loans and Advances

Bank maintained a well diversified loan book. As a result it brought stability to its revenue streams and mitigated unfavorable impact on its capital.

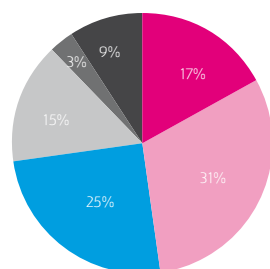
Loan book grew by 39% during the year. With high demand for credit in the market the Bank witnessed growth especially in the last 2 quarters and ended the year with total net loans and advances reaching Rs 62Bn from Rs 42 Bn in 2010. The growth in credit was driven primarily by retail, SME, leasing and consumer finance.



Total Deposits



Total Loans & Advances



Loans Composition

- Retail/SME
- Corporate
- Leasing/ Factoring
- Consumer Assets
- Margin Trading
- Cards

Within the consumption sector, the portfolios are well diversified with a blend of asset backed and unsecured lending products as well as diversified customer segments comprising high net worth individuals, salaried employees of approved companies and self employed professionals.

Shareholder Funds

A review on capital management is given under Risk Management and Investor Relations sections of the Annual Report.

Future Outlook

Global developments are likely to be challenging in the foreseeable future. The trade deficit has widened and increased the need for foreign financing particularly when such funding may be at a premium. Export markets remain stressed. The escalating oil price and lower exchange rate does not assist. In the domestic front inflation although subdued look threatening given recent price hikes. The recently mandated credit ceiling is yet to make itself felt. All will have an impact on Sri Lanka. Accordingly the economy can at best be expected to post subdued growth in the upcoming year. Although economic activity across the country is likely to slow, we believe the domestic engine will prove resilient, with growth underpinned by structural factors such as the unlocking of previously war-torn areas, the rebuilding of infrastructure and rising income levels. All of this should help limit the slowdown in growth to circa 6.5% - 7% in 2012 versus 8.3% in 2011. Although strong domestic demand conditions fed a widening trade deficit; the increase in imports has been for productive use. Hence eliminating any wastage, such imports will ultimately result in higher sustainable growth.

In that growth the business opportunities and money flows are likely to move beyond the Western Province. We have already commenced the roll out of our distribution network to lift Nations Trust to a nationwide bank. We remain cautiously optimistic about the prospects for our country as it undergoes a transformation and ready to capture the opportunities so presented particularly as both the North and the East and new players in the form of SMEs and Entrepreneurs enter the market. As a dynamic organization with an enthusiastic team that passionately believes in creating value for all its stakeholders, we are ready to uplift the organization to the next dimension.



9:10 am Jaffna



A close-up portrait of a woman with a warm smile, wearing a light blue surgical cap and a matching face mask pulled down to her chin. She is dressed in green medical scrubs. The background is softly blurred, showing another person in a white lab coat. The image is split vertically, with the left side in color and the right side in grayscale.

Beyond the conventional

Welcome to the paradigm shift. Remember, changing ways and changing times always present the best investment opportunities.

Responsible Entrepreneurship

Responsible Banking

In this part of the report we look at the Bank's sustainability strategy and how the Bank has discharged its responsibilities as one of the country's leading corporate citizens. We look at how the Bank has empowered communities; how it has fostered innovation at the workplace, enhanced customer convenience, and preserved our environment.

The corporate values which transpires from the Banks' vision and mission statement lays down the framework in which the business strategy is formulated. Our approach to sustainability is integrated in the formulation of the business strategy. The Bank is organized structurally to ensure the implementation of its sustainability and business strategy in a coherent way.

Through this report we hope to provide a comprehensive picture of our operations, including our impact on society, the environment and the economy. As with the rest of the corporate world our goal is to contribute to the evolution of sustainable social, environmental and economic systems and to enhance opportunities for us all.

The report is divided into four sections. The first part looks at our general approach to sustainability and the values that drive our growth. The second part looks at how we are building a safer and cleaner environment. The third part looks at how the Bank is empowering society and providing new opportunities for our communities ; and the fourth looks at our workspace, our relations with our customers, investors and how we are generating economic value for these stakeholders.

Growing our Social, Environmental and Economic Balance Sheet

Every year the Bank makes dedicated effort to create financial value for our shareholders and create a social value for our other stakeholders. While pushing the bar of innovation in delivering superior products at all times we also push the bar of innovation to deliver new opportunities and a better environment for society.

The Bank's sustainability strategy aims to deliver consistent profits over the long term within a sound risk management framework. It addresses all stakeholders; customers, employees, regulators, shareholders and the community. For each of these stakeholders the strategy aims to provide value by offering cutting edge products, opportunities for employees to grow, ensuring strict compliance, and providing better than average sustainable returns.

Our sustainability strategy has been driven by the Bank's core values:

Inspirational Leadership

Despite being a relatively new player in the banking industry, the Bank has sought to provide leadership and inspiration to the financial services industry. We have done this through the products we have created, the customer relationships we have cultivated and the prudent approach to growth we have adopted.

Within the Bank, each team leader seeks to inspire those below him or her. We are striving for higher levels of inspiration and seeking to extract the leadership abilities of all our members of staff.

Integrity in all our dealings

The Bank's transactions and dealings are above board. We do not make any compromises on integrity and honesty. We ensure strict compliance with all financial and environmental law and strive to ensure the highest levels of transparency.

Open communication

The culture at the Bank, values communication and the sharing of information. The team is encouraged to communicate and share information across different layers of management and the staff is encouraged to raise grievances with their supervisors in a spirit of candour. For new employees there are service standards, desk instructions, policy manuals and induction programmes to help them adopt the culture of NTB.

The Bank also endeavors to be transparent in the way it communicates with stakeholders and every year seeks to increase the levels of transparency and disclosure.

Learning focused

The Bank is focused on growing its own knowledge as an institution and the knowledge of all its employees. Knowledge enhancement, skills acquisition and relationship building are encouraged within the organization.

Meritocracy

Advancement within the Bank is based on performance and skills. Innovation, initiative and hard work are rewarded. Diversity in all its forms is encouraged and discrimination in any form is not tolerated.

Prudent Risk Management

The Bank is conscious of the role it plays as a financial institution and the position it enjoys as a custodian of public money and a driver of social growth. The Board through various sub committees ensures that risk is managed in a balanced way and that while reward is pursued it is done in ways that are prudent, secure and sustainable.

Respect for all

We integrate the interests of all our stakeholders in our business and sustainability strategy. While we grow our financial bottom line we do so in ways that respect society and the environment and our diverse stakeholders.

Innovation and continuous improvement

The Bank has been at the forefront of innovation in this country. It has pioneered several new products within the banking industry and fostered innovation in other sectors as well. We continue to raise the bar of innovation every year.

Nurture Relationships

Relationship building with customers, investors, regulators, employees and other institutions is fundamental for sustainability. Each institution nourishes the other and draws strength from each other's performance and we contribute to growing our economic, social and environmental systems.

Socially and Environmentally Responsible

We have made long term commitments to a number of initiatives to uplift the well-being of the society and environment. We also play a much broader role in our communities beyond our core business activities. We are proud of the commitment shown by our employees in donating their time, expertise and resources to a variety of causes which they feel passionate about.



ENVIRONMENT

Preserving and nurturing the environment is an important part of our sustainability strategy. Reducing energy and paper consumption, re-cycling and re-using materials where possible, and mitigating any adverse effects on the environment are very much a part of our strategy.

The Hiyare Rainforest:

Biodiversity at its Finest

Hiyare is a 600 acre rainforest situated in the Galle district about an hour's drive from the Galle town. The area is owned by Galle Municipal Council and supported by the Wildlife and Nature Conservation Society of Galle. Hiyare is home to a number of unique species of flora and fauna.

About 4 years ago the Bank made a commitment to preserve and nourish the biodiversity in this area and since then has been actively involved in a number of initiatives. Last year being the International Year of Forests, the Bank took on added responsibilities to ensure the sustainability of this unique rainforest for future generations.

Current efforts focus on the following main areas.

Building an Ethic of Conservation

Working under the theme Conservation through education the Bank provides support to the Wildlife Conservation Society of Galle (WCSG) for its many educational programmes. Last year 10 workshops were held in partnership with the WCSG. The workshops attract school children, undergraduates, employees in the private and public sectors, and nature lovers. Some of the workshops entail visits to the Hiyare rainforest and 'hands on' experience in understanding and preserving the rich biodiversity of the area.

In addition to this the Bank also facilitates other educational programmes for school children and undergraduates. The programmes aim to create an appreciation of the rich biodiversity of our country among the target groups, share knowledge on threatened species and the steps taken to protect such species. The interactive programmes engage children of different age groups and seek to inculcate a love for nature and conservation. About 70 education programs were conducted during the year. Some of the key programmes are listed below;



Month	School Name	Location o f School	Venue	Subject of Study
January	SOS Children's Village Galle	Hapugala, Galle	Hiyare Center	General Biodiversity
January	Sangamiththa Maha Vidyalyaya	Sangamiththa, Galle	College	Freshwater fish Identification and its conservation actions
February	Godagama Villagers	Godagama	Hiyare Center	About Sri Lanka Biodiversity and Venomous Snake Identification and Snake bite, Preventions
February	1 st pols Milagiriya	Milagiriya	Hiyare Center	General Biodiversity
February	Thawalama privet Institute	Thawalama, Galle	Hiyare Center	General Biodiversity
March	Chuty Tharu Play School	Pilana, Galle	Hiyare Center	General Identification of Animals
February	Deniyaya Central College	Deniyaya	College Class Room	Venomous Snake Identification and Snake bite, Preventions
February	Punchitharu Play School - Peelana	Pilana, Galle	Hiyare Center	Common Animals in Sri Lanka
April	Rajasinghe maha Vidyalyaya	Dehiwala	Sobhaketha at Bellanwila - Aththidiya	About Sri Lankan Fresh water Fish
April	Rajasinghe maha vidyalaya	Dehiwala	Sobhaketha at Bellanwila - Aththidiya	Freshwater fish Identification and its conservation actions
April	Ananda College, Colombo.	Colombo	Hiyare Center	About Sri Lanka Biodiversity.
May	Yakkalamulla Village	Yakkalamulla	Yakkalamulla Public Center	Venomous Snake Identification and Snake bite, Preventions
May	Matthegoda Vidyadeepa College	Kottawa	Sobhaketha Hall	About Sri Lankan Fresh water Fish
May	Pilana Kids Play School	Galle	Hiyare Center	About Sri Lankan Fresh water Fish
May	Philip Artigala College	Piliyanda	Sobhaketha at Bellanwila - Aththidiya	About Sri Lankan Fresh water Fish
August	Imaguwa Tea Factory	Imaduwa	Imaduwa	Venomous Snake Identification and Snake bite,
August	15 Schools in Southern Province	Southern Province	Hiyare Center	Venomous Snake Identification and Snake bite, Preventions
August	15 Schools in Southern Province	Southern Province	Hiyare Center	Sri Lankan Freshwater Fish
September	Happitiya Maha Vidyalyaya	Nelluwa Galle	Halppitiya Maha Vidyalyaya	Venomous Snake Identification and Snake bite, Preventions
September	Happitiya Maha Vidyalyaya	Nelluwa Galle	Halppitiya Maha Vidyalyaya	General Biodiversity
September	Lankagama maha Vidyalyaya	Lankagama	Lankagama maha Vidyalyaya	PFL monkey conservation and white monkey in Sinharaja
September	Lankagama maha Vidyalyaya	Lankagama	Lankagama maha Vidyalyaya	General Biodiversity
October	Deniyaya Village	Deniyaya	Abayaramaya - Deniyaya	Venomous Snake Identification and Snake bite, Preventions
October	Darmapala Vidyalyaya	Colombo	Sobhaketha Hall	About Sri Lankan Fresh water

Animal Hospital and the Animal Rescue programme

Another unique venture has been the sponsorship of the first private sector funded hospital for wild animals at the Hiyare premises. This small hospital is used to treat wild animals that are brought in under the wild animal rescue programme run by the WCSG with the bank's funding. This programme aims to provide emergency medical and surgical care to injured wild animals, support their rehabilitation and release into the wild afterwards.

Preserving the Habitats of Purple-Faced Leaf Monkey

The purple faced leaf monkey is endemic to Sri Lanka and is found in the Hiyare forest and adjacent areas. The International Union for the Conservation of Nature has listed the species as threatened and in 2009 the Bank initiated a special programme aimed at protecting it. Population growth and urbanization has affected the preferred habitat of these animals and urgent action was required if this species is to be preserved for future generations.

The Bank partnered with the WCSG to study the preferred habitats of this monkey, understand their feeding and breeding patterns and preferred sources of food. A plan of action was initiated to grow the population of this threatened species. This includes several activities, amongst them are;

- Constantly monitoring and documenting the feeding patterns.
- Creating awareness among schools and communities that border the preferred habitat of the monkey in the Galle district.
- Planting some of the preferred food varieties of the monkey, in and around Hiyare.
- Rescuing, releasing and monitoring injured and rehabilitated monkeys around the Hiyare forest and island.

The Discovery of the White Monkey

After extensive studies of the southern purple faced leaf monkey, researchers have now identified a new species: white colour morph of Southern Purple leaf monkey also known as the white monkey

The WCSG led a research project in Hiyare and adjoining areas for two years on the purple faced leaf monkey supported by the Bank. The study analyzed the distribution,

feeding ecology and behavior of the species. Tracking and GPS technology was also employed as part of the study.

During the study, which involved the tracking of 26 troops, researchers came across a specimen with an unusual white colour morph. There was no evidence to suggest albinism and therefore researchers are confident that they have identified a new colour morph of the southern purple face leaf monkey. Research is still ongoing and the Bank continues to support this trail blazing initiative.

Protecting Water Habitats

In a bid to protect fresh water fish and amphibians in Sri Lanka and to protect their habitats the Bank supported a captive breeding programme in the Hiyare area last year. Under the captive breeding programme several species of fresh water fish were bred in captivity and then released into natural habitats.

The Environment Risk Management Framework.

The Bank's Environment Risk Management Framework consists of policies and procedures to assist the business units and credit officers to reduce financial, legal and reputational risks which may arise as a result of environmental problems experienced by customers. It provides an assurance to all stakeholders that this aspect of risk is being adequately managed.



White colour morph of Southern Purple faced leaf monkey

The procedures are easily integrated with existing credit appraisal processes. The main objective of the Framework is to limit the Bank's exposure to environment related risk and to take advantage of new business opportunities which may arise where a customer is required to improve environmental performance, or where there is a demand for products or services involving a higher standard of environmental performance.

The Framework involves the following elements:

- a) A systematic integration of environmental considerations into the operations of the Bank, including a clear definition of senior management oversight and staff responsibilities.
- b) The collection, evaluation and reporting of appropriate environmental information about a proposed transaction, leading to a fully informed decision on whether the environmental risk associated with the transaction is acceptable.
- c) Control of environmental risks associated with the transaction and realization of any potential environmental benefit associated with the transaction.

SOCIAL

Social empowerment in multiple ways is an important facet of our sustainability strategy. The Bank's operations are designed to create new opportunities for a variety of social groups and society as a whole.

Raising the Bar of Innovation

The Bank has innovated not just with its financial products but with other products that empower society. The Blood Donor card launched in June 2011 is one such innovation.

The Bank partnered with the National Blood Transfusion Service of Sri Lanka (NBTS) to help them transit from a conventional manual Donor Booklet to a plastic card, very much like a credit card. The Bank pioneered the use of modern technology to support one of Sri Lankan society's most charitable acts: the act of providing blood to people in need. The National Blood Transfusion Service (or the Blood Bank as it is popularly known) is the country's focal point for the collection and distribution of blood and blood products for a variety of medical emergencies. The NBTS encourages people to donate blood, screens the blood and then dispenses it to medical facilities in different parts of the country. Today there are two types of processes to collect blood: through the 'walk in' donor, which is how the majority of blood is collected; and the mobile blood campaigns that attract donors in different localities.



*Platinum Donor Card awarded to Athula Wijesekera
(who donated over 60 times)*

Previously, blood donors received a red booklet in which each 'blood donation' was recorded manually. Today blood donors receive a plastic card in which their blood group, their National Identity Card Number and every previous donation is recorded. The NBTS has also introduced a 'loyalty scheme'. Each donor is placed in a red, silver, gold or platinum category depending on the number of times he or she has donated blood.

Last year the Bank produced 100,000 cards for the NBTS. The card is simple, easy to use and far more effective than the paper booklet. It has helped the NBTS attract new donors, reduced transaction time and helped them store data in a more durable form.

The collection of blood has increased over the years and in 2011 this amounted to the equivalent of 1.5% of the Sri Lankan population donating blood. According to WHO standards a developing country should have a donor base of 2.0% to meet health needs. The Bank is supporting the NBTS to reach this target.

Growing Knowledge

The Bank has invested in the next generation by initiating school development programmes for several disadvantaged schools. Over the past 3 years the Bank's staff has helped identify some severely disadvantaged schools located in the most remote places in Sri Lanka. These schools cater to low income population groups and operate in extremely challenging circumstances. Students struggle to find appropriate school attire whilst the school struggles to find books and teachers. The environment in which these schools operate are a world away from the privileged urban schools. The Bank has invested in these severely disadvantaged schools with a view to providing the children and teachers better opportunities.

Last year we provided extended support to three schools selected from a group of 11 schools which we supported in the previous year under the library project.

The Bank undertook the following initiatives in these different schools:

1. Amunutenna Kanishta Dwithika Vidyalaya - Gallalla, Ratnapura
 - Library and English reading unit
 - Sports Equipment and Play area for the primary section as required under the curriculum.
 - Water Supply and Toilets
 - Office and Classroom Separators
 - Shoes and School Bags

- Other improvements such as a staircase, garden, and stage curtain
2. Seewali Kanishta Vidyalaya - Bokkawala, Kandy
 - Installing wire mesh for the assembly building
 - Refurbishing the Assembly Hall
 - Play area equipment for the primary section as required under the curriculum
 - White Boards for class rooms and a Notice Board for the school
 - Library Renovation
 - Construction of two sets of Toilets
 3. Manampita Ratnasara Vidyalaya - Mattaka, Galle
 - Play area for the primary section as required under the curriculum
 - Toilets for the primary section
 - Renovating and painting the building, housing the primary section including the roof renovation for the primary area

Building Skills in Mathematics

Mathematics is a compulsory subject at the GCE Ordinary Level examination and those who fail the subject are deemed to have failed the examination. Entry to Advanced Level classes is not possible for students who fail Mathematics. Weakness in Mathematics has been identified as a major cause of concern by the education authorities.

With a view to building skills in Mathematics among school children the Bank has been supporting the establishment of Mathematics Laboratories especially in those areas where the Bank opened new branches.

A 'Maths Lab' provides a space and special equipment for students to explore mathematical concepts and verify mathematical facts and theorems through a variety of activities using different materials. These activities may be carried out by the teacher or the students and seek to stimulate an interest among students and make the learning of Mathematics an enjoyable experience. The teachers are specially trained by the Education Department.

'Maths Labs' were donated to schools in the following areas last year:

Anuradhapura
Nuweraeliya
Chilaw
Piliyandala
Malabe

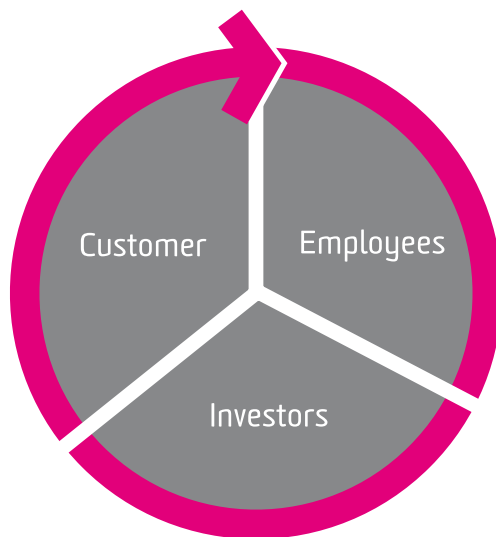
The Bank partnered with 'CandleAid' (CandleAid Lanka, formerly known as AFLAC International) in implementing this project.

Refurbishment of the Cancer Hospital

The Bank supported the cancer hospital in Maharagama by refurbishing of Ward No 19. The Bank has been maintaining the ward for several years and last year re-painted the ward, fitted new curtains, provided lockers for patients, installed new fans and improved the dining area. The Bank will continue to support the hospital by maintaining this ward.

ECONOMIC

Generating sustainable financial value for our many stakeholders forms an important part of the Bank's sustainable strategy. We do this in many ways, engaging with many different groups of people, and supporting the growth of sustainable economic systems.



Customer

"To our customers we have offered unparalleled levels of convenience with novel concepts of 365 days banking, 24 hrs call centre and a network of 48 branches. Our service excellence is known to be one of the best in the industry"

Employees

"To our employees we have offered an environment which is a "truly great place to work" re-iterated by our HR policies which addresses recruitment, promotion, compensation & benefits, performance management, training, leave, grievance handling, disciplinary inquiries whilst also promoting aspects of non-discrimination and freedom of association"

Investors

"To all investors we have offered sustainable returns aptly demonstrated by our financial performance over the years with growth in income, profits, loan book, deposits and balance sheet footings. We have managed capital tightly, keeping leverage stable and strengthened our liquidity position"

CUSTOMERS

Customer Relations

Customer relations lie at the core of our business strategy. Unless and until the Bank is in complete sync with its customers there can never be sustainable value creation. We are also committed to improving customer satisfaction and the overall customer experience across all of our businesses.

Customer Service Steering Committee

The Customer Service Steering Committee has representation from all divisions of the Bank. The Committee monitors customer reviews and offers suggestions on simplifying the delivery of the Bank's many products. Delivery hiccups, skill gaps and an inadequate appreciation of the end user are all measured as the Bank seeks to 'up' service levels and 'up' product quality.

The 'Mystery Shopper'

The 'mystery shopper' concept is a tool to ascertain a qualitative 'feel' for the service levels at the branches. During the year, based on the analysis of findings and customer input of the previous year more rigorous criteria was developed and executed on customer service thresholds.

Customer Complaints

We take customer complaints very seriously and always look to deliver fair outcomes. We aim to deal with them effectively and efficiently and use our complaints process as a critical channel to listen to and better understand the needs of our customers. This helps us to continually improve the process and prevent issues from re-occurring. The well structured customer complaints management process is designed to respond to specific complaints from the customer and to also ascertain the root causes and structural issues that have given rise to the complaint.

Feedback from the customer is encouraged by way of the 24 hour contact centre, the branch network or by directly communicating with the Customer Service department. All complaints are logged into the automated complaints management system, which enables better tracking, better supervision and quicker responses. Complaints are then clustered and analyzed at the corporate management level and the Customer Service Steering Committee.

Customer Service Week

The Bank celebrated customer service week with customers from 3rd to 7th October. This was organized to coincide with international activity devoted to customer service and to honour employees and businesses that invest in customer care.

The Bank hosted several activities for its customers during this period at its branches and several incentives were offered to customers to invest in the Bank's products. The theme for last year's Customer Week was 'Refresh, Recharge and Reconnect' and was aimed at motivating employees to strengthen customer relationships, reward employees for their initiative and drive the relationships they have so far fostered.

It's your week!

Customer Service Week 2011

Not to worry!

1. As a individual customer register for the Bank As You Go service and avoid payment to a free transaction.
2. ATAA card fee waived off for all new customers who open accounts.
3. Apply for an American Express® Card and be entitled to a branded Pen.
4. Apply for a Lending facility and avoid your self to a LED Torch.
5. 1 Month interest free on 1 parking to avoid issue.

*Conditions apply

Nations TrustBank

Customer Service Week offers & discounts



"Not to worry" - Brand campaign

Service Excellence

The Bank continues to propagate its image of a modern bank that is sensitive to customer needs. We value the personal touch and ensure that a sense of warmth accentuates our customer touch points. This brand identity represents the Bank's core values of flexibility, simplicity, responsiveness and innovation.

In a bid to add greater value to the brand, NTB launched a new brand campaign entitled 'Not to Worry'. The campaign was launched to communicate the notion that NTB is a banking partner providing maximum convenience and superior customer service, simplifying the banking processes so that customers enjoy worry free banking.

The 'Not to Worry' brand promise was cascaded through the bank's employees who are passionate individuals who upholds service excellence in their DNA. An internal campaign was launched with the intention of sparking a new light within the staff to deliver the brand promise and head towards greatness as a single team.

Forging New Partnerships to enhance customer value

NTB signed a Memorandum of Understanding with the Institution of Engineers, Sri Lanka (IESL), a premier professional body in a bid to work in partnership with the IESL to provide its membership with a host of special benefits & services from the Bank. The IESL has a history spanning a period of more than 100 years. Its membership presently stands at around 14,500 covering almost all disciplines of engineering. Through this partnership NTB will offer special Personal loans rates, Leasing and Hire purchase facilities and American Express Gold Credit Cards with exclusive offers. In addition the mass affluent product Inner Circle and special corporate sponsorship was provided to further strengthen the partnership between Nations Trust Bank and IESL.



NTB partnering with the IESL

Nations Trust Bank also became the official banking partner at the National Chamber of Exporters awards in the category of Service Providers to Exporters. The high profile event in Sri Lanka's business calendar, also marked the 19th Annual Export Awards Ceremony.

The export sector plays a key role in the economic development of Sri Lanka. The annual National Chamber of Exporters awards have an ever increasing participation year on year reflecting the growth and excellence in performance of the Sri Lankan export industry. Through this event the Chamber recognizes excellence in exports and promotes its highest achievers as role models and key contributors to the national economy. The Bank is proud to have embarked on this partnership as it underscores our commitment our customers in the export segment.

EMPLOYEES

We have over 1,800 employees who are focused on bringing the best of Nations Trust Bank to everything that they do, everyday. We have created a truly inspiring culture fostering open feed back and performance based rewards.

Resourcing

Through out the year under review, we continued to move forward with employer branding initiatives. Career Guidance Programs were conducted at the Colombo University, Moratuwa University, Kelaniya University and ACBT.



Career guidance program at ACBT



Career guidance program at Kelaniya University

As a part of our ongoing corporate social responsibility initiatives, 12 Interns were recruited during 2011 to several of the departments within the Bank.

In order to ensure that staff are motivated in their jobs and they continuously keep improving their skills across our business lines, we commenced the "Job Rotation" program at the bank.

Out of 3,000 applicants, six Management Trainees were recruited on the 1st of January and an induction program covering an orientation to the Bank, Products, Compliance & Risk, Operations, Systems, Leadership and Communication was conducted. They continue to be in the bank's permanent employment with attractive career progression opportunities ahead of them.

Talent Management and Employee Development

In 2010 the Bank made a substantial investment in Talent Management. We continued this success story in 2011 as well. Today in order to win the "war for talent" in Sri Lanka, managing talent has become top priority in many organizations. In order to take this forward we obtained the services of Intercontinental Institute of Human Resource Management. In 2010 in order to ascertain the leadership potential of the Middle Managers, a comprehensive development center was organized at an off-site location. Based on the performance at the development center, high potential staff were identified to take over higher responsibilities in the organisation. All staff who participated at the development center were subsequently given one-on-one feedback on their strengths and areas of improvement and a structured development plan was put in place. In 2011 we executed these development plans, focusing on areas such as Decision Making, Nero Linguistic Programming for Leadership and Strategic Planning and Implementation.

We concluded the Leadership Development Program for the Senior Management Team in August at an off-site location. This process commenced with each Senior Management member doing a LSI (Leadership Styles Inventory-360 Degree) feedback questionnaire. Thereafter each Senior Management member was rated by his/her superior, peers and subordinates using the same questionnaire. Hewitt International evaluated the results and one-on-one coaching sessions were organized for the Senior Team based on the identified gaps in their leadership style. International coaches were brought down for the coaching sessions. Each Senior Management member had to come up with their own action plan for improvement after the feedback session with the coach.

There were some common gaps that were identified for development and the entire group was addressed by Hewitt International.

Training

It was a busy year for the training team with more than 10,500 trainee days being completed in 2011. The Training Cycle started with the year-end appraisal where each appraisal was evaluated and the training needs identified. In consultation with the Business Heads, HR structured a comprehensive Training Calendar with the primary focus in areas of Customer Service, Technical Skills, Risk Management, Selling Skills and Teamwork.

This year the Training team came up with a few new initiatives. As Compliance and Money Laundering is of utmost importance to us, the Compliance Team along with the Training Team commenced the "AML/KYC and Compliance Programs" for all bank staff. The online AML Certification Module was launched which will help staff to be AML/Compliance certified. This was launched by our Director/CEO Mr. Saliya Rajakaruna and Director Financial Intelligence Unit Mr. Rupasinghe.

Nations Quality Circle, Masterminds, Interdepartmental debates, Toastmasters, Speech contests were bank wide events organized by HR through out the year to develop and motivate staff.

Performance Management

The Bank continued to administer its robust performance management system where its employees are evaluated on pre agreed objectives and thereafter recognized and rewarded for their exceptional performance. The efficient administration of our performance evaluation system in 2011 has further enabled the Bank to emphasize on a performance based culture.

'The Amazing Race'

The Bank's 'Amazing Race: Colombo Edition' was held in 2011. The Learning and Development Unit of the Bank partnered with Adventure Dreams Sri Lanka and put together a program of experiential learning opportunities to promote teamwork and bonding. Over 180 employees working in 30 teams ran the race of almost 60 kilometres by foot, in public transport and after the 6th checkpoint by private or hired transport.



Winner of the first ever Nations Amazing Race

The 'Amazing Race' tested teamwork, 'out of the box' thinking, innovative skills, communication and leadership and the knowledge of history and culture of the city of Colombo and Sri Lanka. The underlying theme of the event was 'Proud to be Sri Lankan'. Each team was made up of six employees with at least two females in each team.

When the race began the teams received a clue in the form of a riddle and they had to make their way to the next location. At the next location they were given the next clue. There were 12 checkpoints, some of which were merely points at which they received the clue to the next destination and others were activity stations at which the team had to perform a mentally, physically or socially challenging task.

The Team 'Sonic' from the Central Operations unit of the Bank emerged champions. They solved the riddles and puzzles to find all 12 checkpoints, performed all the activities at each checkpoint and reached the last checkpoint first. The Team Asgards, also from Central Operations, came 2nd.

IPM inter organizational debating competition

The Bank won the 'IPM inter organizational debating competition' held in 2011. The objective of the debating competition was to create greater awareness on current human resource issues, share knowledge and new ideas, and improve communication and influencing skills. The competition was conducted on a knock out basis and a total of 8 teams representing leading banks and telecom partners locked horns at the event in pursuit of the coveted title. Nations Trust Bank took on Sampth Bank in quarterfinals and moved on to defeat SLT Manpower Solution in the semi finals to qualify for the final round with Hayleys (Pvt) Ltd. The final debate was based on a topical subject that had NTB proposing that "In booming economies human capital development is the primary factor for business growth"; to face tough retaliation from the Hayleys side. After a close battle that lead to a heated final, Nations Trust Bank emerged victorious and became the IPM Inter Organizational Debating Champions for 2011.



Champions of the IPM Inter Organizational Debate

Staff Welfare

Our staff welfare activities for the year have been carried out with the primary objective of providing our employees with a healthy work life balance at the same time fostering fellowship beyond work-life boundaries.

Avurudu Ulela

With the dawn of the Sinhala and Tamil New Year, the Nations Trust family came together to celebrate 'Soorya Mangalya' at Waters Edge in the month of May. The event included traditional games, ceremonies and cultural performances. It was indeed a splendid event enjoyed by all.

Sports Day

The Annual Sports Day was held in June at BRC Grounds. There were numerous events and our staff members relished the opportunity to show-off their sporting skills and

physical fitness. True sportsmanship was displayed by all participants with the day concluding with fun and fellowship.

Christmas Party

The Annual Kiddies' Party was held at Taj Samudra North Lawn organised by the Nations Sports & Welfare Club under the theme "Christmas at the Carnival". The day was packed with fun events and Christmas cheer. The highlight of the evening was the much look forward to arrival of Father Christmas by the children who were overjoyed with the gifts received.

Annual Staff Social

The NTB social was held at Mount Lavinia Paradise Beach under the theme "Caribbean Nights". It was an evening fun and entertainment which saw excellent participation from staff and their spouses.

Special Activities

A number of special promotions were organized by the Sports & Welfare club periodically at the three main locations of the Bank giving staff the benefit of purchasing items at discounted rates. Programs of general interest on life style events and health care were also held throughout the year.



Annual Kids Christmas Party

Staff Sports

It was a year of sporting success for our staff, whose active and enthusiastic involvement in badminton, basketball and netball paid off in public competition giving high visibility to the Nations Trust Bank Brand.

We also extremely proud of Eranga Alwis who captained the Sri Lanka Squash Team at the Asian Senior Squash Championships held in Malaysia during the year.



Badminton Team of the Bank



Basket Ball Team of the Bank

Achievements in Sports - 2011

Badminton	
Mercantile Novices Championship - 2011 – Men's Singles	Runner-up
Mercantile Novices Championship - 2011 - Men's Doubles	Third Place
Mercantile Novices Championship - 2011 - Women's Doubles	Third Place
Mercantile Novices Championship - 2011 - Mixed Doubles	Runner-up
13th 'Classic Badminton Championship / Western Province - Women's Doubles	Champion
13th 'Classic Badminton Championship / Western Province - Men's Doubles	Runner-up
13th 'Classic Badminton Championship / Western Province - Veterans Double	Runner-up
24th Ariyadasa Silva Memorial Trophy	Master's Champion
SSC Open Championship	Master's Champion
Mercantile Open Championship - 2011	Overall 3rd Place
Mercantile Open Championship - 2011 - Women's	Champion in the Plate event
Mercantile Open Championship - 2011 - Men's	Runner-up in the Plate event
Mercantile Team Championship - 2011 - Women's "B" division	Champions
Mercantile Team Championship - 2011	Overall 3rd Place
Inter Club Badminton Championships 2011 - Men's "B" division	Runner-up
Basket Ball	
Mercantile Services Basketball Tournament 2011- Women's	Runner-up
Mercantile Services Basketball Knockout Tournament 2011- Women's	Runners-up
Mercantile Semi-League Basketball Tournament – Women's	Runner-up
Squash	
Janashakthi Open National Ranking Squash Championships	Runner -up
Net Ball	
Mercantile Services "C" Division Netball Tournament	Runner -up
Open Mixed Netball Tournament	Champion

INVESTORS

Investor Relations

As a responsible corporate, the Bank has consistently enhanced shareholder value over the long-term, reflecting a cohesive and strategic approach to shareholder value creation.

Investor Forum

The Bank undertook a proactive approach to investor engagement during the year. With sound economic and political scenarios at play the ambience for investor engagement was positive. The inaugural investor forum was held in November which was a success from the positive feed back received from the participants and media. The Bank's primary objective of the forum was to update the investor community and the market participants on the highlights of the performance during the current year and provide a glimpse of what the future holds. The forum commenced with an audio visual of the bank journey, followed by a presentation made by the Deputy CEO on performance and future strategic objectives of the bank. The head table was represented by the Chairman, Executive Director, CEO, DECO and CFO who answered questions raised by the participants.



Head table at the Investor Forum

Relationships with Multilateral Agencies

Our relationship with multilateral agencies such as FMO, ADB and IFC commenced during the infancy stages of the Bank and has strengthened over the years. We were the first Sri Lankan bank to be granted a Trade Finance Facilitation facility by ADB in September 2004. This facility was part of ADB's Trade Finance Facilitation initiative across Asia. The objective was to promote trade and to enable Asian Banks to fund global trade partnerships with major banks across the globe.

The facility consisted of a funding line and a standby guarantee to enable easy confirmation of letters of credit from correspondents across the world. We have been renewing this facility with ADB every year and expanding our trade financing activities as a consequence.

Our relationship with FMO also commenced in 2004 when we were the first commercial bank to obtain a subordinated loan from a foreign development organization without a government guarantee. FMO funding has grown over the years and supports the medium term asset book of the Bank.

Destination Sri Lanka 2011

Investment Road Show

The Bank participated at the Investment Road Show organized by Heramila Securities Limited Sri Lanka based in Dubai. The road show was organized to showcase Sri Lanka as safe destination for investments and to promote investments and private public partnerships between Sri Lanka and UAE. The event focused on promotions, image building and development of business links between UAE and Sri Lanka in the three Middle Eastern cities; Dubai, Jeddah and Riyadh.



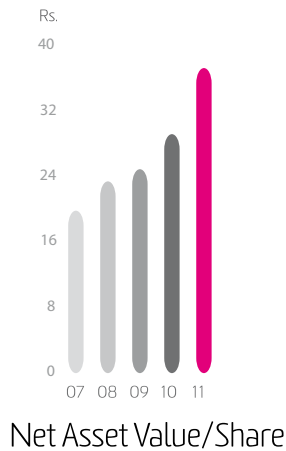
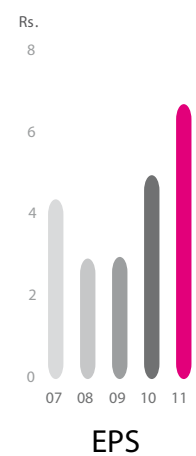
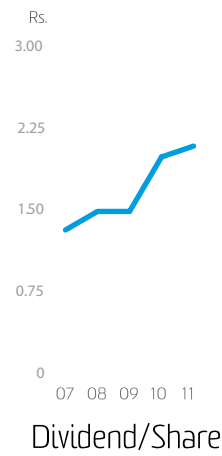
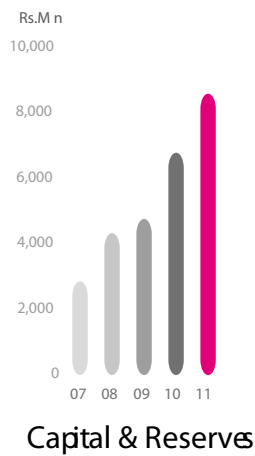
Addressing at the Investment Road Show in Dubai

Structuring of Corporate Debt

Waldock Mackenzie Limited, a fully owned subsidiary of the Bank, is the investment banking arm of the group, and is committed to staying at the forefront of innovation in the market by creating new and unique solutions. WML is a provider of integrated capital markets and advisory solutions to clients. The company provides a range of investment banking products and services, including the structuring of medium and long-term debt, fund management and the provision of liquidity for equity market related activities. During the year WML engaged in structuring of several corporate debt instruments for investors.

Credit Rating

During the year Fitch Ratings Lanka Limited reaffirmed our credit rating at 'A(lka)' coupled to a Stable Outlook. NTB's ratings reflect its improved financial position, particularly in terms of its asset quality and capitalisation since end-2009, and a developing franchise among most customer segments.



Investor Information

Stock Exchange Listing

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2011, and the audited Balance Sheet as at that date will be submitted in to the Colombo Stock Exchange within two months of the Balance Sheet date.

Distribution of Ordinary Shareholders

As at 31st December, 2011

No. of Shareholders	No. of Shareholders	Resident		Non - Resident			Total		
		Shares	No. of %	No. of Shareholders	Shares	No. of %	No. of Shareholders	Shares	%
1 - 1,000	5,373	2,373,181	1.03	49	29,646	0.01	5,422	2,402,827	1.04
1,001 - 10,000	3,170	10,518,316	4.56	64	270,257	0.12	3,234	10,788,573	4.68
10,001 - 100,000	586	16,596,972	7.20	18	677,801	0.29	604	17,274,773	7.49
100,001 - 1,000,000	79	17,221,197	7.47	6	2,534,347	1.10	85	19,755,544	8.57
Over 1,000,000	17	159,308,842	69.08	3	21,076,724	9.14	20	180,385,566	78.22
	9,225	206,018,508	89.34	140	24,588,775	10.66	9,365	230,607,283	100.00

There were 8,318 Resident and 120 non-resident shareholders as at 31st December 2010.

Analysis of Shareholders

	31.12.2011			31.12.2010		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	8,847	48,860,350	21.19	7,991	63,188,783	30.14
Institutional	518	181,746,933	78.81	447	146,454,557	69.86
	9,365	230,607,283	100.00	8,438	209,643,340	100.00

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at 31st December 2011 was 77.39% (77.69 % as at 31st December 2010).

Market Information on Ordinary Shares of the Company

	2011	2010
Market Value		
Highest Value (Rs.)	89.80	114.70
Lowest Value (Rs.)	54.00	34.00
Value at end of year (Rs.)	57.00	83.40
Trading Statistics		
No. of Transactions	15,929	31,533
No. of Shares Traded (mn)	44.98	97.02
Value of Shares Traded (Rs. mn)	2,896.36	5,900.59
Market Capitalisation		
Market Capitalisation (Rs. mn)	13,144.62	17,484.25

Twenty Largest Shareholders as at 31st December

Name of the Shareholder	2011 No. of Shares	%	2010 No. of Shares	%
John Keells Holdings PLC	46,121,536	20.00	41,928,670	20.00
DFCC Bank A/C No 1	22,865,356	9.92	-	-
Mackinnons & Keells Financial Services Limited	22,830,159	9.90	20,754,690	9.90
Central Finance Company PLC A/C No 3	20,715,400	8.98	19,532,440	9.32
HSBC International Nominees Limited - Credit Suisse AG Zurich - Uma Kumar Sharma	18,156,100	7.87	18,156,100	8.66
CF Growth Fund Limited A/C No 1	14,813,273	6.42	13,466,612	6.42
CF Insurance Brokers (Pvt) Limited	10,592,857	4.59	8,929,612	4.26
Mr. A.D. Gunewardene	5,671,164	2.46	4,621,272	2.20
Mr.M.F. Hashim	2,460,237	1.07	2,283,325	1.09
Mr. S.K. Sharma	2,022,100	0.88	1,661,800	0.79
Renuka City Hotels PLC	1,858,775	0.81	1,858,750	0.89
Sri Lanka Insurance Corporation Limited - General Fund	1,658,529	0.72	-	-
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/C No 1	1,600,000	0.69	2,041,700	0.97
Bank of Ceylon - A/C No 2	1,546,100	0.67	1,546,100	0.74
Mr. M.M Udeshi	1,392,034	0.60	1,155,434	0.55
Employees Trust Fund Board	1,366,900	0.59	1,276,800	0.61
Mr. N.R. Somaiya	1,320,624	0.57	1,320,624	0.63
Timex (Garments) Limited	1,238,465	0.54	930,132	0.44
Sri Lanka Insurance Corporation Limited - Life Fund	1,122,100	0.49	1,122,100	0.54
Malship Ceylon Limited	1,033,857	0.45	-	-
	180,385,566	78.22	142,586,161	68.01
Others	50,221,717	21.78	67,057,179	31.99
Total	230,607,283	100.00	209,643,340	100.00

Debentures

Stock Exchange Listing

The unsecured, Subordinated, Redeemable Debentures 2006/12, 2008/13 and 2009/13 of the Bank are listed in the Colombo Stock Exchange. However, these debentures have not been traded from the date of listing up to 31st December 2011.

Debenture Category	Amount Rs.'000	Interest Payable Frequency	Coupon Rate %	Effective Annual Yield	Comparable Govt. Security	
					Coupon Rate %	Effective Annual Yield%
2006/12	170,000	Quarterly	9.39	9.73	14.50	8.32
2008/13	1,000,000	Annually	21.00	21.00	7.50	9.60
2009/13	500,000	Semi Annually	20.53	21.58	10.50	9.47
2011/16**	200,000	Semi Annually	11.00	11.30	6.40	10.02
2011/16**	1,800,000	Semi Annually	11.50	11.83	6.40	10.02

As at 31 st December	2011	2010
Debt / Equity Ratio * %	51.53	37.61
Interest Cover (Times)	5.18	5.31
Liquid Assets Ratio - Domestic Banking Unit (%)	21.37	22.13
Liquid Assets Ratio - Foreign Banking Unit (%)	33.79	42.97

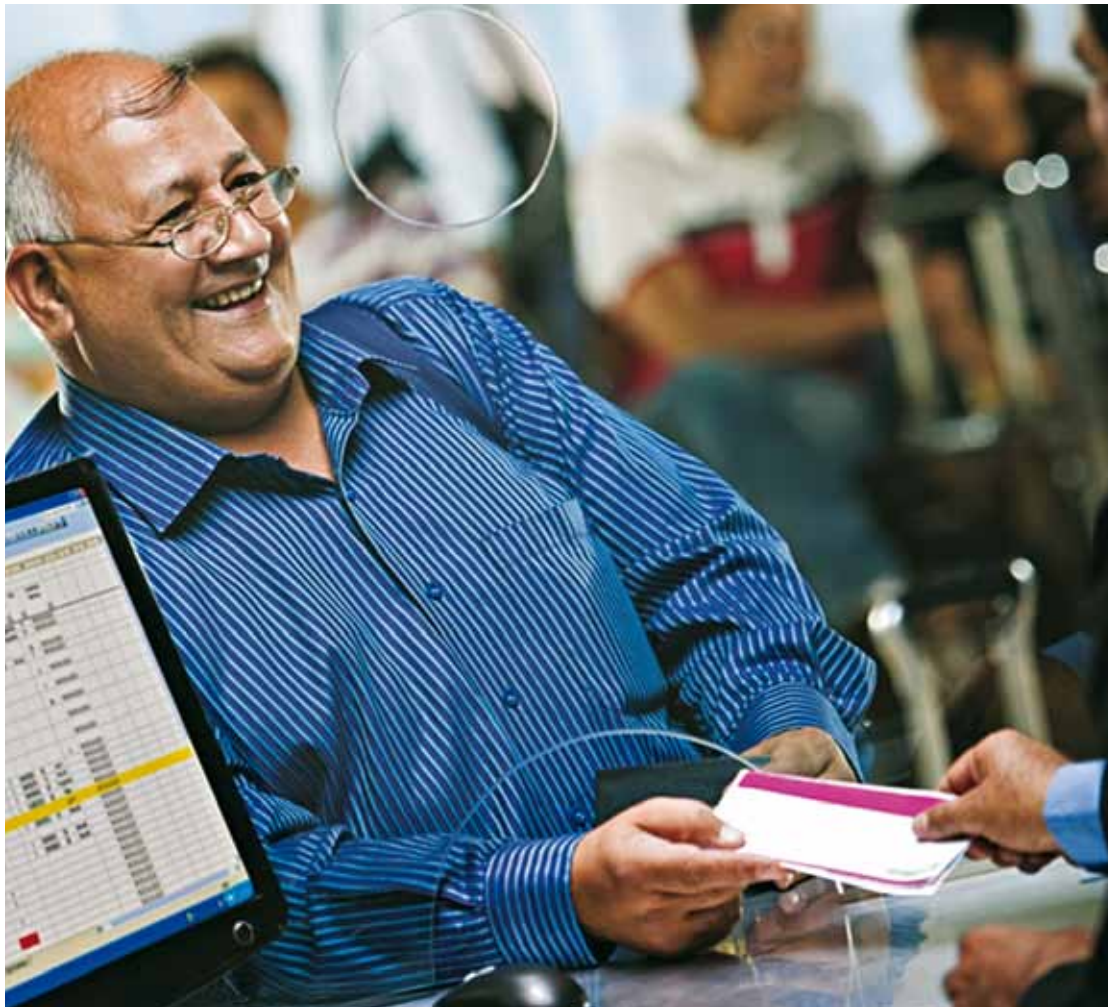
* All Subordinated debt and listed Senior debt are considered as Debt (numerator)

** Not listed as at 31st December 2011.

Ten Year Summary

GROUP										
Year ended 31 st December	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
OPERATING RESULTS										
Gross Income	1,161	2,115	2,241	3,085	5,922	9,342	13,877	14,037	12,215	12,337
Interest Income	1,001	1,574	1,708	2,448	4,991	8,011	12,094	12,049	10,090	9,954
Interest Expense	(690)	(1,102)	(1,118)	(1,504)	(3,280)	(5,900)	(9,185)	(8,329)	(5,525)	(5,589)
Net Interest Income	311	472	590	944	1,711	2,111	2,909	3,720	4,565	4,365
Fees & Commission Income	81	117	139	199	275	307	338	375	499	622
Foreign Exchange Income	56	105	143	124	192	329	496	(539)	315	343
Other Operating Income	23	319	251	314	464	695	949	2,152	1,311	1,418
Net Income	471	1,013	1,123	1,581	2,642	3,442	4,692	5,708	6,690	6,748
Operating Expenses & Provisions	(401)	(736)	(1,009)	(1,383)	(2,104)	(2,594)	(3,664)	(4,327)	(4,662)	(4,538)
Profit Before Taxation	70	277	114	198	538	848	1,028	1,381	2,029	2,210
Provision for Taxation	(24)	(25)	(69)	(73)	(215)	(343)	(435)	(695)	(944)	(676)
Profit After Taxation	46	252	45	125	323	505	593	686	1,084	1,534
As at 31st December										
ASSETS										
Cash and Short-Term Funds	1,023	1,606	1,977	1,633	4,780	3,147	4,065	1,431	1,531	3,691
Statutory Deposits with Central Bank of Sri Lanka	345	347	609	955	1,315	1,964	1,717	2,044	2,416	4,284
Government Treasury Bills and Bonds	6,799	7,489	5,771	5,341	10,323	11,331	15,688	23,894	26,876	24,066
Investment Securities	243	50	632	621	1,629	2,392	3,781	4,239	4,020	3,811
Loans & Advances	6,825	8,362	11,717	15,604	26,993	34,500	38,585	35,335	44,571	62,026
Bills of Exchange	386	427	381	336	291	562	423	146	510	705
Loans and Advances	4,591	6,196	9,162	12,299	18,839	22,418	26,378	25,154	33,799	46,298
Lease Receivables	-	-	71	329	5,191	7,254	9,137	8,003	8,794	13,799
Corporate Debt Securities	1,848	1,739	2,103	2,640	2,672	4,266	2,647	2,032	1,468	1,224
Other Assets	212	519	558	785	998	1,209	1,914	1,210	1,288	1,560
Property Plant & Equipment	298	323	381	414	1,133	1,065	2,035	1,919	1,788	1,888
Intangible Assets	99	77	68	59	451	79	79	432	758	679
Total Assets	15,844	18,773	21,713	25,412	47,622	55,687	67,864	70,504	83,248	102,006
LIABILITIES										
Deposits	5,042	6,571	10,460	14,314	20,670	28,666	34,146	44,222	48,315	66,439
Borrowings	9,238	9,583	8,105	7,275	19,374	18,077	22,455	14,025	19,674	16,587
Due to Banks	427	507	457	199	1,077	1,394	1,039	391	500	366
Other Liabilities	412	676	904	1,388	2,213	3,307	3,273	4,046	5,193	5,370
Deferred Liabilities	71	101	97	100	193	201	436	437	456	626
Debentures	-	-	-	-	560	500	1,500	2,000	1,835	3,670
Subordinated Loan	-	-	351	673	673	673	673	606	471	337
Total Liabilities	15,190	17,438	20,374	23,949	44,760	52,818	63,522	65,727	76,443	93,395

	2002 Rs. Mn	2003 Rs. Mn	2004 Rs. Mn	2005 Rs. Mn	2006 Rs. Mn	2007 Rs. Mn	2008 Rs. Mn	2009 Rs. Mn	2010 Rs. Mn	2011 Rs. Mn
SHAREHOLDERS' FUNDS										
Share Capital /Stated Capital	500	850	850	850	2,062	2,062	3,110	3,110	4,368	5,101
Reserve Fund	8	11	13	16	29	57	80	106	156	493
Reserves	146	474	476	597	771	750	1,152	1,561	2,281	3,016
Total Shareholders' Funds	654	1,335	1,339	1,463	2,862	2,869	4,342	4,777	6,804	8,611
Total liabilities and										
Shareholders' Funds	15,844	18,773	21,713	25,412	47,622	55,687	67,864	70,504	83,248	102,006
Commitments &										
Contingencies	3,480	3,972	4,886	3,832	13,276	18,138	53,617	51,591	60,844	83,035
RATIOS (Group)										
Return on Average										
Shareholders' Funds (%)	7.03	18.88	3.36	8.54	11.30	17.62	16.45	15.05	18.72	19.90
Income Growth (%)	62.61	82.17	5.96	37.66	91.97	57.74	48.55	1.15	(12.98)	1.00
Return On Average Assets (%)	0.44	1.45	0.22	0.53	0.88	0.98	0.96	0.99	1.41	1.66
Property Plant & Equipment to										
Shareholders' Funds (%)	45.53	24.19	28.45	28.30	39.58	37.12	46.86	40.16	26.28	21.93
Total Assets to Shareholders'										
Funds (Times)	24.20	14.10	16.20	17.40	16.60	19.40	15.60	14.80	12.23	11.85
Cost/Income Ratio (%)	78.03	63.46	76.17	72.48	68.56	65.38	65.42	57.68	58.78	64.96
Capital Adequacy Ratio Tier 1(%)	10.70	14.07	10.44	8.74	7.86	7.20	10.31	11.79	13.43	13.42
Capital Adequacy Ratio Tier 11(%)	11.56	15.24	13.91	13.92	11.86	10.44	15.70	16.11	15.74	17.44
SHARE INFORMATION (Bank)										
Market Value per Share (Rs.)	16.75	28.25	18.25	23.50	28.25	29.75	22.25	36.75	83.40	57.00
Earnings Per Share (Rs.)	0.44	0.87	0.37	0.86	1.98	4.28	2.95	2.99	4.66	6.01
Price Earning Ratio (Times)	34.90	32.47	49.75	27.33	11.58	7.61	6.06	8.98	15.45	8.48
Net Asset Value per Share (Rs.)	12.65	13.23	13.10	13.96	20.06	20.50	23.47	24.96	29.25	33.72
Earnings Yield (%)	2.63	3.08	2.03	3.66	7.01	14.40	13.25	8.14	5.59	10.55
Dividend Per Share (Rs.)	0.50	0.85	-	-	1.00	1.33	1.50	1.50	2.00	2.10
Dividend Payout Ratio (%)	113.64	97.70	-	-	50.51	31.05	50.87	50.13	42.92	34.94
% of 20 Largest Shareholders	-	-	63.15	71.91	80.08	81.07	81.32	76.38	78.58	78.22
OTHER INFORMATION (Group)										
Number of Employees	271	405	479	549	820	1,239	1,615	1,532	1,608	1,853
Number of Branches	17	20	26	28	30	31	36	38	40	48
Personal Banking Centres	-	-	-	-	-	-	6	6	6	7
No of ATMs	13	20	30	33	38	38	47	44	48	61



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Beyond our core operations

Leading the way with new products, systems and ways of doing business, always looking for new avenues to become profitable and increase shareholder value.

Introduction

The changing environment in which the banks find themselves in presents not only opportunities but also complex and variable risks that challenge traditional approaches to bank management. Consequently, banks must quickly gain financial risk management capabilities in order to survive in a market-oriented environment, withstand competition by other financial institutions, and support private sector-led economic growth. Risks are adverse impacts on profitability and capital arising out of several distinct sources of uncertainty. While the types and degree of risks an organization is exposed to depend upon a number of factors such as its size, location, complexity, business activities, volumes, etc, it is acknowledged that generally in financial terms the banks face Credit, Market, Liquidity, Operational, Compliance, Legal, Regulatory and Reputational risks.

The acceptance and management of risk within a bank is inherent in the business and its role as a financial intermediary. The goal of risk management is to optimize the risk-reward trade-off. Hence Risk Management is a discipline at the core of Nations Trust Bank PLC. and encompasses all the activities that affect its risk profile. It involves the identification, measurement, monitoring and controlling risks in an integrated manner to ensure that the -

- Individuals who undertake or manage risks clearly understand them.
- Risk exposure is within the limits established by the Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors.
- Expected pay-offs compensate for the risks undertaken.
- Risk taking decisions are explicit and clear.
- Capital is sufficient as a buffer to undertake risk.

This section of our Annual Report 2011 discusses the overall structure of the Risk Management Framework within the bank. It focuses on processes and techniques that are adopted in managing various risks in its day to day operations.

Risk Governance Framework and Partnerships

KEY MESSAGE

- Risk Management Framework is implemented across the bank such that it is an integral part of its culture
- Risk is managed in an integrated manner.
- Corporate governance provides a disciplined structure through which the bank sets its objectives and the means of attaining them, as well as monitoring the performance of those objectives.
- Financial risk management is the responsibility of several key players in the corporate governance structure. Each key player is accountable for a specific dimension of risk management.
- The key players are regulators / supervisors, shareholders, board of directors and its sub committees, executive managers and management committee, internal auditors, external auditors, and the general public.

Liberalization and the volatility of financial markets, increased competition and diversification expose banks to new risks and challenges, requiring the continuous innovation of ways to manage business and its associated risks in order to remain competitive. The increasing market orientation of banks has also necessitated changes in the approach to regulation and supervision. These changes both within banks as well as within markets reconfirm that the quality of bank management and especially the management of risk remains key in ensuring the safety and stability of both individual banks and the banking system as a whole.

The risk management activities broadly take place simultaneously at different hierarchies within the NTB as follows -

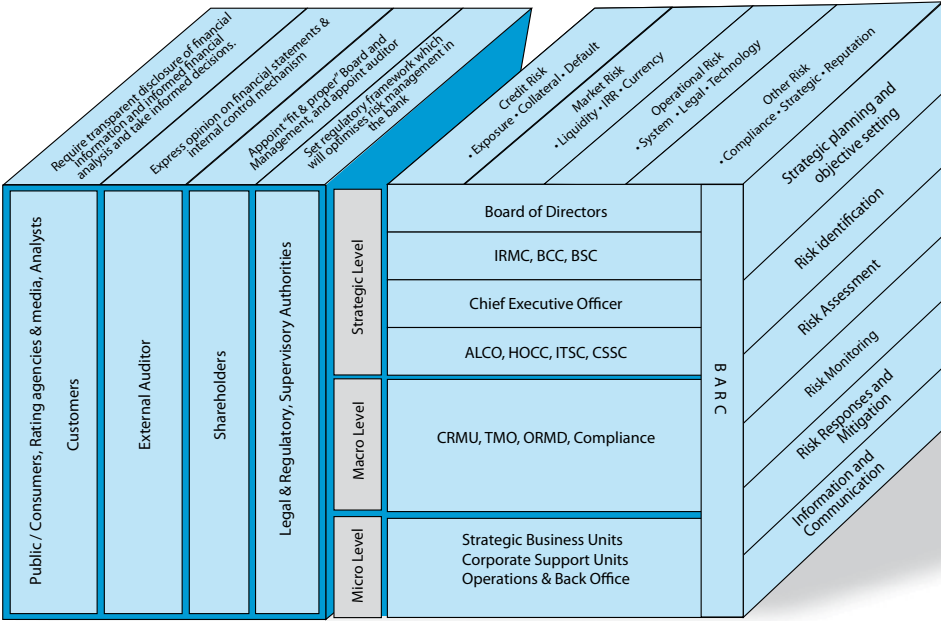
Strategic level: It encompasses all risk management functions performed by the Board of Directors. These includes for example the definition of risks, ascertaining the risk appetite of the bank, formulating policies for managing risks, establishing the adequacy of systems and controls to ensure aggregate risk remains in line with appetite and is compensated adequately for the risks undertaken. The Board has established the Integrated Risk Management Committee (IRMC), the Board Credit Committee (BCC), the Board Supervisory Committee (BSC) and the Board Audit Review Committee (BARC) in discharging its responsibility for overall risk management and control.

IRMC ensures that the appropriate risk management strategies, policies in place are in line with the risk appetite as determined by the Board. It regularly monitors and reviews key financial and non-financial risk indicators and the adequacy of the risk management framework in order to establish the actual risk status of the Bank. The BARC is appointed by the Board to assist it in monitoring the integrity of the financial reporting systems and financial statements of the Bank, the performance of its internal controls, internal audit function and external independent auditor and the compliance with legal and regulatory requirements. The mandate of the BSC is to review and approve among other operating matters, all operating policies and processes covering the Bank. The BCC is involved in evaluating and approving credit proposals and transactions beyond a predetermined value. The day-to-day management of the business together with risk-related oversight and control has been delegated by the Board to the CEO who, in turn, has delegated certain authorities and powers to individuals and Management Committees. The CEO chairs and/or participates in the various management committees, which provides leadership in respect of risk matters relating to culture, integrated processes and performance. In this connection the CEO and Executive Management is assisted by two significant subcommittees each overseeing a specific risk area, the Head Office Credit Committee (HOCC) and the Asset and Liability Committee (ALCO).

Macro Level: It encompasses risk management within a business area or across business lines covering the entire business of the bank, all its functions and activities. Treasury Middle Office (TMO), an independent unit interprets the risk mandate of the treasury and applies the best practice techniques for mitigating market, credit and operational risk. Examine stress testing and scenario analysis, monitor, control and report on risk limits and bring in best practices for the documentation and recording of treasury transactions and reconcile the books of accounts. Credit Risk Management Unit (CRMU), also an independent unit is responsible for evaluating the financial health of customers and extending (or not) credit accordingly. It evaluates all credit proposals above specified limits and monitors industry and sector exposures while also ensuring that regulatory guidelines pertaining to the Single Borrower Limits (SBLs) and Maximum Aggregate Limits (MALs) to large exposure clients are complied with. It also monitors portfolio performance through periodic reviews and identifies early warning signals and emerging trends to take appropriate remedial action. It guides Strategic Business Units (SBUs) in their responsibilities for managing their customer portfolios while focusing on the quality of the entire loan portfolio. Operational Risk Division (ORD), as part of its oversight activities, provides assurance to Executive Management that operational risk is being managed effectively throughout the Bank. ORMD provides the framework, policies, process and tools for the business to use in the identification, assessment, mitigation, monitoring and reporting of operational risks. Compliance Department of the Bank acts as a central point in monitoring and co-ordinating all regulatory activities and ensures that the Bank complies with all laws, regulatory directives and drives the compliance culture across the Bank.

Micro Level: It involves 'on-the-line' risk management where risks are actually initiated. This is the risk management activities performed by individuals who work in and undertake risk on behalf of the Bank such as the SBUs, subsidiaries, and Strategic Support Units including branches, Corporate Services and back office operations.

Figure below portrays **Risk Governance Framework and Partnerships** at NTB in which each key player has a clearly defined accountability for a specific dimension of every risk area-



IRMC - Integrated Risk Management Committee
BCC - Board Credit Committee
BSC - Board Supervisory Committee
ALCO - Asset and Liability Committee
HOCC - Head Office Credit Committee
ITSC - IT Steering Committee
CSSC - Customer Service Steering Committee
CRMU - Credit Risk Management Unit
TMO - Treasury Middle Office
ORMD - Operational Risk Management Department

CREDIT RISK MANAGEMENT

KEY MESSAGE

NTB recognizes the key imperatives in Credit Risk Management as follows -

- The profile of customers and counterparties (i.e. WHO) must be transparent.
- Risks associated with key banking products (i.e. WHAT) must be understood and managed.
- The maturity profile of loan products (i.e. HOW LONG) interacts strongly with liquidity risk management.
- Credit risk can be limited by reducing connected-party lending and large exposures to related parties.
- Adverse classification of assets and subsequent provisioning against possible losses impacts not only the value of the loan portfolio but also the true underlying value of the capital of the bank.

Credit or Counterparty Risk - defined as the chance that a borrower or issuer of a financial instrument will not be able to pay interest or repay the principal according to the terms specified in a loan agreement - is an inherent part of banking. Hence credit risk means that payments may be delayed or ultimately not paid at all, which can in turn cause cash flow problems and affect the liquidity and profitability of the bank.

Given the potentially dire effects of credit risk, the bank performs a comprehensive evaluation of our capacity to assess, administer, supervise, enforce, and recover loans, advances, guarantees, and other credit instruments. Regularly credit risk management reviews are carried out including an evaluation of the credit risk management policies, procedures and practices. This evaluation also determines the adequacy of financial information received from a borrower or the issuers of financial instruments, which has been used as the basis for investing in such financial instruments or the extension of credit and the periodic assessment of this inherently changing risk.

The following section reviews the credit risk management function at NTB. It is primarily focused on the loan portfolio, although the principles relating to the determination of creditworthiness, apply equally to the assessment of counterparties who issue financial instruments.

- * Credit Portfolio Management
- * Lending Function and Operations
- * Credit Portfolio Quality
- * Non-performing Loan Portfolio
- * Credit Risk Management Policies
- * Policies to Limit or Reduce Credit Risk
- * Asset Classification
- * Loan Loss Provisioning Policy

Credit Portfolio Management

Board of Directors places considerable importance on formal policies laid down by them and implemented or administered by Management. This emphasis is perhaps most critical with regard to the lending function of the bank, which requires that a bank must adopt a sound system for managing credit risk. The lending policies of NTB contain an outline of the scope and allocation of credit facilities and the manner in which its credit portfolio is managed, i.e., how loans are originated, appraised, supervised, and collected. The lending policy is not overly restrictive, but allows the presentation of loans to the Board that officers believe are worthy of consideration but which do not fall within the parameters of written guidelines. Flexibility also exists in order to allow for fast reaction and early adaptation to changing conditions in terms of the mix of earning assets and market environment. The Credit Portfolio Management also includes managing limits and concentrations such as maximum exposure to single or connected parties and lending by sector. In addition it also looks at the Risk-Return Mix from different lending pillars of the asset book in order to ensure that the lending function optimizes the available capital by allocating it to areas that generate a better return.

Lending Function and Operations

When carrying out its duties on behalf of depositors and shareholders, the bank ensures that the extension of credit fulfills three fundamental objectives as follows:

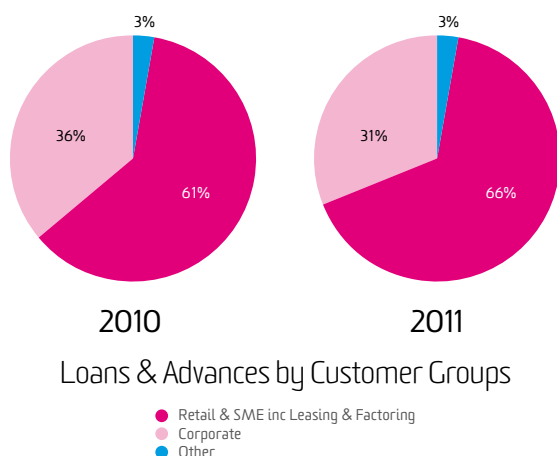
- 1) Loans are granted on a sound and collectible basis;
- 2) Funds are invested profitably for the benefit of shareholders and the protection of depositors; and
- 3) The legitimate credit needs of economic agents and/or households are satisfied.

In other words, the extension of credit is well-organized, policies well-reflected in internal processes and manuals, staffing is adequate and diligent in following established policies and guidelines, and the information normally available to participants in the lending process is timely, accurate, and complete. The process manuals and documents of the bank cover the origination, appraisal, approval, disbursement, monitoring, collection, and handling procedures for the multitude of credit facilities provided through its various departments.

The independent risk management function, is separated from the SBU originating the transaction, and is staffed by risk specialists. The primary responsibility for prudent and profitable management of credit risk assets and customer relationships rests with the SBUs. In addition to providing independent credit assessment on lending decisions, Risk Management Division also performs key roles in portfolio management by development and validation of credit risk measurement systems, reporting of loan asset quality and development of credit standards and policies.

Credit Portfolio Quality

The loan portfolio reflects in part the bank's market position and demand, its business and risk strategy, and its credit extensions. Its quality depends on the likelihood that the credit will be repaid, as well as whether or not the classification of the loan as proposed by the bank is adequate. Other considerations include the quality of collateral held and the ability of the borrower's business to generate the necessary cash flow. The tools used by the bank for a comprehensive assessment of the profile and characteristics of the aggregate loan portfolio, include to whom, what, and for how long the bank has lent. To illustrate this process, the exhibit below shows the profile of the bank's borrowers which highlight the target customer segments those pose an acceptable risk to the bank. Changes in a bank's target customers clearly affect the distribution of its lending products.

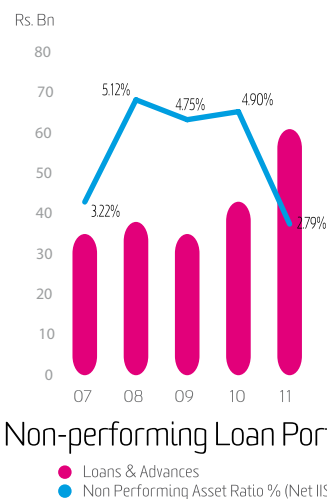


Non-performing Loan Portfolio

The concept of non-performing assets is typically introduced as part of a discussion on asset classification. Non-performing assets are those are not generating income. As a first step, loans are often considered to be non-performing when principal or interest on them is due but remain unpaid for 90 days or more. Adverse loan classifications and provisions entail much more than simply looking at amounts overdue. At NTB, the cash flow of the borrower and overall ability to repay amounts owing are significantly more important than whether the loan is collateralized or not. The non-performing loan portfolio is an indication of the quality of the total portfolio and ultimately that of lending decisions. Another such indicator is the collection ratio of the bank.

Below we exhibit the performance of the NPA Ratio in comparison to the growth of the aggregate loan book. The exhibit demonstrates the high quality of the loan book in that the NPA Ratio was influenced by not only a 39% growth in loans but also by a 23% decline in NPAs in 2011.

Non Performing Loans Vs Total Loan Movement



Credit Risk Management Policies

Credit risk is the most common cause of bank failures, causing virtually all regulatory environments to prescribe minimum standards for credit risk management. The basis of sound credit risk management is the identification of the existing and potential risks inherent in lending activities. Measures to counteract these risks normally comprise clearly defined policies that express credit risk management philosophy and the parameters within which credit risk is to be controlled.

Specific credit risk management measures at NTB include three kinds of policies. One set of policies includes those aimed to **limit** or **reduce** credit risk, such as policies on concentration and large exposures, adequate diversification, lending to connected parties or over- exposures.

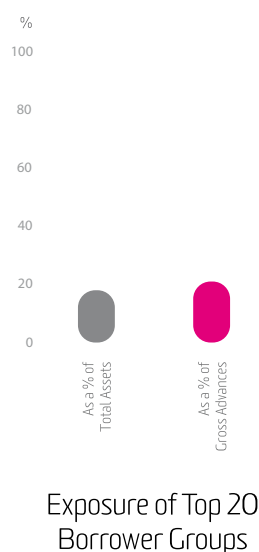
The second set includes policies of **asset classification**. These mandate periodic evaluation of the collectability of the portfolio of loans and other credit instruments, including any accrued and unpaid interest, which expose a bank to credit risk. The third set includes policies of **loss provisioning**, or the making of allowances at a level adequate to absorb anticipated loss - not only on the loan portfolio, but also on all other assets that are subject to loss.

Clearly defined levels of authority for credit approval help to ensure that decisions are prudent and are made within defined parameters. NTB has procedures in place to govern the collection of principal, interest, and other charges in accordance with established terms of repayment. The policies include the mechanisms to address the issue of non-performing loans, as well as mechanisms for enforcing a creditor's rights in the case of loss loans. The reporting system in turn generates accurate and timely reports on its credit exposure, while maintaining detailed, up-to-date information on borrowers and their relevant credit attributes.

Policies to Limit or Reduce Credit Risk

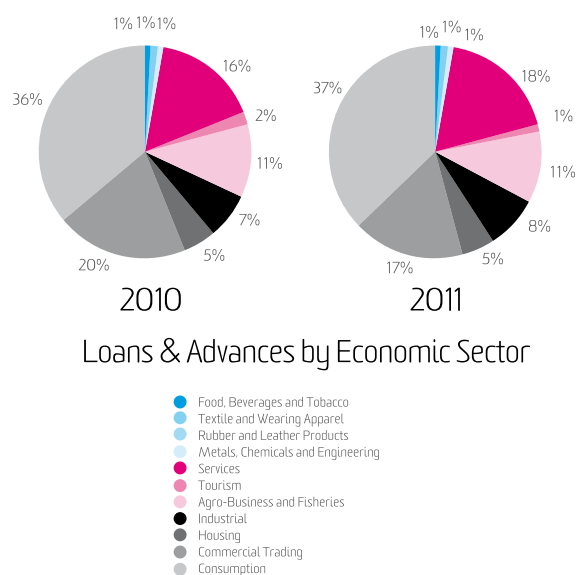
Large Exposures: The regulator has paid close attention to the concentration of risk by banks. CBSL prudential regulations stipulated that banks not make investments, grant large loans, or extend other credit facilities to any individual entity or related group of entities in excess of an amount that represents a 30% of the total regulatory capital of the bank. NTB has at all times adhered to these limits specified by CBSL and has devoted special attention to large exposures before such concentrations becomes excessively risky. Particularly in the case of large customers, NTB pays attention to the completeness and adequacy of information about them and credit officers closely monitor events affecting them and their performance on an ongoing basis, regardless of whether or not the customer is meeting its obligations.

Figure below illustrates the exposure of the bank to its 20 largest client groups based on utilisation as at balance sheet date. It also compares the ratio of such exposure to total assets and total advances of the bank.



Related Party Lending: Related parties include the major shareholders, subsidiaries, affiliate companies, directors, and key management personnel of the bank (Please also refer related party disclosures). The bank has developed a systematic process of identifying and tracking the extensions of credit to related parties. NTB ensures that the credit decisions are made on a rational basis, in accordance with approved policies and procedures and whether it is based on market terms with no preferential treatment particularly in terms of amount, maturity, rate, and collateral.

Over exposure to Geographical Areas or Economic Sectors: Another dimension of risk concentration is exposure to a single sector of the economy or a narrow geographical region. Such exposure renders the bank vulnerable to weaknesses in a particular industry or region and poses the risk that it will suffer from simultaneous failures among several clients for similar reasons. Figure below illustrates aspects of a sector analysis of the loans and advances portfolio of NTB. The bank has well-developed systems to monitor such risks and assess the impact of adverse trends on loan portfolio quality and on the income statements.



Loan Classification

Loan classification is a process whereby an asset is assigned a credit risk grade indicating the likelihood that the debt obligations will be serviced and liquidated according to contractual terms. Loan classification is a key risk management tool at NTB. Loans are classified at the time of origination and then reviewed and reclassified as necessary according to the degree of credit risk. The bank deploys a comprehensive two dimensional Internal Risk Rating System (IRRS) to rate the borrowers and facilities.

The bank uses its internal credit models in determining risks involved in its retail and non retail credit portfolios. The IRRS reviewed annually measures credit risk using a two dimensional approach - Obligor Ratings based on the Probability of Default ("PD") of the borrower and Facility Ratings on the basis of the loss to be suffered in the event of loss i.e. Loss Given Default ("LGD"). Non retail customers are assessed individually using a combination of expert judgment and statistical risk rating tools. For retail customers, scorecards are the primary method of risk rating assessment. The bank invested significant resources in developing bespoke statistical scorecards for its credit cards and personal loan portfolios.

Probability of Default

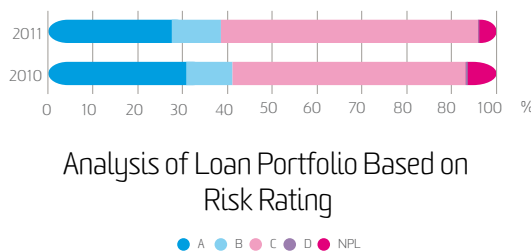
Probability of Default measures the likelihood that a customer will default within a 12 month period. Points in Time ("PiT") PDs are used to estimate the likelihood of default in the next 12 months having account of the current economic conditions. PiT PDs are currently used for the management of the portfolio. The bank will endeavor to move in to Through the Cycle ("TtC") PDs which estimates the likelihood of default through a full economic cycle when the database is sufficiently enhanced over time.

NTB has a common master-scale across all obligors (non retail and retail) for Probability of Default. This PD master-scale can be broadly mapped to external rating agency rating scales. The PD master scale has both performing (pre-default) and non-performing (post default) grades. PD models use both financial and non-financial data. Factors for non retail models typically include profitability, financial ratios, industry factors, relevant external data and behavioral and qualitative components such as management ability, industry outlook, years of experience and track record. Retail models use factors such as application scores derived through borrower demographics and bureau data, behavioral patterns, delinquency and limit utilization.

Loss Given Default

Loss Given Default measures the portion of the exposure owed to the bank that would be lost in the event of the customer defaulting. LGD is calculated by using a set of estimated parameters including post default cure rates and the amount of recoveries achieved following default. The bank uses defined factors for all of its LGD models. These typically include standard data such as recoveries, write-offs, discount factors and post default management cost. The bank is in the process of developing measures to stress the model factors and obtain LGD estimates for downturns. Among others it will be using internal data, external reference data, benchmarks and applying expert judgment using the empirical evidence due to the volatile credit cycles witnessed in Sri Lanka over the last 10 years.

NTB determines classifications by itself. Nevertheless it follows standards that are normally set by regulatory authorities and international best practice. Below we show the profile of the loan book by customer risk rating. It shows customers rated "A" have declined marginally while NPAs have declined sharply. In aggregate the portfolio risk in 2011 in terms of risk ratings seem similar to that in 2010.



Loan Loss Provisioning Policy

Loan classification provides a basis for determining an adequate level of provisions for possible loan losses. Such provisions, together with general loss reserves that are normally counted as Tier 2 capital and are not assigned to specific assets, form the basis for establishing the capacity to absorb losses. In determining an adequate reserve, all significant factors that affect the collectability of the loan portfolio is considered. These factors include the quality of credit policies and procedures, prior loss experiences, loan growth, loan collection and recovery practices, changes in national and local economic and business conditions, and general economic trends. Assessments of asset values are performed systematically and consistently over time and in conformity with objective criteria. They are also supported by adequate documentation. NTB policies on loan-loss provisioning range from the mandatory to the discretionary, depending on each situation.

The approach at NTB is that all loss loans be promptly written off against the reserve. This approach is more conservative in that loss loans are considered to be non bankable but not necessarily non recoverable. By immediately writing off loss loans, the level of the reserve will appear smaller in relation to the outstanding loan portfolio.

The Bank's provisioning policy is more stringent than the regulatory minimum. Consumer assets, specifically credit cards and personal loans, are provided in full 3 months in to non-performing when the regulator mandates only a provision of 20% of ill-fated capital and write-off after a further 5 months. Both Corporate and SME assets are provided in full 9 months in to non-performing while the Lease Portfolio is handled as stipulated by the regulator. However, in providing for leases, no value is considered for the underlying leased asset. Hence the treatment provides the bank with a more than adequate cushion in case unexpected losses occur.

Credit Risk Mitigation

NTB recognizes credit risk mitigation only when formal legal documentation is held which establishes direct, irrevocable and unconditional recourse to the collateral or to an unrelated provider of mitigation. Minimum criteria to obtain credit risk mitigation are embodied in the credit policies and procedures. All proposals for risk mitigation require a formal submission in line with such criteria and approval by the independent Risk Management Division. Such an approval is also required for existing mitigation to be discontinued or withdrawn. The amount of credit risk mitigation recognized is a realistic realizable value of such mitigation/collateral after application of suitable hair-cuts to face value. Accordingly a discounted amount is recognized when calculating the residual exposure after mitigation.

For risk management purposes NTB addresses credit risk mitigation as follows:

- exposures secured by cash, eligible financial collateral provided the proceeds are invested in either cash or eligible financial collateral included at the gross value, with risk weighted assets for the portion thus secured calculated by applying a 5% LGD.
- exposures that are mitigated by way of eligible guarantees, standby letters of credit or similar instruments, equities quoted in Colombo Stock Exchange where NTB has direct recourse to a third party or an instrument in default or non-payment by the customer. NTB is entitled to recover either full principal or credit losses on occurrence of defined credit events.
- Exposures secured by immovable properties where NTB has a direct recourse to realize such collateral pledged. These are not financial collateral and mainly consist of real estate.

NTB does not consider movable collateral as credit risk mitigants. Accordingly the bank assigns no value for such mitigants.

NTB deploys a stringent valuation mechanism for immovable collateral which includes an opinion from a professionally qualified valuer followed by an independent verification by the Special Asset Management (SAM) Unit, an internal department, which establishes the acceptability of such collateral based on its realisability and historical disposal experience. Stemming from such a dual assessment process, the bank is reasonably assured of the estimated values of such immovable real estate properties taken as collateral being realized.

LIQUIDITY RISK MANAGEMENT

KEY MESSAGE

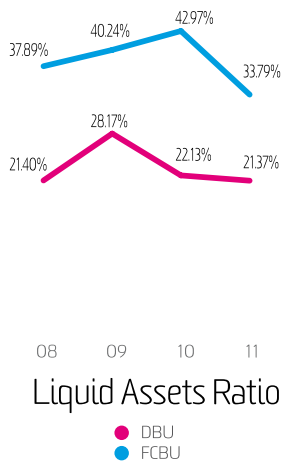
- Liquidity risk arises due to unmatched maturities of assets and liabilities which hinder the capacity to honour its commitments as and when they fall due.
- Liquidity management is a key banking function, an integral part of the asset and liability management process.

Management of Liquidity Risk

Liquidity management policies at NTB addresses a risk management structure, a liquidity management and funding strategy, a set of limits for liquidity risk exposures, and a set of procedures for liquidity planning under alternative scenarios, including crisis situations. At ALCO Level, the judgment on liquidity is made based on analysis of the behavioral movement of deposits, its current liquidity position, its anticipated future funding needs, the options it has for raising funds and the sources of funding.

Primarily, under asset management, the Treasury maintains a stock of liquid assets on a daily basis, largely made up of Government Securities and placements with financial institutions, to ensure that sufficient liquidity is maintained within NTB as a whole. The loans to deposit ratio and the short term loans versus medium term loans are also monitored on a daily basis.

Below we exhibit the Liquidity Ratio computed as per CBSL guidelines for the 4 years ending 2011.



The ratio is split between the Domestic Banking Unit (DBU) which is measured in rupees and Foreign Currency Banking Unit (FCBU) which is measured in dollars. Under CBSL guidelines the ratio should be a minimum 20% for both units. As depicted in the exhibit, NTB has been above the threshold for both banking units. Reflecting market conditions, the measure for rupee liquidity was however, lower than for dollars but remained above the minimum 20%.

Liquidity risk is further analyzed based on construction of a maturity analysis that comprises expected cash inflows and outflows over a series of specified time bands. Forecasting possible future events is an essential part of liquidity planning based on inputs from the SBUs.

NTB closely monitors the mismatches in the 1 month, 1 to 3 months and in particular 12 months time bands. Tolerance levels on mismatches are fixed for various maturities, depending on the asset-liability profile, core deposit base, nature of cash flows, etc. The bank also tracks the impact of loan repayments and premature closure of deposits to estimate the cash flow profile on a realistic basis. In addition, behavioral maturity profiles of various components of on/off Balance Sheet items are also analyzed with variance analysis undertaken regularly. The bank benchmarks the guideline issued by CBSL under its Directive No.5 on Integrated Risk Management Framework, for this purpose.

The bank's liquidity risk management involves various stress scenarios. The first type of stress scenario relates to liquidity in a stress situation when a significant part of its liabilities cannot be rolled over or replaced while considerable portion of its commitments are drawn down.

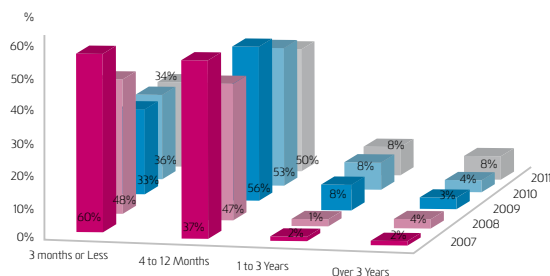
The second type of stress scenario refers to general market crises, wherein a liquidity crunch is affecting the entire banking system, or at least in a significant part of it. Liquidity management under this scenario is predicated on credit quality with significant differences in access to funding existing among banks. Certain unusual situations also may have an impact on liquidity risk, including internal or external political upheavals (which can cause large withdrawals), seasonal effects, increased market activity, business sector problems, international crisis and economic cycles.

The bank evaluates the likely effect of these trends and events on funding requirements. It also has contingency plans in case its projections prove to be wrong.

On Balance Sheet - Maturity Gap Analysis - as at 31 st December						
Rs. Mn	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total 2010
Inflows	39,028	11,882	14,090	4,685	13,562	83,247
Outflows	39,341	17,382	5,941	933	19,650	83,247
Maturity Gap	-313	-5,500	8,149	3,752	-6,088	
Cum. Maturity Gap	-313	-5,813	2,336	6,088	-	
Rs. Mn	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total 2011
Inflows	37,292	17,959	21,355	7,551	17,849	102,006
Outflows	41,942	22,238	6,215	4,716	26,895	102,006
Maturity Gap	-4,650	-4,280	15,140	2,835	-9,046	
Cum. Maturity Gap	-4,650	-8,930	6,211	9,046	-	

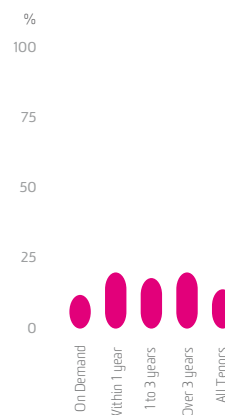
The diversified liabilities and funding sources of NTB indicate that it has a sound liquidity profile. The level of diversification is judged according to instrument types and the type of fund provider. Different types of deposit products are available with a large number of individual accounts. The bank also monitors deposit by currency, maturity, concentration towards the large deposits and interest rates in monthly ALCO meetings.

Below we exhibit the maturity profile of term deposits at NTB. Essentially the picture depicts the tenors improving from shorter tenors to longer ones. For example in 2007, 3-month deposits constituted 60% of aggregate term deposits. By 2011, they had declined to 34%. In terms of longer tenor deposits i.e. over 1 year, have increased from 4% to 16%.



Term Deposit Original Maturity Profile

The exhibit below shows the concentration in large deposits. It shows that only little over 10% of on demand deposits at NTB are attributable to large deposits. Across all tenors, large deposits account for less than 15% of all deposits.



Top 10 Depositors as % of Total Deposit by Tenor

NTB has adopted and pursues a rewards and retention programs for all types of deposits. As a strategy, the bank normally expects to derive liquidity from both sides of the balance sheet, and maintain an active presence in interbank and other wholesale markets when necessary. Adequate funding and stand-by lines have been established with other financial institutions. The bank also considers the contingent liabilities and other currencies depending on their size and nature of the portfolio when formulating liquidity strategies.

INTEREST RATE RISK MANAGEMENT

KEY MESSAGE

- Interest rate risk originates in mismatches in the re-pricing of assets and liabilities and from changes in the slope and shape of the yield curve.
- Interest rate risk is the sensitivity of capital and profit to changes in interest rates.

The combination of a volatile interest rate environment, deregulation, and an array of on and off-balance-sheet products have made the management of interest rate risk a challenge. Banks generally attempt to ensure that the re-pricing structure of their balance sheet generates maximum benefits from expected interest rate movements. The goal of interest rate risk management is to maintain interest rate risk exposures within tolerable levels. Broadly speaking, interest rate risk management at NTB comprises the various policies, actions, and techniques that it uses to reduce the risk of diminution of its earnings and net equity as a result of adverse changes in interest rates.

Interest rate risk is managed principally through monitoring interest rate re-pricing gaps and by having pre-approved limits for re-pricing bands. In this model, the components of the balance sheet are separated into items that are sensitive to interest rates and those that are not. These are in turn sorted to different re-pricing buckets. The re-pricing gaps so identified are then correlated to adverse interest rate movements and ultimately arriving at the potential impact to the income and capital of the bank. The methodology

covers all assets, liabilities, and off balance-sheet positions, and utilizes guidelines issued by CBSL on Integrated Risk Management of Commercial Banks.

The goal of interest rate risk management at NTB is to maintain risk exposure within authorized levels, which may be expressed in terms of risk to income and regulatory capital. The limits are then differentiated by products or portfolios. The design of the system of limits ensures that positions which exceed assigned limits are promptly addressed by management. ALCO is the monitoring body for compliance with these limits and is assisted by the TMO and Finance Division in its day-to-day monitoring activities and in turn it decides timely strategies for changes in market conditions and sentiments.

Treasury manages the potential impact on unavoidable and inherent interest rate fluctuations and yield curve changes in order to optimize the net interest income. Treasury strategies would normally include uses or repossession of investment securities, advances to banks, deposits from banks and derivative instruments such as interest rate swaps, forward rate agreements and overnight swaps to manage the overall position arising from the activities of the bank. It should be noted that the risk monitoring and control functions of NTB are sufficiently independent from its risk-taking functions within the Treasury.

In addition the TMO carries out stress test on the Fixed Income Securities (FIS) trading portfolio gains on a daily basis and monitor the variances against pre-approved

Re-pricing Gap Analysis as at 31st December

Rs. Mn	Re-pricing Tenor			2011 Total
	Short (within 1 Year)	Medium (1 to 3 Years)	Long term (Over 3 Years)	
Assets	95,181	14,726	4,363	114,271
Liabilities	95,429	5,780	4,612	105,822
Re-pricing GAP	(249)	8,946	(249)	8,449
Impact on Income Statement	33	(221)	14	(175)
Percentage Capital Exposed	0.29%	-2.00%	0.13%	-1.58%

Rs. Mn	Re-pricing Tenor			2010 Total
	Short (within 1 Year)	Medium (1 to 3 Years)	Long term (Over 3 Years)	
Assets	69,433	15,385	4,922	89,740
Liabilities	73,938	6,488	566	80,992
Re-pricing GAP	(4,505)	8,898	4,356	8,748
Impact on Income Statement	89	(261)	(151)	(322)
Percentage Capital Exposed	1.1%	-3.3%	-1.9%	-4.1%

cut-loss limits. Duration analysis for both trading and held-to-maturity portfolio is also undertaken on a daily basis and monitored against approved limits.

Given widespread innovation in banking today and the dynamics of the markets, NTB methodically identifies risks inherent in new products or services before they are introduced as per guidelines provided by CBSL. The bank ensures that these risks are properly considered in the assessment process with sign-off obtained from the SBUs as well as the Control and Support Areas.

CURRENCY RISK MANAGEMENT

KEY MESSAGE

- Currency risk results from changes in exchange rates and originates in mismatches between the values of assets and liabilities denominated in different currencies.
- Other types of risk that often accompany currency risk are counterparty risk, settlement risk, liquidity risk, and currency-related interest rate risk.
- When assessing currency risk, one must distinguish between the risk originating in political decisions, risk resulting from traditional banking operations and the risk from trading operations.

Currency Risk Management

These specifically include setting appropriate limits to the risks taken by the bank in its foreign exchange business and establishing measures to ensure that there are proper internal control procedures covering it.

NTB has a documented policy to govern its activities in foreign currencies and to limit its exposure to currency risk. The key currency risk management limit is the net open position. The net effective open position of all currencies added together as absolute values and expressed as a percentage of qualifying capital should not exceed a predetermined value. These limits mainly include maximum position limits for individual currencies as well as aggregate of such currencies, individual dealer limits, intra-day transaction limits, maturity limits, cumulative forward limits, counterparty limits and daily cut loss limits.

While the Treasury is primarily responsible for maintaining these limits, the TMO independently monitors all of them. Details of cash flows and open positions are maintained by both the Treasury Front Office and Treasury Back Office. They are independently reconciled with the books on a daily basis. The bank also maintains a system of alerts for situations in which limits are exceeded. The bank has well developed information support to manage open currency positions, account for transactions, revalue the financial position, estimate potential gains/losses and ensure compliance with risk management policies. In addition, ongoing implementation of new treasury system will enhance the information systems of generating timely and complete management reports on spot and forward positions, mismatches and liquidity positions, foreign currency-related interest rate risk positions and counterpart exposure positions etc. It has the capacity to highlight any exceptions to policy or exposure limits and to bring such exceptions to the attention of management.

OPERATIONAL RISK

Operational risk is associated with human error, system failures and inadequate procedures and controls and external events. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems. Operational risk exists in all products and business activities.

The objective of operational risk management at NTB is the same as for credit, market and liquidity risks. To find out the extent of operational risk exposure, to fully understand what drives it, to monitor and control it, to allocate capital against it and identify trends internally and externally that would help anticipate it.

The bank's policy is to prevent fraud, maintain the integrity of internal controls and reduce errors in transaction processing. The policy is put into effect by following fundamental principles established by the operational risk management framework as noted below -

- a) Ultimate accountability for operational risk management rests with the Board, and the level of risk that the organization accepts, together with the basis for managing those risks, is driven from the top down by those charged with overall responsibility for running the business.
- b) The Board and Executive Management ensure that there is an effective, integrated operational risk management framework. This incorporates a clearly defined organizational structure, with defined roles and responsibilities for all aspects of operational risk management/monitoring and appropriate tools that support the identification, assessment, control and reporting of key risks.
- c) Board and Executive Management recognizes, understands and have defined all categories of operational risk applicable to the bank. Furthermore, they ensure that their operational risk management framework adequately covers all of these categories of operational risk, including those that do not readily lend themselves to measurement.
- d) Operational risk policies and procedures that clearly define the way in which all aspects of operational risk are managed are documented and communicated. These operational risk management policies and procedures are aligned to the overall business strategy and support the continuous improvement of risk management.
- e) All business and support functions are an integral part of the overall operational risk management framework in order to enable the institution to manage effectively the key operational risks facing the bank.
- f) Line management establishes processes for the identification, assessment, mitigation, monitoring and reporting of operational risks that are appropriate to the needs of the Bank, easy to implement, operate consistently over time and support an organizational view of operational risks and material failures.

Operational Risk Management Department (ORMD), a separate function is established within the Integrated Risk Management Division for effective management of operational risks in the bank. ORMD is a functional set up that assists management to understand and effectively

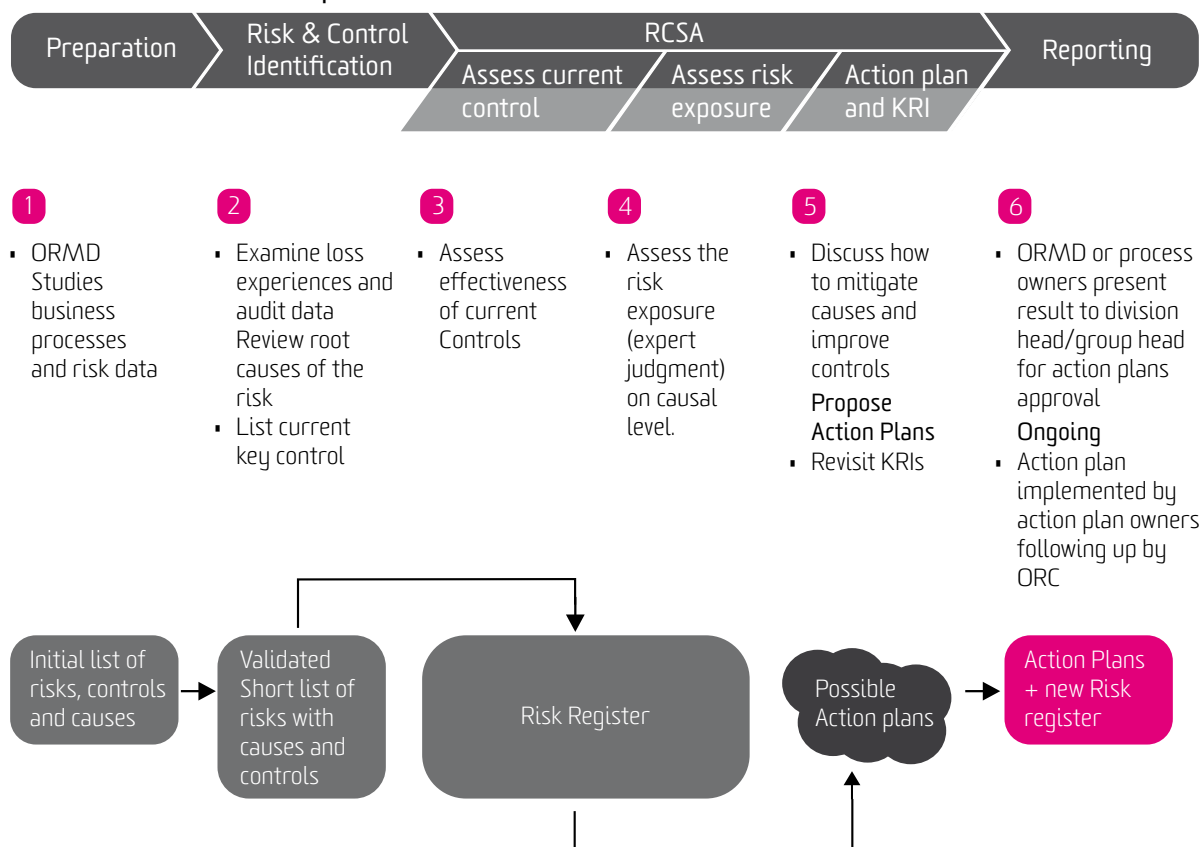
manage operational risk. The function would assess, monitor and report operational risks as a whole and ensure that the management of operational risk in the bank is carried out as per strategy and policy. The bank identifies and assesses the operational risk inherent in all material products, activities, processes and systems and its vulnerability to these risks.

The bank also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures. The Business Process Re-engineering Unit of the bank with experts in banking processes, procedures and products, regularly reviews the business and supporting activities in order to ensure the all controls in place are working as expected and improve efficiency and eliminate non-value adding activities.

Risk management and internal control procedures are established by business units in their Risk Grids which have been developed as a self-assessment tool of operational risks. Some of such measures include among many others the following - the Code of Conduct, Delegation of Authority, Segregation of Duties, Audit coverage, compliance, succession planning, mandatory leave, staff compensation, recruitment and training, dealing with customers, complaint handling, record keeping, MIS, physical controls, etc. These Risk and Control Self Assessments (RCSAs) are reviewed either monthly or quarterly in order to ensure operational risks are dynamically identified and appropriately actioned on a timely basis. RCSA process ranks the risks based on its likelihood of occurrence and its impact /severity if that risk materializes. It also critically tests the current controls available to address such risks in terms of its control design and control performance of risks in designing/reviewing suitable action. Stemming from individual departmental risk grids, a bank-wide risk is prepared highlighting key operational risks impacting the bank. This overall bank risk grid is updated on a monthly basis and presented to the Integrated Risk Management Committee as a "Risk Assessment Report" which details the prevailing or emerging risks and its management.

In addition to the RCSA process established across all departments, the bank has developed a "Key Risk Indicator"(KRI) program. The KRIs will ensure that early indicators of risks are given due recognition and appropriate action steps are taken to reduce possible losses arising from such risks. An effective KRI program is a powerful tool within the operational risk management tool-kit provided processes are in place for swift action in response to identified risk indicators.

Overview of the RCSA process



The bank maintains a well structured Operational Risk Loss Data Base which is aligned to fall in line with BASEL II requirements. Streamlined processes are in place to capture all operational loss events including near misses, which are then categorized as specified in a BASEL document in order to use them for future modeling activities when the bank moves in to Advanced Management Approach (AMA) for Operational Risk. The loss events are linked to the RCSA & KRI Program to ensure that repeat errors are minimized.

The Compliance Department of the bank acts as a central point in monitoring and co-coordinating all regulatory activities. It ensures that the bank complies with all laws, regulatory directives, loan covenants and drives the compliance culture across the bank.

Regular reviews are being carried out by internal audit to analyze the control environment and test the effectiveness of implemented controls, thereby ensuring business operations are conducted in a controlled manner. The results of internal audit reviews are discussed with the management of the business unit to which they relate and submitted to the Board Audit Review Committee to ensure undertaking corrective action plans where necessary.

The bank has in place a well documented and tested contingency and business continuity plan. It ensures its ability to operate as a going concern and minimize losses in the event of severe disruption to its normal business operation.

CAPITAL ADEQUACY

KEY MESSAGE

- Capital is required as a buffer against unexpected losses.
- Capital is among key factors to be considered in terms of the safety and soundness of the bank.
- A strong base of permanent shareholders' equity and disclosed reserves, supplemented by other forms of qualifying capital (for example, undisclosed reserves, revaluation reserves, general provisions for loan losses, hybrid instruments, and subordinated debt) is essential for normal operations
- The current 10 percent capital adequacy requirement must be seen as a minimum within an internal benchmark based on risk appetite and risk profile of the bank.
- The amount of capital held by a bank must be commensurate with its level of risk; it is the responsibility of Management and Board to first evaluate the risk profile of the bank and second, to equate capital to risk. The Board also has a responsibility to project capital requirements to determine whether or not current growth and capital retention are sustainable.

As with all other businesses, every aspect of banking is either directly or indirectly influenced by the availability of capital and its cost. An adequate capital base serves as a safety net for a variety of risks to which the bank is exposed in the course of its business. Capital absorbs possible losses and thus provides a basis for maintaining depositor confidence. Capital also is the ultimate determinant of the lending capacity of the bank. Its balance sheet can not be expanded beyond the level determined by its capital adequacy ratio; the availability of capital consequently determines the maximum level of assets.

Capital Management

NTB has established a capital maintenance strategy which forms an integral part of its strategic planning exercise. The bank is committed to maintain a strong capital base so as to attract and maintain investor, depositor and market confidence and to sustain future development of the business. On the other hand the sound capital position of the bank has enabled it to optimize the level of leverage to maximize the risk return trade-off in comparison with local market dynamics.

In regulatory capital perspective, the bank applies the Basel 2 framework regulations, as adopted by CBSL, on a consolidated basis. For the measurement of risk weighted exposures, the bank adopts the standardized approach to assess the capital requirement for Credit and Market Risk while following the Basic Indicator Approach for Operational Risk. The current minimum risk-based standard for capital adequacy was set by CBSL is 10 percent of risk weighted assets, of which the core capital element should be at least 5 percent.

The bank keeps both options open to improve the capital adequacy by altering either the total capital base or the total risk weighted assets. During the year under review the bank increased Tier 2 capital by the issue of 2 Bn worth of subordinated debt despite the healthy profit after tax in excess of 1.5 Bn which had contributed to Tier 1 capital. In April 2011, Rs. 733Mn was added to Tier 1 capital through conversion of warrants. Also, the bank closely monitors the changes in its balance sheet structure specially the movements in assets that bear a higher risk weight from lower risk. These decisions have often been motivated by business cycles and economic outlook.

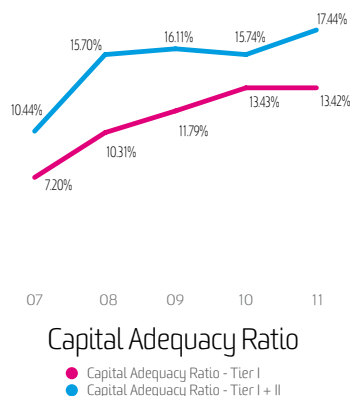
We have complied with all regulatory capital requirements imposed by CBSL throughout the period. Below we show the detailed computation for the Capital Adequacy Ratio (CAR).

Rs. Mn	2011	2010
Tier I Capital	8,522	6,716
Tier II Capital	2,556	1,154
Total Capital	11,078	7,869
Risk- Weighted Amount for Credit Risk	54,966	40,281
Risk-Weighted Amount for Market Risk	568	3,354
Risk – Weighted Amount for Operational Risk	7,978	6,371
Total Risk-Weighted Amount	63,512	50,006
Risk-Adjusted Capital Ratio against Tier I Capital* (Tier I Capital/Total Risk-Weighted Amount)	13.42%	13.43%
Risk-Adjusted Capital Ratio against Total Capital** (Total Capital/Total Risk-Weighted Amount)	17.44%	15.74%

*Statutory minimum 5%

**Statutory minimum 10%

The chart below shows the movement of CAR over the recent years -



The allocation of capital, in particular, favors business portfolios with the highest positive impact on the bank's profitability and shareholder value on a risk adjusted basis. The bank plans capital adequacy covering the capital needs of its lending units including branches. Regular capital projections are made in order to assess the capital adequacy based on the growth expectation of such units under different scenarios. As noted above, the bank has significantly increased its capital, from 7.8 Bn in 2010 to 11 Bn in 2011 and its risk-weighted capital ratios indicating the bank is positioning itself for future growth. While capital adequacy is clearly not an issue, internal processes and controls are being adequately prepared to handle the increasing volume of business and, most likely, the increasing degree of risk.

Sources and Utilisations of Regulatory Capital as at 31st December 2011

Sources			Utilisation			
	Rs.'000	%		Balance Rs.'000	Risk Weight %	Risk Weighted Value Rs.'000
Tier - I			RWA for Credit Risk			
Stated Capital	4,297,675	6.77	Due from CBSL	4,284,336	-	-
Profit & Loss A/C	1,533,895	2.42	Govt. Securities	13,108,840	-	-
Equity Reserves	2,769,780	4.36	Cash in Hand	1,370,885	-	-
Less : Goodwill	-79,261	(0.12)	Cash in collection	833,531	20	166,706
Total Tier I	8,522,089	13.42		514,957	20	102,991
			Advances (Direct and indirect)	5,358,722	50	2,679,361
				21,221,013	75	15,915,760
Tier - II				30,768,240	100	30,768,240
Revaluation Reserves				593,064	150	889,596
General Provisions	252,156	0.40	Placements with Banks	2,419,266	20	483,853
Subordinated Term Debt	2,304,315	3.63		1,496,804	50	748,402
Total Tier II	2,556,470	4.03	Fixed Assets	2,201,146	100	2,201,146
			Other Assets	1,010,295	100	1,010,295
Sub Total (Tier I & Tier II)	11,078,560	17.44		85,181,099		54,966,350
			RWA for Market Risk	56,847		568,473
			RWA for Operational Risk	797,789		7,977,889
Less : Deduction for investments	-					
Total Regulatory Capital	11,078,560	17.44	Total Risk Weighted Assets			63,512,712

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.

The Board comprises of highly respected individuals who have reached the pinnacle of their chosen fields often displaying multidisciplinary competencies. Expertise on the board represents a cross section from the Finance, Corporate, Academic and Professional spheres, who together contribute a wealth of practical insight and business acumen. Board currently comprise of a healthy balance of experience and youth. 10 Directors out of a total number of 12 are non executive directors. Board approves a strategic plan and key policies for the Bank and effectively monitors their implementation through the Board sub committees and Key Management Personnel. The Board appoints the Chief Executive Officer and Corporate Management who together make up the Key Management Personnel of the Bank.

Names of the Directors and their status are given in the Annual Report of the Board of Directors on Page 135. Chairman of the Bank is a Non Executive Director. The Bank currently has 5 Independent Directors. Non Executive Independent Director Mr. M.E. Wickremesinghe has been designated as the Senior Director.

Positions of the Chairman and the CEO are separated. Chairman provides leadership to the Board while the CEO manages the day to day operations of the bank giving effect to the strategies and policies approved by the Board. Chairman and the CEO are not related to each other. Board sets goals and targets for the Chief Executive Officer (CEO) and the Executive Director based on the recommendation of the Human Resources and Remuneration Committee. Performance of the CEO and the Executive Director is monitored on an ongoing basis and a formal appraisal is carried out at the end of the year by the Human Resources and Remuneration Committee based on whose recommendation, the Board determines the remuneration of the CEO and the Executive Director.

Identifying and recommending suitable individuals to be appointed as Directors is the responsibility of the Nomination Committee. Nomination Committee also assists the Board to determine whether the Directors and Key Management Personnel are fit and proper persons as required under the Banking Act and Directions issued thereunder.

Details of Compliance with Rules of Corporate Governance for Licensed Commercial Banks

Rule Number	Rule	Status of Compliance
3(1)	The Responsibilities of the Board	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following;	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated through the Bank	<p>Complied</p> <p>Strategic objectives and values have been approved by the board.</p> <p>Vision, mission and corporate values have been communicated to the staff via intranet and regular training.</p>

Rule Number	Rule	Status of Compliance
3 (1) (i) (b)	Approve the overall business strategy of the Bank, including the Risk Policy and Risk Management procedures and mechanisms with measurable goals, for at least for the next three years.	Complied Risk Management procedures and mechanisms with measurable goals have been addressed in the Risk Policy approved by the Board.
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied The implementation of the Risk Policy is being monitored by the Integrated Risk Management Committee (IRMC), a board sub committee and the Board through a well structured risk reporting mechanism.
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers	Complied A Board approved communication policy is in place.
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems	Complied Such review is being carried out routinely by the Board. Internal controls are being looked at by individual departments on a monthly basis. Implementation of internal controls are also looked into by the internal audit department. Board monitors these through the Integrated Risk Management Committee and the Board Audit Review Committee. IT audit was carried out by the Internal Audit Department and external consultants for the year 2011 .
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and Risk Management	Complied
3 (1) (i) (g)	Define the areas of authority and key responsibilities for the Board Directors themselves and for Key Management Personnel	Complied Matters reserved for the Board are specifically identified and approved by the Board. Areas of authority and key responsibilities of the KMPs are included in the respective Job Descriptions.

Rule Number	Rule	Status of Compliance
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with board policy	<p>Complied</p> <p>Oversight of affairs of the Bank is carried out through the Board Supervisory Committee (BSC) where all KMPs present their performance and make themselves available for any clarifications and explanations required by the BSC members. Board monitors this through the Minutes of the BSC. Board also meets the KMPs on a quarterly basis.</p> <p>KMPs also communicate to the Board via the monthly management report submitted to the Board of Directors.</p> <p>KMPs responsible for internal controls and compliance meet the Risk Management Committee of the Board every month.</p> <p>Board has delegated the function of overseeing Internal Audit Department (IAD) to a board sub-committee namely, BARC.</p> <p>Board exercises oversight of the affairs of the Bank by KMPs through the minutes of the meetings of the BSC, IRMC and BARC tabled at board meetings.</p>
3 (1) (i) (i)	<p>Periodically assess the effectiveness of the Board of Directors' own governance practices, including</p> <p>(i) the selection, nomination and election of Directors and Key Management Personnel;</p> <p>(ii) the management of conflicts of interest and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary.</p>	<p>Complied</p> <p>(i) Board has delegated the functions of selection, nomination and election of Directors to the Board sub-committee namely Nomination Committee (NC). Minutes of the meetings of the NC are tabled at board meetings.</p> <p>(ii) Approved board procedure includes provisions to manage conflicts of interests of Directors.</p> <p>(iii) Self assessment of each Director has been obtained for the year 2011 and the Board has requested the Senior Director to collate such assessments and make recommendations to the Board on further actions by the Board.</p>
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied

Rule Number	Rule	Status of Compliance
3 (1) (i) (k)	Meet regularly, on needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives	Complied Refer comment on (h) above
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied The Company Secretary is statutorily responsible for communication with the Registrar of Companies (ROC). This is included in the Job Description (JD) of the Company Secretary. Compliance with statutory regulations is monitored regularly by the Board. A senior compliance officer has been employed by the Bank. The compliance officer submits a monthly compliance report to the Board through the CEO. Further, a monthly report is submitted to the IRMC by the compliance officer.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of external auditors	Complied Board has delegated this function to the Board Audit Review Committee. Terms of Reference (TOR) of the BARC contains provisions for hiring and oversight of external Auditors.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with direction 3 (5) of these directions.	Complied Functions and the responsibilities of the Chairman and the CEO have been separated and approved by the Board.
Board procedure		
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied Board has met regularly at approximately monthly intervals. There were 12 meetings of the Board in 2011. All Directors actively participate at such meetings. Any concern or comment by such Directors requiring action is minuted. Complied Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied Board procedure specifically provides for this.

Rule Number	Rule	Status of Compliance
3(1) (v)	The board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied
3 (1) (vi)	The board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternative Director shall, however, be acceptable as attendance.	Complied No Director has violated this requirement during the financial year 2011.
3(1)(vii)	The board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No.30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied
3(1) (viii)	All Directors shall have access to advise and services of the Company Secretary with a view to ensure that board procedures and all applicable rules and regulations are followed.	Complied Board procedure specifically provides for this.
3 (1) (ix)	The Company Secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied

Rule Number	Rule	Status of Compliance
3(1)(x)	<p>Minutes of board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the board acted with due care and in prudence in performing duties.</p> <p>The minutes shall serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings.</p> <p>The minutes of a board meeting shall clearly contain or refer to the following;</p> <ul style="list-style-type: none"> a) A summary of data and information used by the board in its deliberations b) The matters considered by the board c) The fact finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudent. d) The testimonies and confirmations of relevant executives which indicate compliance with the board's strategic and policies and adherence to relevant laws and regulations e) The board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the Risk Management measures adopted f) The decisions and board resolutions. 	Complied
3 (1) (xi)	<p>There shall be a procedure agreed by the board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.</p> <p>The board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.</p>	<p>Complied</p> <p>Board procedure specifically provides for this.</p>

Rule Number	Rule	Status of Compliance
3(1)(xii)	<p>Directors shall avoid conflicts of interest, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations or related parties.</p> <p>If a Director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent Non Executive Directors [refer to direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present.</p> <p>The Director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested.</p> <p>He/she shall not be counted in the quorum for the relevant agenda item at the board meeting.</p>	<p>Complied Board procedure specifically provides for this.</p> <p>Complied Board has treated any interest to be material and ensured that any matter in which a board member has an interest is dealt with as provided herein. Board minutes provide evidence of compliance.</p>
3(1)(xiii)	The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied
3 (1) (xiv)	The board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied.
3 (1) (xv)	The board shall ensure that the Bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	<p>Complied</p> <p>The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy (CAR). The CAR is submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.</p>
3 (1) (xvi)	The board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied
3 (1) (xvii)	The board shall adopt a scheme of self assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied
3 (2)	The Board's composition	
3(2)(i)	The number of Directors on the board shall not be less than 7 and not more than 13.	<p>Complied</p> <p>The Board consists of 12 Directors.</p>

Rule Number	Rule	Status of Compliance
3(2)(ii)(A)	The total period of service of a Director other than a Director who holds a position of a Chief Executive Officer shall not exceed nine years, and such period of office shall be inclusive of the total period of service served by such Director up to 1 st January, 2008.	Complied
3(2)(ii)(B) [Direction 3(2)(ii)(B) of Direction 11 of 2007 was replaced with Direction 5 of 2008 dated 15th August, 2008]	In this context the following general exemption shall apply; A Director who has completed nine years as at 1 st January, 2008 or who completes such term at any time prior to 31 st December, 2008, may continue for a further maximum period of 3 years commencing from 1 st January, 2009.	Complied
3(2)(iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of executive Directors shall not exceed one-third of the number of Directors of the board. In such an event, one of the executive Directors shall be the Chief Executive Officer of the Bank.	Complied
3(2)(iv)	The board shall have at least three Independent Non Executive Directors or one third of the total number of Directors, whichever is higher. This sub direction shall applicable from 1 st January, 2010 onwards.	Complied The Board comprised of four Independent Directors as at 31 st December, 2011. Another Independent Director was appointed on 1 st January, 2012. The Bank has five Independent Directors out of a total of twelve Directors as at the date of the report.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	No alternate Director has been appointed to represent an Independent Director.
3(2)(vi)	Non Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied Non Executive Directors possess qualifications and experience to meet the criteria specified in the Rule. Nomination Committee ensures that the Directors possess the required skills and recommends all new appointments to the Board. Central Bank approval is also obtained for all new appointments and for continuing Directors annually.

Rule Number	Rule	Status of Compliance
3(2)(vii)	A meeting of the board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub direction shall be applicable from 1 st January, 2010 onwards.	Complied All meetings have been attended by a majority of Non Executive Directors.
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report.	Complied
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the board. There shall also be procedures in place for the orderly succession of appointments of the board.	Complied During the year, Board demonstrated the success of its succession planning by effectively introducing new Directors to replace retiring Directors.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied
3(2)(xi)	If a Director resigns or if removed from office, the board shall : (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied
3(2)(xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Complied
3(3)	Criteria to assess the fitness and propriety of Directors In addition to provisions of Section 42 of the Banking Act No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.	

Rule Number	Rule	Status of Compliance
3(3) (i) (A) [Direction 3(3)(i)(A) and 3(3)(i)(B) of Direction 11 of 2007 was replaced with Direction 5 of 2008 dated 15th August, 2008]	A Director who has reached the age of 70 years as at 1 st January, 2008 or who would reach the age of 70 years prior to 31 st December, 2008 may continue in office for a further maximum period of 3 years commencing 1 st January, 2009.	Complied No Director has reached the age of 70 at or prior to the dates specified in the rule.
3(3)(ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.	Complied No Director of the Bank holds Directorships in more than 20 companies as at 31 st December 2011.
3(3)(ii)(A) [Clause 4 of Direction 5 of 2008 dated 15th August, 2008]	In this context, the following general exemption shall apply; If any person holds in excess of the limitation as above, such person shall within a maximum period of three years from 1 st January, 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.	Complied
3 (4)	Management functions delegated by the Board	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place	Complied Board procedure includes a provision for delegation of powers by the Board. TORs of all Board sub committees have been approved by the Board. All delegations have been done by the Board after due consideration.
3 (4) (ii)	The Board shall not delegate any matters to the board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.	Complied Refer comment on 3.4(i) above.
3 (4) (iii)	The board shall review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied As and when new requirements have arisen, the board has reviewed and amended delegation arrangements on the recommendations of the management.
3 (5)	The Chairman and the Chief Executive Officer	

Rule Number	Rule	Status of Compliance
3 (5) (i)	The roles of the Chairman and the Chief Executive Officer shall be separated and shall not be performed by the same individual.	Complied Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board.
3 (5) (ii)	The Chairman shall be a Non Executive Director and preferably an independent Director as well. In the case where the Chairman is not an independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of Senior Director shall be disclosed in the Bank's Annual Report.	Complied Mr. A. D. Gunawardene, the Chairman was a Non-executive Director resigned on 31 st December, 2011. Mr. Ronnie Peiris, a Non Executive Director was appointed as the Chairman with effect from 1 st January, 2012. Complied Independent Director Mr. Maithri Wickremesinghe functions as the Senior Director(SD). TOR of the SD is approved by the Board. Complied
3 (5) (iii)	The board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of the relationship (including financial, business, family or other material/relevant relationship (s), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the board.	Complied Directors' interests in contracts with the Bank have been separately disclosed in the annual report of 2011. The identity of the Chairman and the Chief Executive Officer and the absence of a relationship between the two persons have also been disclosed in the Annual Report of 2011.
3 (5) (iv)	The Chairman shall; a) provide leadership to the board a) ensure that the board works effectively and discharges its responsibilities; and c) ensure all key and appropriate issues are discussed by the board in a timely manner.	Complied These are considered as the three key responsibilities of the Chairman included in the 'Functions of the Chairman and the CEO' approved by the Board.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied

Rule Number	Rule	Status of Compliance
3 (5) (vi)	The Chairman shall ensure that all the Directors are properly briefed on issues arising at board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied
3 (5) (vii)	The Chairman shall encourage all the Directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the Bank.	Complied
3 (5) (viii)	The Chairman shall facilitate the effective contribution of non-executive Directors in particular and ensure constructive relations between executive and non-executive Directors.	Complied
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied
3 (6)	Board appointed committees	
3 (6) (i)	Each bank shall have at least the following committees; 3(6)(ii) -Audit Committee 3(6)(iii)-Human Resources and Remuneration committee 3(6)(iv)-Nomination Committee 3(6)(v)-Integrated Risk Management Committee	Complied
	Each committee shall report directly to the board.	Complied All minutes of the Board sub committees are submitted to the board and constitute a regular agenda item.
	Each committee shall appoint a secretary to arrange the meetings and maintain, minutes, records etc. under the supervision of the Chairman of the committee	Complied All sub committees have formally appointed secretaries.
	The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting	Complied Reports are contained in the Annual Report.

Rule Number	Rule	Status of Compliance
3 (6) (ii)	Audit committee (Board Audit Review Committee)	
3 (6) (ii) (a)	The Chairman of the committee shall be an independent non-executive Director who possesses qualifications and experience in accounting and /or audit.	Complied. Chairman of the Committee Mr. Maithri Wickremesinghe, an Independent Director satisfies the criteria.
3 (6) (ii) (b)	All members of the committee shall be non-executive Directors.	Complied
3 (6) (ii) (c)	The committee shall make recommendations on matters in connection with; a) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; b) the implementation of the Central Bank guidelines issued to auditors from time to time; c) the application of the relevant accounting standards; and d) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years form the date of the completion of the previous item.	Complied The matters referred to in the Rule are reviewed and appropriate recommendations made by the Board Audit Review Committee (BARC). A closed session is held with the external auditors prior to the commencement of each meeting of the BARC. These items are discussed as appropriate and the BARC draws comfort that the relevant items are being taken into account by the external Auditors. In line with the Rule that the engagement of the Audit partner shall not exceed five years, the present Audit partner of the External Auditors will cease to be engaged in the Bank's audit from the ensuing financial year. Refer the Report of the Board Audit Review Committee given on pages 129 to 130
3 (6) (ii) (d)	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.	Complied These are reviewed and monitored as detailed above. Further the Board obtains; <ul style="list-style-type: none"> an annual declaration from external auditors on independence statutory independent auditor's report on the annual financial statement of the Bank confirming the compliance with SLAuS.

Rule Number	Rule	Status of Compliance
3 (6) (ii) (e)	<p>The committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the independence auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider;</p> <p>(i) whenever the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</p> <p>(iii) whether the nature of the non-audit services, the related fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor.</p>	<p>Complied</p> <p>The matters referred to in the Rule are covered in the terms of reference of the BARC and are exercised with due care and diligence. Further a separate policy on the engagement of the external auditor to provide non-audit services was developed by the BARC and approved by the Board of Directors. This Policy which inter alia takes cognizance of the matters set out in the rule will be applied in the engagement of the external auditor to provide non audit services.</p>
3 (6) (ii) (f)	<p>The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and the scope of the audit, including;</p> <p>(i) an assessment of the Bank's compliance with the relevant directions in relation to corporate governance and the management's internal controls over financial reporting;</p> <p>(ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>(iii) the coordination between the firms where more than one audit firm is involved.</p>	<p>Complied</p> <p>The matters referred to in the Rule are discussed in detail at the BARC after satisfying itself on the scope of the work to be undertaken by the external auditors for granting of approval to proceed further. It must be noted that during the tenure of the audit, regular status updates are obtained and discussed at the BARC meeting.</p> <p>A letter of engagement is also signed between both parties agreeing on the required terms.</p>

Rule Number	Rule	Status of Compliance
3 (6) (ii) (g)	<p>The committee shall review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the board, the committee shall focus particularly on;</p> <ul style="list-style-type: none"> (i) major judgmental areas (ii) any changes in accounting policies and practices (iii) significant judgments arising from the audit (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Complied</p> <p>This is handled by way of regular discussions with the external auditors, (independent of the management as well as with the CEO and the CFO present), discussions with the head Internal Audit (independent of the management as well as with the CEO and the CFO present), and regular discussions with the CEO and the CFO. Separate BARC meetings have been held in 2011 to review / discuss and finalize the accounts.</p>
3 (6) (ii) (h)	<p>The committee shall discuss issues, problems and reservations arising from the interim and financial audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>Complied</p> <p>This is handled by way of regular discussions with the external auditors, independent of the management, at every BARC meeting.</p>
3 (6) (ii) (i)	<p>The committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied</p> <p>This is handled by way of regular discussions with the external auditors as evidenced in BARC minutes.</p>

Rule Number	Rule	Status of Compliance
3 (6) (ii) (j)	<p>The committee shall take the following steps with regard to the internal audit function of the Bank;</p> <ul style="list-style-type: none"> (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff member of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care; 	<p>Complied</p> <p>This is handled in the following manner;</p> <ul style="list-style-type: none"> (i) The annual audit plan of the Internal audit department as well as the staff requirements are reviewed/ discussed with the Head of Internal Audit. (ii) The audit progress vis a vis the audit plan is tabled at the BARC every quarter. The audit report contains a section for the unit audited to indicate the action taken based on IAD recommendation. In the case of branches, the Branch Operations Unit provides a monthly feedback on the items that are yet to be completed. In the case of departments, there is a robust mechanism to follow up on items that are pending after a period of two months. Items which in the opinion of IAD are being delayed beyond a reasonable period of time are presented to the BARC at their regular meetings. (iii) The staff appraisal of the Head of Audit is undertaken by the Chairman of BARC in consultation with the other members of the BARC with adequate input by the CEO. (iv) All senior appointments to the audit team are approved by the Chairman of the BARC. (v) A process is in place to ensure that resignations of senior staff members of the internal audit department including the Chief Internal Auditor are advised to the Chairman BARC. In the case of the IT audit, the same is outsourced as and when required. Thus the same is not a recurring assignment awarded to a single entity. As when required, the scope of the assignment is designed / agreed upon by BARC and the same is open for tender. (vi) Regular discussions are held with the Head of Internal Audit independent of the management.
3 (6) (ii) (k)	<p>The committee shall consider the major findings of internal investigations and management's responses thereto</p>	<p>Complied</p> <p>Audit reports are tabled at the BARC meeting and the relevant items are discussed in detail with suitable action points agreed upon.</p>

Rule Number	Rule	Status of Compliance
3 (6) (ii) (l)	<p>The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee.</p> <p>However, at least twice a year, the committee shall meet with the external auditors without the Executive Directors being present.</p>	<p>Complied</p> <p>Regular discussions with the external auditors, independent of the management are held prior to every BARC meeting. The BARC meets at least 8 times a year. The CEO and the DCEO attend all such meetings. Where it is deemed necessary, other corporate heads including the CFO are called for the meeting.</p>
3 (6) (ii) (m)	<p>The committee shall have</p> <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference (ii) the resources which it needs to do so (iii) full access to information; and (iv) authority to obtain external professional advise and to invite outsiders with relevant experience and attend, if necessary 	<p>Complied</p> <p>This has been covered in detail in the terms of reference of the BARC.</p>
3 (6) (ii) (n)	<p>The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	<p>Complied</p> <p>The committee has met 11 times during the year.</p>
3 (6) (ii) (o)	<p>The board shall disclose in an informative way,</p> <ul style="list-style-type: none"> (i) details of the activities of the audit committee (ii) the number of audit committee meetings held in the year (iii) details of attendance of each individual Director at such meeting 	<p>Complied</p> <p>Please refer the Board Audit Review Committee Report on pages 129 to 130 of the annual report.</p>
3 (6) (ii) (p)	<p>The secretary of the Committee (who may be the Company Secretary or the head of the internal audit) shall keep and record detailed minutes of the committee meetings.</p>	<p>Complied</p> <p>Detailed minutes are maintained by the Head of Internal Audit who is the secretary to the BARC.</p>
3 (6) (ii) (q)	<p>The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with external auditor.</p>	<p>Complied</p> <p>The audit charter provides for the confidentiality of potential whistle blowers. A Board approved Whistle Blowing Policy is in place. The Training Unit of the Bank ensures that all new recruits to the Bank are made aware of this policy.</p> <p>Over the past few years this has proved successful in that there have been instances, where staff members have alerted the Internal Audit Department of certain improprieties. These have been investigated and where warranted suitable action has been taken. The identity of the whistle blower has been kept confidential.</p>

Rule Number	Rule	Status of Compliance
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
3 (6) (iii) (a)	The committee shall determine the remuneration policy relating to Directors, CEO and Key Management Personnel of the Bank.	Complied
3 (6) (iii)(b)	The committee shall set goals and targets for the Directors, CEO and Key Management Personnel.	Complied Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balance Scorecard process.
3 (6) (iii) (c)	The committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied
3 (6) (iii) (d)	The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/ appoint new Director, CEO and Key Management Personnel	Complied
3 (6) (iv) (b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by a Director concerned towards the overall discharge of the board's responsibilities.	Complied
3 (6) (iv) (c)	The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied Criteria has been set and included in the JDs of KMPs approved by the Nomination Committee.
3 (6) (iv) (d)	The committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied Affidavits and Declarations of KMPs were submitted to the Committee during 2011 in order for the Committee to determine the suitability of the KMP.
3 (6) (iv) (e)	The committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied This has been successfully implemented by the Nomination Committee paving the way for smooth succession for the retiring Chairman and Senior Directors.

Rule Number	Rule	Status of Compliance
3 (6) (iv) (f)	<p>The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.</p> <p>The CEO may be presents at the meetings by invitation.</p>	<p>Complied</p> <p>Chairman - Mr. M. E. Wickremesinghe –is an Independent (Non Executive) Director.</p>
3 (6) (v)	Integrated Risk Management Committee (IRMC)	
3 (6) (v) (a)	<p>Committee shall consist of at least three non-executive Directors, Chief Executive Officer and Key Management Personnel supervising board risk categories, i.e. credit, market, liquidity, operational and strategic risks.</p> <p>The committee shall work with Key Management Personnel very closely and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the committee.</p>	<p>Complied</p> <p>IRMC comprises of three Non Executive Directors, CEO and other relevant KMPs.</p> <p>Committee function as per the Board approved TOR in close co-operation with relevant KMPs.</p> <p>Complied</p> <p>KMP in charge of Risk Management and control functions attend IRMC meetings regularly and other KMPs attend and discuss the risk grids pertaining to their areas once a year.</p>
3 (6) (v) (b)	The committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, Risk Management shall be done, both on a Bank basis and group basis.	<p>Complied</p> <p>Risk indicators are monitored by IRMC monthly through the Key Risk Goals paper. Key risks involved in the subsidiary companies are included in the Risk grids of the department overseeing such subsidiary and presented to the IRMC.</p>
3 (6) (v) (c)	The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	<p>Complied</p> <p>Minutes of Management level committees are submitted to the Committee to review the adequacy and effectiveness of such committees.</p>
3 (6) (v) (d)	The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements.	<p>Complied</p> <p>Risks are monitored through monthly submission of Key Risk Goals report. Where necessary corrective action has been taken as reflected in the minutes.</p>
3 (6) (v) (e)	The committee shall meet at least quarterly to assess all aspects of Risk Management including updated business continuity plans.	<p>Complied</p> <p>The IRMC has held monthly meetings in 2011.</p>

Rule Number	Rule	Status of Compliance
3 (6) (v) (f)	The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Complied Currently Committee monitors Risk Management by departments through the departmental risk grids and departmental Risk Management minutes. In the event action is required against an officer found to have failed in identifying specific risks action will be taken against him/her in terms of the Bank's established Human Resources policy.
3 (6) (v) (g)	The committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Complied
3 (6) (v) (h)	The committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Complied The Compliance officer submits a report to the Committee at every meeting on new directions, rules etc and interactions with regulators.
3 (7)	Related Party Transactions	
3 (7) (i)	<p>The board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purpose of this Direction</p> <ul style="list-style-type: none"> a) Any of the Bank's subsidiary companies b) Any of the Bank's associate companies c) Any of the Directors of the Bank d) Any of the Bank's Key Management Personnel e) A close relation of any of the Bank's Directors or Key Management Personnel f) A shareholder owing a material; interest in the Bank g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest 	<p>Complied</p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction.</p> <p>Further, as evidenced by the minutes of board meetings, the board ensures that related parties are not accorded any preferential treatment over and above those accorded to similarly placed non-related parties. Policies and procedures in related party transactions have been improved in the current year. Such policy is being further strengthened on an ongoing basis. In this regard, a policy on related party transactions have been tabled and discussed at the Board meeting.</p>

Rule Number	Rule	Status of Compliance
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following;</p> <ul style="list-style-type: none"> a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation b) The creation of any liabilities of the Bank in the form of deposits, borrowing and investments c) The provision of any services of a financial or non financial nature provided to the Bank or received from the Bank d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially priority, confidential or otherwise sensitive information that may give benefits to such related parties. 	Refer comment given in 3 (7) (i)
3 (7) (iii)	<p>The board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties 'more favorable treatment' than that accorded to other constituents of the Bank carrying on the same business. In this context, 'more favorable treatment' shall mean and include treatment, including the;</p> <ul style="list-style-type: none"> a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the of the Bank's regulatory capital, as determined by the board. For purpose of this sub- direction; 1. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum amount of accommodation. 11. the 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. 	Refer comment given in 3(7) (i)

Rule Number	Rule	Status of Compliance
	<ul style="list-style-type: none"> b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties; d) Providing services to or receiving services from a related- party without an evaluation procedure; e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. 	
3(7)(iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favor of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied
3(7) (v)	<ul style="list-style-type: none"> (a) where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be obtain by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. (b) Where such security is not provided by the period as provided in direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier. (c) Any Director who fails to comply with the above sub directions shall be deemed to have vacated the office of a Director and the Bank shall disclose such fact to the public. 	<p>Complied</p> <p>Not applicable</p> <p>Not applicable</p>

Rule Number	Rule	Status of Compliance
	(d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Not applicable
3(7)(vi)	A bank shall not grant any accommodation or 'more favorable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above	Complied
3(7)(vii)	No accommodation granted by the Bank under Direction 3(7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied No such facility has been remitted in violation of this rule.
3 (8)	Disclosures	
3(8)(i)	The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied Complied
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report; (a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer page 152 Complied. Please refer pages 140 to 141

Rule Number	Rule	Status of Compliance
	(c) The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31 st December, 2008.	Complied. Please refer page 142
	(d) Details of Directors, including names, fitness and propriety - Directors' transactions with the Bank - the total of fees/remuneration paid by the Bank to the Directors.	Complied. Please refer pages 143 to 147 and 136
	(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied. Please refer page 138
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by Board categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied. Please refer page 138
	(g) The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after 1 st January, 2010.	A certificate has been obtained from the External Auditors on the compliance with the rules.
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance	Complied
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	No such matter has been specified.

As per listing rule No.7.6 (viii) of the Colombo Stock Exchange, details of the property holdings of the Group are as follows:

Location of the Property	Extend of the Land Perches	Value of the Property Rs.mn	Number of Buildings
Bank owned two parcels of properties as given below			
No. 242, Union Place, Colombo 2.	77.2	604.6	1
No. 76, York Street, Colobo 1.	8.66	19.5	1
Bank's fully owned subsidiary Allied Properties Limited holds the following property on a 99 years lease.			
No. 46/58, Nawam Mawatha, Colombo 2.	65.5	543.5	1



Beyond expectations

We don't want to be better than our customers expect. We want to be better than what they thought they could expect.



5:25 pm Colombo

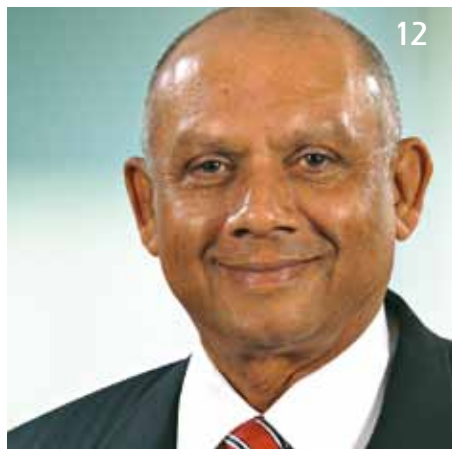


Board of





- 1 J. R. F. Peiris
- 2 Saliya Rajakaruna
- 3 A. K. Gunaratne
- 4 Krishan Balendra
- 5 M. E. Wickremesinghe
- 6 A. R. Rasiah
- 7 Dr. Dushni Weerakoon
- 8 Murtaza Jafferjee
- 9 Dr. Kemal de Soysa
- 10 N. Shalini Panditaratne
- 11 D. Prasanna De Silva
- 12 C. H. S. K. Piyaratna



11:20 am Colombo

J. R. F. Peiris – Chairman/ Non Executive Director

Mr. Peiris was appointed as the Chairman of the Bank on 1st January, 2012. He has been on the Board on Nations Trust Bank PLC since 1st November, 2003. He is a Director of John Keells Holdings PLC and many of its subsidiaries. Mr. Peiris has overall responsibility for the John Keells Group Finance and Accounting and related areas, Insurance and the Information Technology functions. Mr. Peiris has served in many Boards overseas and has over 40 years of finance and general management experience at very senior levels in Sri Lanka and abroad. Mr. Peiris is currently the Chairman of the Taxation Sub-Committee of the Ceylon Chamber of Commerce. He is a FCMA and a FCCA, and also holds an MBA from the University of Cape Town, South Africa. Mr. Peiris was recently appointed as the Chairman of the Board Credit Committee and Human Resources and Remuneration Committee and also as a member of the Nomination Committee of the Bank. He served as the Chairman of the Integrated Risk Management Committee of the Bank until his appointment as the Chairman of the Bank.

Saliya Rajakaruna - Executive Director/CEO

Mr. Rajakaruna joined the Bank as its Chief Executive Officer and Director on 15th September, 2009. He is a Member of the Chartered Institute of Management -UK and holds a MBA from Cranfield School of Management, Cranfield University, United Kingdom. Mr. Rajakaruna brings with him over 30 years of varied international experience covering UK, Europe, USA, Scandinavia, South Africa and Asia all with Citibank during which period he performed several roles relating to corporate banking, risk management, finance, marketing product management and treasury activities. With a proven track record in balancing revenue generation and risk management, Mr. Rajakaruna brings an appropriate dimension to the operations of the Bank. Mr. Rajakaruna has also functioned as the Chief Financial Officer and Chief Risk Officer of the Bank of Ceylon, Director and the Chairman of the Audit Committee of Ceylon Petroleum Corporation. He currently serves on the Board of Sri Lanka Bankers' Association (Guarantee) Limited and LankaClear (Private) Limited.

A. K. Gunaratne – Non Executive Director

Mr. Gunaratne 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 was appointed to the Board of Nations Trust Bank PLC on 1st May, 2005. He was recently appointed as the Chairman of the Board Supervisory Committee of the Bank. He is a member of the Board Credit Committee and the Integrated Risk Management Committee of the Bank. Mr. Gunaratne has also served as a member of the Board Audit Review Committee of the Bank.

Krishan Balendra – Non Executive Director

Krishan was appointed to the Board in December 2009 and also serves on the Board Supervisory Committee of the Bank. He is a President and member of the Group Executive Committee of John Keells Holdings PLC and has responsibility for the Retail sector, John Keells Stock Brokers and the Corporate Finance & Strategy function of the group. 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 & Co. PLC, Sri Lanka prior to joining JKH. Krishan holds a law degree (LLB) from the University of London and an MBA from INSEAD.

M. E. Wickremesinghe – Independent Non Executive Director/ Senior Director

Mr. Wickremesinghe holds an Honours Degree in Laws from the University of Colombo, is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom and is an Attorney-at-Law of the Supreme Court of Sri Lanka specialising in Corporate, Commercial and Banking Law. He has lectured and examined at the Faculty of Law of the University of Colombo, at the University of Moratuwa and at the Kotalawela Defense Academy. Mr. Wickremesinghe was appointed to the Board of Nations Trust Bank PLC on 1st 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.

A. R. Rasiah – Non Executive Director

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 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 of Ceylon Pencil Company. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and 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 1st March, 2007. He was recently appointed 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.

**Dr. Dushni Weerakoon –
Independent Non Executive Director**

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. She was appointed to the Board of Nations Trust Bank PLC on 1st March, 2007. She is a member of the Board Audit Review Committee and the Human Resources and Remuneration Committee of the Bank.

**Murtaza Jafferjee -
Independent Non Executive Director**

Mr. Jafferjee holds 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 (Private) 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.

**Dr. Kemal de Soysa -
Independent Non Executive Director**

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 21st January, 2011. He is currently the Director/Country Head 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.

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

Mrs. 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. Mrs. 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 1st January, 2012.

D. Prasanna De Silva - Non Executive Director

Mr. De Silva who is a Director of Central Finance Company PLC, possess 22 years of experience in banking and finance of which 15 years has been in senior management. He was appointed to the Board of Nations Trust Bank PLC on 1st 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 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 Nomination Committee and Integrated Risk Management Committee of the Bank.

C. H. S. K. Piyaratna - Executive Director

Mr. Sarath Piyaratna is an Executive Director of the Bank. He was appointed to the Board of Nations Trust Bank 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. Until recently, he served as the Chairman of the Board Supervisory Committee of the Bank which he continues to serve as a member, in addition to the Board credit Committee of the Bank.

10:20 am Colombo

1



2



5



6



7



10



11



12





- 1 Saliya Rajakaruna
Director / CEO
- 2 Renuka Fernando
Deputy CEO
- 3 Keshini Jayawardena
*Deputy General Manager -
Retail & SME Banking*
- 4 Priyantha Talwatte
DGM Cards & Strategic Marketing
- 5 Ramanika Unamboowe
*Deputy General Manager -
Commercial Banking*
- 6 Rohitha Ganegoda
Chief Operating Officer
- 7 Theja Silva
*Company Secretary /Deputy General Manager-
Legal & Compliance*
- 8 Ajith Akmeemana
Chief Financial Officer
- 9 Anura Yapa
Chief Risk Officer
- 10 Arthur Fernandez
Head of Internal Audit
- 11 Priyantha Wijesekera
Head of Leasing
- 12 Mahendra Galgamuwa
Consultant/Head of Treasury
- 13 Mevan Balalle
Head of Human Resources
- 14 Kumar Mayadune
*Consultant/Head of Operational Risk and
Compliance (until 31.12.2011)*



Management



Management

11:30 am Colombo



- 1 Reynold Abeykoon
Chief Manager - Corporate Support Services
- 2 Kushlani Allis
Chief Manager-Management Reporting & Planning
- 3 Karthigesu Balachandrarajan
Chief Manager - Central Operations
- 4 Kapila Bandara
Chief Manager - Alternate Channels
- 5 Tharusha Ekanayake
Chief Manager-Fixed Income Securities & Debt Sales
- 6 Sheahan Daniel
Chief Manager - Leasing Sales
- 7 Rajeev De Silva
Chief Manager - NL Operations
- 8 Lewie Diasz
Chief Manager Consumer Finance
- 9 Anushan Fernando
Chief Manager - Operational Risk
- 10 Bandara Jayathilake
Chief Manager - Corporate Banking
- 11 Nisala Kodippili
Chief Manager - Technology & Infrastructure
- 12 Chamath Munasinghe
Chief Manager Credit Operations
- 13 Damith Pallewatte
Chief Manager-Integrated Risk Management & Projects
- 14 Gavin Perera
Chief Manager - Consumer Credit Risk
- 15 Sanjaya Perera
Chief Manager - Branches and PBC
- 16 Jerome Ratnarajah
Chief Manager - Treasury Services
- 17 Lalaka Siriwardena
Chief Manager - Corporate & Margin Trading Risk
- 18 Dinesh Thomas
Chief Manager - Business Solutions



Management

1:15 pm Colombo



- 19 Sharmila Arasaratnam
Senior Manager - Cards Marketing
- 20 Nisaja Aryasinghe
Senior Manager - Consumer Collections
- 21 Thushara Asuramanna
*Senior Manager Credit Risk Management-
SME & Retail Credit*
- 22 Hirantha Tennakoon
Senior Manager - Factoring
- 23 Chaminda Dheerasinghe
Senior Manager - Litigation

- 24 Nilanthie De Meral
Senior Manager - Corporate Banking
- 25 Priyashantha Fernando
Senior Manager Leasing - Zone 2
- 26 Indrajith Gunasekera
Senior Manager - Retail & SME Credit
- 27 Nilmini Gunaratne
*Senior Manager -
Retail & SME Marketing*
- 28 Niluka Gunatilaka
*Senior Manager -
Cards Business Operations*

- 29 Samantha Herath
Senior Manager - Branches
- 30 Laksara Marapana
Senior Manager - Legal
- 31 Amanthi Motha
Senior Manager - Human Resources
- 32 Kapila Nanayakkara
*Senior Manager-Foreign Ex/
Money Mkts & Treasury Sales*
- 33 Melanie Perera
Senior Manager - Corporate Banking
- 34 Prabath Perera
Senior Manager - Branches
- 35 Chandima Samarasinghe
Senior Manager - Internal Audit
- 36 Priyantha Samaradiwakara
Senior Manager Leasing - Zone 1
- 37 Wasantha Senanayake
*Senior Manager Infrastructure
and Administration*
- 38 Dimuth Sigeru
Senior Manager - SME Banking
- 39 Damitha Silva
*Senior Manager - Remittances/
Alternate Channels*
- 40 Chamila Sumathiratne
*Senior Manager - Financial/
Risk Reporting*
- 41 S. Vimalanathan
Zone Manager North & East Branches
- 42 Deepa Wickramasinghe
*Senior Manager - Credit Risk -
Leasing and Factoring*
- 43 Ursula Wijeyasuriya
*Senior Manager -
Nations Insurance Brokers*



BRANCHES

Anuradhapura

No.249A, Maithripala Senanayake
Mawatha, Anuradhapura

Bandarawela

No. 326, Badulla Road, Bandarawela

Battaramulla

No. 103A, Pannipitiya Road, Battaramulla

Batticaloa

No.29,Bar Road, Batticaloa

Borella

Keells Super, No. 85,
Dr. N. M. Perera Mawatha, Colombo 8

Chilaw

No.43, Kurunegala Road, Chilaw

Cinnamon Gardens

No. 4A, Independence Avenue, Colombo 7

City

No. 76, York Street, Colombo 1

Corporate

No. 242, Union Place, Colombo 2

Crescat

B14, Basement, Crescat Boulevard,
Galle Road, Colombo 3

Dehiwala

No. 163, Galle Road, Dehiwala

Galle

No. 16, Matara Road, Galle

Gampaha

No. 16/1, Courts Road, Gampaha

Havelock Town

No. 100, Havelock Road, Colombo 5

Horana

No.192B, Ratnapura Road, Horana

Homagama

No. 113/A, High Level Road, Homagama

Jaffna

No. 35, Stanley Road, Jaffna

Kadawatha

No. 25, Kandy Road, Kadawatha

Kalmunai

No.174, Batticaloa Road, Kalmunai

Kandy

No. 147, Kotugodella Street, Kandy

Kiribathgoda

No. 69, Makola Road, Kiribathgoda

Kohuwala

No. 96/B, Dutugamunu Street, Kohuwala

Kollupitiya

No. 464, Galle Road, Colombo 3

Kotahena

No. 200, George R. De Silva Mawatha,
Colombo 13

Kurunegala

No. 37, Puttalam Road, Kurunegala

Liberty Plaza

Keells Super, B2, Liberty Plaza,
R.A. De Mel Mawatha, Colombo 3

Mahabage

No. 590, Negombo Road, Mahabage

Maharagama

No. 129, High Level Road, Maharagama

Malabe

No.410/4, Athurugiriya Road, Malabe

Matara

No. 56, Esplanade Road, Matara

Millennium

No. 46/58, Nawam Mawatha, Colombo 2

Moratuwa

No. 89, New Galle Road, Moratuwa

Mount Lavinia

No. 269, Galle Road, Mount Lavinia

Nawala

No. 267A, Nawala Road, Nawala

Negombo

No. 72/A, Old Chillaw Road, Negombo

Nugegoda

No. 128, High Level Road, Nugegoda

Nuwara Eliya

No. 86, Kandy Road, Nuwara Eliya

Panadura

No. 229, Galle Road, Panadura

Pettah

No. 244, Main Street, Pettah

Peradeniya

No. 903/18, Royal Mall Complex, William
Gopallawa Mawatha, Kandy

Piliyandala

No. 30, Moratuwa Road, Piliyandala

Ratnapura

No. 189, Main Street, Ratnapura

Sri Sangaraja Mawatha

No. 545A, Sri Sangaraja Mawatha,
Colombo 10

Thalawathugoda

No. 755, Madhiwela Road,
Thalawathugoda

Vavuniya

No. 222, Kandy Road, Vavuniya

Wattala

No. 492, Negombo Road, Wattala

Wellawatte

No. 292, Galle Road, Wellawatte

Ward Place (ODEL)

ODEL, No. 10, Ward Place, Colombo 7



LEASING CENTRES LOCATED OUTSIDE BRANCHES

Kuliyapitiya
No. 72A, Hettipola Road, Kuliyapitiya



OFF SITE ATMS

Asiri Hospital Ltd Complex,
No. 181, Kirula Road, Narahenpita

Asiri Surgical Hospital,
No. 21, Kirimandala Mawatha, Narahenpita

John Keells Holdings Ltd,
No. 130, Glennie Street, Colombo 2

National Hospital of Sri Lanka,
Doctors Quarters, Regions Street, Colombo 8



PERSONAL BANKING CENTRES

Kandana
Keells Super, No. 176, Negombo Road, Nagoda, Kandana

Kurunegala
Keells Super, No. 138, Colombo Road, Kurunegala

Mount Lavinia
Keells Super, No. 388, Calle Road, Mount Lavinia

Negombo
Keells Super, No. 41, Arch Bishop Nicholas Marcus Fernando
Mawatha, Negombo

Peliyagoda
Keells Super, No. 407/A, Kandy Road, Peliyagoda

Wattala
Keells Super, No. 385, Negombo Road, Wattala

Rajagiriya
Keells Super, No. 475, Sri Jayawardenepura Road, Rajagiriya

Nations Trust Bank PLC,
No. 242, Union Place, Colombo 2, Sri Lanka

Call Centre: 4711411 Fax: 2307854

E-mail: customerservice@nationstrust.com

Website: www.nationstrust.com

Report of the Board Supervisory Committee

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors and comprise of the following directors.

Mr. A.K. Gunaratne (Chairman)

Mr. C.H.S.K. Piyaratna (Executive Director)

Mr. K.N.J. Balendra

Mr. M. Jafferjee

The committee meets monthly prior to the board meeting and minutes are submitted to the board of directors for review. The corporate management team along with Director/CEO attends all meetings by invitation. The Board Supervisory Committee is not a committee mandated under the corporate governance directions issued by the Central Bank of Sri Lanka.

Terms of Reference

The mandate of the Board Supervisory Committee includes the following.

1. Approving expenditure beyond what is delegated to Director/CEO but within limits delegated by the Board of Directors.
2. Reviewing monthly financials to seek explanations/ clarification on exceptions and variations noted.
3. Providing input and guidance to CEO and corporate management on different initiatives including IT systems, products, Distribution channels etc prior to recommending to Board of Directors for approval.
4. Review, provide input and approve policy papers, business plans etc before being presented to the Board of Directors for approval.
5. Monitoring performance against budgets by business line and support services.

Activities of the BSC

BSC held twelve meetings during the year under review with an additional special meeting held to review and approve the annual plan prior to presenting to the Board of Directors.



A. K. Gunaratne
Chairman
Board Supervisory Committee

Colombo
23rd February 2012

The Board Audit Review Committee (the "BARC") is a sub-committee 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 and the Deputy Chief Executive Officer of the Bank have attended all the meetings on the invitation of BARC. Other members of the Corporate Management have 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.

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 of BARC include the following;

- To make recommendations on matters in connection with the appointment of the external auditor of the Bank; the implementation of the Central Bank guidelines issued to auditors, the application of the relevant accounting standards; and the service period, audit fee and any resignation or dismissal of the external auditor.
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- To develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.
- To act as the key representative body for overseeing the Bank's relations with the external auditor.
- To review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein.
- To discuss issues, problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.

- To review the external auditor's management letter and the Management's response thereto.
- To consider the major findings of internal investigations and Management's responses thereto;
- To review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action
- To review the adequacy of the scope, functions and resources of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work.
- To review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department.
- To review the appraisal or assessment of the performance of the Head Internal Audit and senior staff members of the internal audit department.
- To recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;
- Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.

Activities of the BARC

During the year under review, the BARC met eleven times in the discharge of its functions and,

- Reviewed forty six internal audit reports relating to branches, personal banking centres and the Leasing branches,
- Reviewed fifty seven departmental, process audit, investigation and follow-up reports,
- Paid attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action whenever necessary,
- Reviewed the adequacy of the insurance cover of the various policies in force,
- Monitored Treasury activities and the customer asset portfolio to ensure that credit quality and the inherent risks

were addressed, with specific attention to ensure that preventive action was taken to minimise possible losses;

- Reviewed the control processes pertaining to the Central Operations, Finance, Credit Cards, Loan Processing and IT area and proposed modifications to be made in order to ensure that industry best practices were adopted;
- Outsourced the web application penetration test, application security audit, IT server vulnerability assessment and network security audit.
- Discussed issues arising from the internal audit and investigation reports with representatives of the external auditor, who attend the BARC meetings regularly by invitation;
- Reviewed the management letter sent by the auditors, management's response thereto and follow up action;
- Met with the representatives of the external auditor in the closed sessions of the BARC meetings thereby providing them with an opportunity to express their views independent of management;
- Monitored compliance with requirements laid down by the regulatory authorities;
- Ratified the quarterly financial statements prior to approval by the Board, publication and submission to the Central Bank, the Colombo Stock Exchange and shareholders;
- Paid special attention to the items highlighted in the examination report of the Central Bank with a view ensuring that the highlighted items were brought to a logical conclusion.
- Followed up closely with the external auditors with regard to the application of the SLAS 44 and 45 / IFRS and their impact on the operations of the Bank;
- Monitored the buildup of ground work leading to the eventual certification of the Internal Control Mechanism in place at the Bank.
- Developed a policy whereby employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters

The BARC also developed a policy on the engagement of the external auditor to provide non-audit services and reviewed the audit and the non-audit work that is assigned to the external auditor to ensure that the provision of such services do not impair the external auditors' independence. Based on these reviews the BARC has no reason to doubt the independence and effectiveness of the external auditor.

The BARC is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability maintained. The BARC has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as external auditors of the Bank for the financial year ending 31st December 2012 at the next Annual General Meeting.



Maithri Wickremesinghe
Chairman
Board Audit Review Committee

Colombo
23rd February 2012

During the year under review, the Human Resources and Remuneration Committee comprised of Non-Executive Directors namely Mr. A. D. Gunewardene (Chairman), Mr. A. R. Rasiah, Dr. (Ms.) D. Weerakoon and Mr. E. H. Wijenaike (appointed with effect from 1st March, 2011). The Committee held two meetings during the year. The Chief Executive Officer (CEO) of the Bank was present at such meetings of the Committee as an invitee, except when matters relating to the CEO were being discussed.

The Committee was reconstituted with effect from 26th January, 2012 and currently comprises of the following directors;

Mr. J. R. F. Peiris (Chairman)

Mr. A. K. Gunaratne

Dr. (Ms) D. Weerakoon

Mr. A. R. Rasiah

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

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

In performing this role, the Committee ensures that:

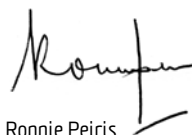
- Shareholder and Employee interests are aligned.
- The Bank is able to attract, motivate and retain employees, particularly at management levels.
- The integrity of the Bank's compensation and reward programme is maintained.

In-keeping with the objectives of the Charter, the Committee has, during 2011, placed great emphasis in ensuring that the Compensation & Benefits policies of the Bank are appropriate in attracting the skills required in pursuing the short term and long term strategic objectives of the Bank.

In creating a performance driven culture, employees are paid a variable bonus, based on the Bank's performance during the subject year. The bonus pool is a function of the extent to which pre agreed targets have been met. The distribution of the bonus pool takes into account the job position and the rating of the individual.

During the year, the Bank participated in two remuneration surveys carried out by external consulting firms. The results of these surveys will be the basis on which remuneration levels for the year 2012 are set.

During 2011, the Committee also evaluated the performance of the CEO, Executive Director and Key Management Personnel of the Bank against their pre-agreed objectives and targets.



Ronnie Peiris
Chairman
Human Resources and Remuneration Committee

Colombo
23rd February 2012

The members of the Nomination Committee are appointed by the Board and comprised of the following Directors during the year under review.

Mr. M.E. Wickremesinghe – Chairman

Mr. A.D. Gunewardene

Mr. E.H. Wijenaik

Mr. Murtaza Jafferjee (*Appointed with effect from 1st March, 2011*)

Composition of the Nomination Committee was changed with effect from 26th January 2012 and currently comprise of the following Directors;

Mr. M. E. Wickremesinghe – Chairman

Mr. J. R. F. Peiris

Mr. Murtaza Jafferjee

Mr. Prasanna De Silva

While all members of the Committee are non-executive directors, the chairman of the Committee and Mr. Murtaza Jafferjee are independent non-executive directors.

The Committee held six meetings during the year under review. All members of the Committee attended each meeting. 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.

The Committee worked closely with the Board in evaluating

and reviewing, the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considered for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly. Having carried out this evaluation the Committee recommended to the Board the appointment of Mr. Prasanna De Silva and Ms. Shalini Panditaratne during the year. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

The Committee also works closely with the Board in ensuring that Key Management Personnel comprise of persons of required skill and expertise and that their responsibilities and areas of authority are aligned with the Board approved strategy. During the year under review the Committee assisted the Board by working closely with a specially appointed sub committee to implement a succession plan for the Key Management Personnel including the Chief Executive Officer. Based on the recommendations of the specially appointed sub-committee, the Committee recommended for approval by the Board a new structure for Key Management Personnel. Committee also considered and determined that the Directors and Key Management Personnel are fit and proper persons to hold their respective offices.



M. E. Wickremesinghe
Chairman-Nomination Committee

Colombo
23rd February 2012

Board Integrated Risk Management Committee Report

Composition

During the year under review, the Integrated Risk Management Committee (IRMC) comprised of the following Directors;

Mr. J. R. F. Peiris (Chairman)

Mr. A. K. Gunaratne

Mr. M. E. Wickremesinghe (Till 28th February, 2011)

Dr. Kemal De Soysa (Appointed with effect from 1st March, 2011)

The composition of the Board Integrated Risk Management Committee was changed with effect from 26th January, 2012 and currently comprise of the following Directors;

Mr. A. R. Rasiah (Chairman)

Mr. A. K. Gunaratne

Dr. Kemal De Soysa

Mr. D. Prasanna De Silva

Ms. N. Shalini Panditaratne

Chief Executive Officer, Mr. Saliya Rajakaruna 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.

Ms. R. N. K. Fernando	- Deputy Chief Executive Officer
Mr. Ajith Akmeemana	- Chief Financial Officer
Mr. Rohitha Ganegoda	- Chief Operating Officer
Mr. Anura Yapa	- Chief Risk Officer
Mr. Mahendra Galgamuwa	- Consultant - Treasury

In addition to the above, Mr. Sarath Piyaratna, Executive Director, Mr. Arthur Fernandez, Head of Internal Audit and Mr. Jerome Ratnarajah, Chief Manager Treasury Settlements 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.

The process through which the IRMC discharges its responsibilities is detailed in the Risk Management section of this annual report. The IRMC has placed special emphasis in ensuring that a risk awareness culture is created in the Bank through the development of divisional risk grids and the monthly divisional meetings which discuss and update the risk grids of the respective divisions. These initiatives cascaded the risk awareness culture to the lower levels of staff and enabled the staff to understand and voice their opinions on risks and risk management practices of the Bank in an open and transparent manner.

Meetings

The IRMC held thirteen meetings during the year under review. The minutes of the IRMC Meetings were regularly forwarded to the Board. The IRMC also caused a Risk Assessment Report to be submitted to the Board within a week of every meeting. The IRMC reviewed risk policy frameworks, risk management strategies and key risk indicators were discussed at the meetings and the IRMC is satisfied that the risk exposures of the Bank are being appropriately managed.



R. Rasiah

Chairman – Integrated Risk Management Committee

Colombo
23rd February 2012

Board Credit Committee Report

During the year under review, the composition of the Board Credit Committee was;

Mr. A. D. Gunewardene (Chairman)

(Alternate: Mr. J. R. F. Peiris)

Mr. E. H. Wijenaike

Mr. A. K. Gunaratne

Mr. C. H. S. K. Piyaratna

The Board Credit Committee was reconstituted with effect from 26th January, 2012 as follows:

Mr. J. R. F. Peiris (Chairman)

(Alternate : Mr. K. Balendra)

Mr. A. K. Gunaratne

(Alternate : Mr. D. P. De Silva)

Mr. C. H. S. K. Piyaratna

The Board Credit Committee's mandate includes the following:

- Ensuring that the Bank has a comprehensive credit evaluation, approval and credit risk management framework in place.
- Assessing the effectiveness of the Bank's credit evaluation, approval and credit risk management system and monitoring the impact and risk to the Bank through appropriate risk indicators and management information.
- Ensuring that the credit evaluation, approval and credit risk management functions are in compliance with laws, regulations, regulatory guidelines, internal controls and approved policies of the Bank.
- Ensuring that the Board is regularly kept updated of the Bank's risk exposure.

The Committee held 4 meetings during the year. The Committee also approved credit proposals by circulation as and when required.

The Chief Risk Officer functions as the Secretary to the Board Credit Committee and the minutes of the meetings are made available to the Board of Directors on a regular basis. The Chief Executive Officer of the Bank is invited to be present at the meetings of the Committee. Other members of the Senior Management of the Bank are invited to participate at the meetings as and when required.

The Committee which derives its scope and authority from the Board of Directors was established as a "vehicle" ensuring a balance between risk and growth in the Bank's expansion strategies. Credit Applications/Requests which exceed the approval limits of the Head Office Credit Committee are considered by the Board Credit Committee.



Ronnie Peiris
Chairman
Board Credit Committee

Colombo
23rd February 2012

The details set out herein provide the pertinent information in accordance with the statutory requirements, requirements of relevant regulatory authorities for the listed companies in the financial industry and best accounting practices.

GENERAL

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31st December, 2011 of Nations Trust Bank PLC., 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.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 23rd February 2012.

STATEMENT OF COMPLIANCE ON THE CONTENTS OF THE ANNUAL REPORT

The Audited Financial Statements included in this Annual Report have been prepared and presented with the disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

PRINCIPAL ACTIVITIES

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are four fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group.

Bank

The principal activities of the Bank are commercial, personal and private banking, trade services, leasing, factoring, treasury and capital market services and fee based activities.

Subsidiaries

The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Ltd., Allied Properties Ltd., Mercantile Leasing (Financial Services) Ltd. and Nations Insurance Brokers Ltd. are carrying out margin trading, money market operations and fund and fee based activities, property rental, managing an operating leases portfolio and insurance broking, respectively.

There has been no material change to the activities of the Bank or any of the subsidiaries during the period under review.

FINANCIAL STATEMENTS

Financial Statements of the Bank and the group are given on pages 154 to 189 of this Annual Report.

AUDITORS' REPORT

Auditors' Report on the Financial Statements is given on Page 153

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 158 to 166. There has been no change in the accounting policies adopted by the Bank during the period under review.

INTERESTS REGISTER

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest are given on pages 143 to 147 of this Report.

Entries relating to the following were made in the Interests Register during the year under review:

1. Allotment of shares to Directors namely Mr. A. D. Gunewardene, Mr. E. H. Wijenaike, Mr. A. K. Gunaratne, Mr. K. N. J. Balendra and Mr. C. H. S. K. Piyaratna on 24th March, 2011 pursuant to conversion of 'Warrants 2011'.
2. Purchase of shares by Mr. C. H. S. K. Piyaratna, a Director on 8th March 2011.
3. Approval of remuneration to Executive Directors by the Board - 31st March, 2011.

DIRECTORS' SHAREHOLDINGS

Directors' shareholding as at 31st December, 2011 and 2010 are given below;

Name of the Director	No. of Shares	
	2011	2010
Mr. A. D. Gunewardene	5,671,164	4,621,272
Mr. E. H. Wijenaike	10,598	9,635
Mr. J. R. F. Peiris	-	-
Mr. A. K. Gunaratne	19,432	17,666
Mr. A. R. Rasiah	16,304	16,304
Dr. (Ms.) D. Weerakoon	-	-
Mr. M. E. Wickremesinghe	-	-
Mr. K. N. J. Balendra	107,700	-
Mr. S. C. Rajakaruna	-	-
Mr. C. H. S. K. Piyaratna	100,400	83,832
Mr. M. Jafferjee	-	-
Dr. Kemal de Soysa	-	-

DIRECTORS' REMUNERATION

Details of Directors' fees and emoluments paid during the year are as follows:

	Bank (Rs. Mn)	Group (Rs. Mn)
Executive Directors' emoluments	44.476	44.476
Non-Executive Directors' fees	9.110	9.110

CORPORATE DONATIONS

No donations have been made by the Bank during the year.

DIRECTORATE

The names of the Directors of the Bank as at the end of 31st December, 2011 and their attendance at the board meetings during the year were as follows;

Name and the designation	Eligibility	Attendance	Excused
Non Executive Directors			
Mr. A. D. Gunewardene -Chairman	12	12	Nil
Mr. E. H. Wijenaikie - Deputy Chairman	12	10	2
Mr. J. R. F. Peiris	12	12	Nil
Mr. A. K. Gunaratne	12	12	Nil
Mr. K. N. J. Balendra	12	11	1
Mr. A. R. Rasiah	12	10	2
Independent Non Executive Directors			
Mr. M. E. Wickremesinghe - Senior Director	12	12	Nil
Dr. (Ms.) D. Weerakoon	12	11	1
Mr. Murtaza Jafferjee	12	11	1
Dr. Kemal de Soysa	12	11	1
Executive Directors			
Mr. S. G. Rajakaruna	12	12	Nil
Mr. C. H. S. K. Piyaratna	12	10	2

Mr. A. D. Gunewardene and Mr. E. H. Wijenaikie resigned from the Board on 31st December, 2011. Mr. D. Prasanna De Silva and Ms. N. Shalini Panditaratne were appointed to the Board with effect from 1st January, 2012 as a Non Executive Director and an Independent Non Executive Director, respectively.

Mr. J. R. F. Peiris was appointed as the Chairman of the Bank with effect from 1st January, 2012.

Mr. J. R. F. Peiris, Mr. C. H. S. K. Piyaratna and Mr. S. G. Rajakaruna retire by rotation and being eligible for re-election are recommended for re-election as provided for in the Articles of Association of the Bank.

Mr. D. Prasanna De Silva and Ms. N. Shalini Panditaratne who were appointed to the Board subsequent to the last Annual General Meeting are recommended for election by the shareholders pursuant to Article No.91 of the Articles of Association of the Bank and in terms of Direction No. 3 (2) (x) of Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

Having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, Board is of the view that all directors of the bank including those who are recommended for re-election and election are fit and proper persons to hold office as Directors of the Bank.

AUDITORS

Bank's Auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. The following payments were made to them during the year.

	Bank (Rs. Mn)	Group (Rs. Mn)
Audit Fees	6.625	8.438
Fees for Other Services	5.893	6.177

Other services consisted of tax related work.

As far as the Directors are aware the Auditors do not have any relationship with or interest in the Bank or any of its subsidiaries other than those disclosed above.

RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 155, Balance Sheets of the Bank and the Group are given on page 154.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors recommend a first and final dividend of Rs. 2.10 per share to the holders of ordinary shares of the Bank registered on the books of the Bank as at end of 30th March 2012.

INFORMATION ON SHARES AND DEBENTURES

Information relating to holdings of shares and debentures is given on pages 68 to 69 of this Report.

POST- BALANCE SHEET EVENTS

No circumstances have arisen since the Balance Sheet date that would require adjustment or disclosure other than those disclosed in Note 33 to the Financial Statements contained on page 189.

CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31st December 2011 were 13.42% for Tier I and 17.44% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of 5% and 10% respectively.

REPORT ON COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS, LAWS AND INTERNAL CONTROLS

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank such as the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Exchange Control Act No. 24 of 1953, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

The Bank has established and maintained an effective system of internal controls which is improved on a continuous basis based on the recommendations of Internal Audit Department and the observations of the Central Bank of Sri Lanka and the external auditors during their inspections and audits.

TRANSACTIONS WITH RELATED PARTIES

Details of significant related party transactions are given in the table below;

Annual Report of the Board of Directors on the Affairs of the Bank

Category of Related Party	Subsidiary Companies *		Directors of the Bank		Key Management Personnel (KMP) of the Bank		Close Relations of Directors and KMP		Shareholders owning a material interest in the Bank **		Concerns in which Directors, Close Relations of Directors or material shareholders have a substantial interest	
Balance Sheet Items	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000	2011 Rs. ' 000	2010 Rs. ' 000
Assets												
Accommodation												
Loans and Advances	908,850	1,703,906	891	2,034	38,616	48,437	1	29	208,461	32,153	-	-
Credit Cards	-	-	986	957	2,108	5,012	-	-	359	395	-	-
Reverse Repurchase												
Agreements	648,721	1,193,185	-	-	200	-	-	-	-	-	-	-
Other Assets	12,246	34,080	-	-	-	-	-	-	-	-	-	-
Total Accommodation	1,569,817	2,931,171	1,877	2,991	40,924	53,449	1	29	208,820	32,548	-	-
Less: Cash												
Collaterals against												
Total Accommodations	714,780	1,377,980	4,135	4,085	28,116	28,726	100	-	-	35,000	-	-
Inv. made in the												
Bank's Equity												
and Debt Instruments	-	-	131,083	98,933	2,371	2,688	2,117	1,812	2,545,587	2,179,448	-	-
Total Net Accommodation	854,837	1,553,191	Nil	Nil	10,439	22,037	Nil	Nil	Nil	Nil	-	-
Total Net Accommodation												
% of Total Regulatory												
Capital	8.27%	21.27%	-	-	0.10%	0.30%	-	-	-	-	-	-
Liabilities												
Deposits	58,683	39,199	124,497	179,302	75,891	61,788	4,050	3,997	2,300,223	2,172,974	100,314	3,768
Borrowings	280,511	19,090	-	7,000	16,215	9,000	-	-	931,187	2,923,005	-	-
Other Liabilities	-	229,172	-	-	-	-	-	-	-	-	-	-
Equity												
Dividends Paid (Net)	-	-	10,867	6,654	69	191	172	127	211,349	146,574	-	-
Off-Balance Sheet Items												
Undrawn Facilities	491,150	296,144	4,964	5,387	20,291	16,744	(1)	-	50,356	218,985	-	-
Letter of												
Credit /Guarantees	-	450	-	-	-	-	-	-	8,185	63,467	-	-
Income Statement Items												
Interest Income Earned	217,710	360,712	132	476	2,299	2,865	1	10	3,843	1,587	1	2
Interest Expenses Paid	17,543	13,513	10,518	6,010	4,872	3,324	171	107	176,098	625,285	58	-
Other Income Earned	-	2	303	8	409	81	5	9	2,866	1,620	2	103
Dividends Received (Gross)	13,250	53,750	-	-	-	-	-	-	-	-	-	-
Expenses Paid	30,793	30,008	-	-	-	-	-	-	24,185	23,347	2	3,297
Provision for Investments	-	-	-	-	-	-	-	-	-	-	-	-
Compensation paid												
Emoluments / Fees	-	-	53,586	29,988	139,927	83,783	-	-	-	-	-	-
Post Employment Benefits	-	-	644	1,516	4,919	4,372	-	-	-	-	-	-
No. of Shares of the												
Bank bought	-	-	1,176,889	2,122,012	2,166	50,533	8,698	17,396	-	-	-	-
No. of Shares of the												
Bank sold	-	-	-	-	-	19,000	-	-	-	-	-	-

* Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing (Financial Services) Limited.

** Since John Keells Holdings PLC together with Mackinnon & Keells Financial Services Limited and its Executive Staff Provident Fund, Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank, transactions with these companies have been disclosed.

The Group does not have Associate Companies.

DIRECTORS OF SUBSIDIARY COMPANIES

Waldock Mackenzie Limited

Mr. A. K. Gunaratne –Chairman

(Appointed with effect from 24th January, 2012)

Mr. K. N. J. Balendra

(Appointed with effect from 24th January, 2012)

Mr. C. H. S. K. Piyaratna

Mr. S. G. Rajakaruna

Resignations

Mr. E. H. Wijenaïke - on 31st December, 2011

Mr. A. D. Gunewardene - on 25th January, 2012

Nations Insurance Brokers Limited

Mr. S. G. Rajakaruna - Chairman

Mr. C. H. S. K. Piyaratna

Ms. R. N. K. Fernando

(Appointed with effect from 1st November, 2011)

Resignation

Ms. R. K. Jayawardene - on 31st October, 2011

Allied Properties Limited

Mr. A. K. Gunaratne –Chairman

(Appointed with effect from 24th January, 2012)

Mr. K. N. J. Balendra

(Appointed with effect from 24th January, 2012)

Ms. R. N. K. Fernando

(Appointed with effect from 24th January, 2012)

Mr. S. G. Rajakaruna

Resignations

Mr. E. H. Wijenaïke - on 31st December, 2011

Mr. A. D. Gunewardene - on 25th January, 2012

Mercantile Leasing (Financial Services) Limited

Mr. S. G. Rajakaruna (Chairman)

Mr. C. H. S. K. Piyaratna

(Appointed with effect from 24th January, 2012)

Ms. R. N. K. Fernando

(Appointed with effect from 24th January, 2012)

Resignations

Mr. E. H. Wijenaïke –on 31st December, 2011

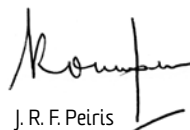
Mr. A. D. Gunewardene –on 25th January, 2012

GOING CONCERN

Directors after making necessary inquiries have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis has been adopted in the preparation of the Financial Statements.

ANNUAL GENERAL MEETING

Annual General Meeting of the Bank will be held at the Auditorium of The Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekara Mawatha, Colombo 7 on 30th March, 2012 at 10.00 a.m.



J. R. F. Peiris
Chairman



S. G. Rajakaruna
Director/Chief Executive Officer



Theja Silva
Company Secretary

Colombo
23rd February, 2012

RESPONSIBILITY

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

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

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

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

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

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Review Committee. Findings of the Internal Audit Department are submitted to the Board Audit Review Committee for review at their periodic meetings.
- The Board Audit Review Committee of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and Management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Review Committee meetings are forwarded to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 129 to 130.
- In assessing the internal control system, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. This assessment relates only to the Bank.

CONFIRMATION

Based on the above processes, the Board confirms that to the best of their knowledge the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditor's have reviewed the above Directors' Statement on Internal Control included in the annual report of the Bank for the year ended 31st December, 2011 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

By order of the Board




J. R. F Peiris
Chairman



A. K Gunaratne
Director



Saliya Rajakaruna
Director/ CEO
BARC



M. E. Wickremasinghe
Director/Chairman -

Colombo
23rd February 2012



Chartered Accountants

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

Tel : (0) 11 2463500
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Tax : (0) 11 5578180
eysl@lk.ey.com

GSM/DTD/AD

**INDEPENDENT ASSURANCE REPORT TO THE BOARD
OF DIRECTORS OF NATIONS TRUST BANK PLC**

Introduction

We were engaged by the Board of Directors of Nations Trust Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2011.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

We conducted our engagement to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

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

Our conclusion

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

A handwritten signature in black ink, appearing to be 'D. S. Fernando'.

23 February 2012
Colombo

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 ACA 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 Ms. L C G Nanayakkara FCA FCMA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

Directors' Interests in Contracts with the Bank

The Bank carried out transactions in the ordinary course of its business at commercial rates with the following Director-related entities:

Details of transactions carried out with Director-related entities during the year 2011.

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2011 (Rs.)
Central Finance Co. PLC	E. H. Wijenaïke	Director	A sum of Rs. 23,873,671/- was paid as vehicle rentals.	Nil
	A. K. Gunaratne	Director	A sum of Rs. 6,624,159/- was received as interest and other income.	
			A sum of Rs. 15,538,897/- was paid as interest expense.	
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 10,051,589/- was paid for Stationery	Nil
	J.R.F. Peiris	Director	Items purchased and repair & maintenance charges. A sum of Rs. 13,377,299/- was received as interest income.	
John Keells Holdings PLC	A.D. Gunewardene	Director	A sum of Rs. 311,060/- was paid as economic advisory service charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 60,117/- was received as interest and other income.	
			A sum of Rs. 157,304,152/- was paid as interest expenses.	
D.H.L. Keells (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 1,395,020/- was paid as courier charges.	Nil
Jaykay Marketing Services (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 4,887,260/- was paid as rent, utility payments & sponsorships.	Nil
	K. Balendra	Director	A sum of Rs. 733,113/- was paid as interest expenses.	
			A sum of Rs. 19,989/- was received as interest and other income.	
Odel PLC	A.D. Gunewardene	Director	A sum of Rs. 4,971,511/- was paid as rent, utility payments & advertising.	Nil
			A sum of Rs. 209,847/- was received as interest and other income.	
Asian Hotels & Properties PLC	A.D. Gunewardene	Director	A sum of Rs. 6,702,454/- was paid as rent, utility payments & sponsorships.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 5,838,319/- was paid as interest expenses.	
			A sum of Rs. 44,852/- was received as interest and other income.	
Ceylon Holiday Resorts Limited	A.D. Gunewardene	Director	A sum of Rs. 507,002/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 134,501/- was received as interest and other income.	
			A sum of 840,945/- was paid as training and development charges.	
Mackinnon and Keells Financial Services Limited	A.D. Gunewardene	Director	A sum of Rs. 3,254,455/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 11,000/- was received as interest and other income.	
Habarana Walk Inn Limited	A.D. Gunewardene	Director	A sum of Rs. 77,656/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 124,702/- was paid as interest expenses.	

Directors' Interests in Contracts with the Bank

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2011 (Rs.)
MMBL Money Transfer Pvt. Ltd	K. Balendra	Director	A sum of Rs. 2,850/- was received as interest and other income.	Nil
Lanka Clear Pvt Ltd	S. Rajakaruna	Director	A sum of Rs. 7,988,426/- was paid as interest expenses and a sum of 481,780/- was paid as operational charges.	Nil
Premium Brands Pvt. Ltd	M.E. Wickremesinghe	Director	A sum of Rs. 8,226,942/- was paid as interest expenses. A sum of Rs. 142,855/- was received as interest and other income.	Nil
Walkers Tours Limited	A. D. Gunewardene J. R. F. Peiris	Director Director	A sum of Rs. 2,367,666/- was paid as interest expenses. A sum of Rs. 50,300/- was received as interest and other income.	Nil
Trans Asia PLC	A. D. Gunewardene J. R. F. Peiris	Director Director	A sum of Rs. 600,517/- was paid as staff training & accommodation charges. A sum of Rs. 1,514,301/- was paid as interest expenses. A sum of Rs. 4,000/- was received as interest and other income.	Nil
Waldock Mackenzie Limited	A. D. Gunewardene E. H. Wijenaik S. Rajakaruna C. H. S. K. Piyaratna	Director Director Director Director	A sum of Rs. 216,971,282/- was received as interest income. A sum of Rs. 8,730,000/- was received as net dividend income. A sum of 6,750,000/- was paid as debenture issue fees.	Nil
Allied Properties Limited	A. D. Gunewardene E.H. Wijenaik S. Rajakaruna	Director Director Director	A sum of Rs. 13,562,651/- was paid as interest expenses. A sum of Rs. 30,367,254/- was paid as rent and electricity expenses. A sum of Rs. 1,800,000/- was received as net dividend income.	Nil
Nations Insurance Brokers Limited	S. Rajakaruna C.H.S.K. Piyaratna	Director Director	A sum of Rs. 3,980,610/- was paid as interest expenses. A sum of Rs. 1,395,000/- was received as net dividend income.	Nil
Union Assurance PLC	A.D. Gunewardene J.R.F. Peiris K. Balendra A.K. Gunaratne	Director Director Director Director	A sum of Rs. 1,137,956/- was paid as insurance premiums. A sum of Rs. 376,036/- was paid as interest expenses. A sum of Rs. 225,400/- was received as interest and other income	Nil
Central Industries PLC	E.H. Wijenaik A.K. Gunaratne	Director Director	A sum of Rs. 2,905,685/- was received as interest and other income. A sum of Rs. 1,339,841/- was paid as interest expenses.	Nil
Habarana Lodge Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 35,179/- was paid as interest expenses. A sum of Rs. 94,213/- was received as interest and other income. A sum of Rs. 76,718/- was paid as business promotion expenses	Nil

				Amount Outstanding as at 31.12.2011
Name of Related Party	Name of Director	Relationship	Details	(Rs.)
Kandy Walk Inn Limited	A.D. Gunewardene	Director	A sum of Rs. 70,366/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 120,043/- was received as interest and other income.	
International Tourists & Hoteliers Limited	A.D. Gunewardene	Director	A sum of Rs. 6,516/- was received as other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 798,268/- was paid as interest expenses.	
Nexus Networks (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 515,075/- was paid as interest expenses.	Nil
	K. Balendra	Director	A sum of Rs. 26,016/- was received as interest and other income. A sum of Rs. 434,445/- was paid as network charges.	
John Keells Warehousing (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 1,730,350/- was paid as interest expenses. A sum of Rs. 29,565/- was received as other income.	Nil
Capital Suisse Asia Limited	E.H. Wijenaik A.K. Gunaratne	Director Director	A sum of Rs. 26,859/- was paid as interest expenses.	Nil
Keells Food Products PLC	A.D. Gunewardene	Director	A sum of Rs. 698,117/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 1,944,827/- was received as interest and other income.	
Mortlake Private Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 489,195/- was paid as interest expenses.	Nil
John Keells Hotels PLC	A.D. Gunewardene	Director	A sum of Rs. 927,104/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 202,053/- was received as interest and other income.	
Hemas Holdings PLC	M.E. Wickremesinghe	Director	A sum of Rs. 13,730/- was paid as interest expenses.	Nil
Lanka Marine Services (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 264,283/- was received as interest income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 26,363,381/- was paid as interest expenses.	
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	A sum of Rs. 2,123,510/- was received as interest and other income.	Nil
Ceylon Cold Stores PLC	A.D. Gunewardene	Director	A sum of Rs. 638,544/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 326,010/- was received as interest and other income.	
	A.R. Rasiah	Director		
John Keells Stock Brokers (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 28,623,295/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
	K. Balendra	Director	A sum of Rs. 224,166/- was received as interest and other income.	
John Keells International (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 733,843/- was paid as interest expenses.	Nil
Keells Hotel Management Services Limited	A.D. Gunewardene	Director	A sum of Rs. 12,100/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 4,422,604/- was paid as interest expenses.	
Sunshine Power (Pvt) Limited	C.H.S.K. Piyaratna	Director	A sum of Rs. 21,641/- was received as interest and other income	Nil

Directors' Interests in Contracts with the Bank

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2011 (Rs.)
Mackinnons Travels Private Limited	A.D. Gunewardene	Director	A sum of Rs. 293,793/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 4,756/- was received as interest income.	
			A sum of Rs. 1,461,421/- was paid for air ticket purchases.	
Serendib Hotels PLC	Murtaza Jafferjee	Director	A sum of Rs. 3,639/- was paid as interest expenses.	Nil
Mack Air (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 91,082/- was received as other income.	Nil
			A sum of Rs. 10,489,506/- was paid as interest expenses.	
John Keells Maldivian Resorts (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 2,560,277/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director		
CF Insurance Brokers (Pvt) Limited	E.H. Wijenaika	Director	A sum of Rs. 14,250/- was received as other income.	Nil
Central Hospitals (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 216,900/- was paid as medical charges for new recruits.	Nil
	K. Balendra	Director		
Colombo Stock Exchange	K. Balendra	Director	A sum of Rs. 745,246/- was paid for professional services provided.	Nil

Details of Accommodation granted and balances outstanding as at 31st December 2011

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit (Rs.)	Amount Outstanding as at 31.12.2011 (Rs.)
Central Finance Co. PLC	E.H. Wijenaika	Director	Working Capital Financing	235,000,000	208,461,144.
	A.K. Gunaratne	Director	Trade Finance Facilities	Sub Limit	10,824,000
			Corporate Credit Card	10,000,000	Nil
Central Industries PLC	E.H. Wijenaika	Director	Working Capital Financing	15,000,000	Nil
	A.K. Gunaratne	Director	Trade Finance Facilities	125,000,000	71,741,000
			Corporate Credit Card	5,000,000	Nil
Ceylon Cold Stores PLC	A.D. Gunewardene	Director	Working Capital Financing	9,900,000	Nil
	J.R.F. Peiris	Director	Trade Finance Facilities	100,000	Nil
	A.R. Rasiah	Director			
Habarana Lodge Limited	A.D. Gunewardene	Director	Working Capital Financing	5,000,000	Nil
	J.R.F. Peiris	Director			
Kandy Walk Inn Limited	A.D. Gunewardene	Director	Working Capital Financing	10,000,000	Nil
	J.R.F. Peiris	Director			
Ceylon Holiday Resorts Limited	A.D. Gunewardene	Director	Working Capital Financing	10,000,000	NIL
	J.R.F. Peiris	Director			
John Keells Holdings PLC	A.D. Gunewardene	Director	Corporate Credit Card	25,000,000	359,000
	J.R.F. Peiris	Director			
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	Working Capital Financing	5,000,000	NIL
			Finance Leases		9,792,000

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Amount Outstanding as at 31.12.2011	
				Limit (Rs.)	(Rs.)
Hemas Holdings PLC	M.E. Wickremesinghe	Director	Corporate Credit Card	20,000,000	2,865,000
Waldock Mackenzie Limited	A.D. Gunewardene	Director	Trade Finance Facilities	1,400,000,000	908,850,000
	E.H. Wijenaike	Director	Reverse Repurchase		648,720,655
	S. Rajakaruna	Director			
	C.H.S.K. Piyaratna	Director			
Habarana Walk Inn Limited	A.D. Gunewardene	Director	Working Capital Financing	5,000,000	Nil
	J.R.F. Peiris	Director			
John Keells Hotels PLC	A.D. Gunewardene	Director	Working Capital Financing	20,000,000	NIL
	J.R.F. Peiris	Director			
Walkers Tours Limited	A.D. Gunewardene	Director	Corporate Credit Card	2,500,000	212,000
	J.R.F. Peiris	Director	Trade Finance Facilities	46,000,000	NIL
John Keells Office Automation	A.D. Gunewardene	Director	Working Capital Financing	300,000,000	277,380,108
	J.R.F. Peiris	Director	Trade Finance Facilities	450,000,000	393,625,531
Keells Food Products PLC	A.D. Gunewardene	Director	Working Capital Financing	100,000,000	35,204,896
	J.R.F. Peiris	Director			
MMBL Money Transfer (PVT) LTD	K. Balendra	Alternate Director	Finance Lease		19,585,000
John Keells Warehousing (PVT) LTD	J.R.F. Peiris	Director	Trade Finance Facilities	8,500,000	8,223,152
Premium Brands (PVT) LTD	M.E. Wickremesinghe	Director	Trade Finance Facilities	25,000,000	NIL
Keells Hotels Management Service Limited	A.D. Gunewardene	Director	Corporate Credit Card	5,000,000	13,516
Mackinnon Travels Private Limited	A.D. Gunewardene	Director	Corporate Credit Card	1,000,000	750



6:15 pm Batticaloa





Beyond boundaries

From Colombo to Batticaloa, Galle to Jaffna, our network will expand across the island to reach Sri Lankans everywhere.

NATIONS TRUST BANK PLC ANNUAL REPORT 2011

FINANCIAL REPORTS

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 153 of the Report.

The Companies Act No. 07 of 2007, requires that the Directors prepare for each financial year and place before a General Meeting, Financial Statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiaries for the financial year and a Balance Sheet, which presents a true and fair view of the state of affairs of the Bank and its subsidiaries as at the end of the financial year.

The Directors are of the view that, in preparing these Financial Statements:

- i. the appropriate Accounting Policies have been selected and have been applied consistently. Material departures, if any, have been disclosed and explained;
- ii. all applicable Accounting Standards have been followed;
- iii. judgments and estimates have been made which are reasonable and prudent.

The Directors are also of the view that the Bank and its subsidiaries have adequate resources to continue in operation and have applied the going-concern basis in preparing these Financial Statements. Mercantile Leasing (Financial Services) Limited continued to scale down its operating leases business with no new business being sourced since the year 2009.

The Directors are responsible for ensuring that the Bank and its subsidiaries maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the entities and to be able to ensure that the Financial Statements of the Bank and its subsidiaries meet with the requirements of the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and, in this regard, to give proper consideration to the establishment of appropriate internal control systems, with a view to preventing and for the detection of fraud and other irregularities.

The Directors are required to prepare Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate, for the purpose of enabling them to give their audit report.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.



Chartered Accountants

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P.O. Box 101
Colombo 10
Sri Lanka

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Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

GSM/DTD/AD

**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, the consolidated financial statements of the Bank and its subsidiaries, which comprise the balance sheets as at 31 December 2011, and the income statements, 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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 2011 and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2011 and its profit 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 state of affairs as at 31 December 2011 and the profit 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

In our opinion, these financial statements also comply with the requirements of Section 151(2) and Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

23 February 2012
Colombo

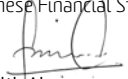
Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms.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

Balance Sheet

As at 31 st December	Note	Bank			Group		
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
ASSETS							
Cash and Short Term Funds	3	3,690,795	1,530,529	141	3,690,837	1,530,548	141
Statutory Deposit with the Central Bank of Sri Lanka	4	4,284,336	2,416,235	77	4,284,336	2,416,235	77
Government Treasury Bills and Bonds	5	16,552,355	21,985,628	(25)	17,451,300	23,392,222	(25)
Reverse Repurchase Agreements		7,262,980	4,677,281	55	6,614,259	3,484,096	90
Investments and Other Placements	6	3,811,329	4,019,535	(5)	3,811,329	4,019,535	(5)
Loans and Advances:							
Bills of Exchange	7.1	704,985	505,838	39	704,985	505,838	39
Loans and Advances	7.2	45,347,228	33,183,566	37	46,298,381	33,814,564	37
Lease Rentals Receivable within One Year	7.3.1	4,810,183	3,641,576	32	4,810,183	3,641,576	32
Lease Rentals Receivable after One Year	7.3.2	8,988,744	5,151,492	74	8,988,744	5,151,492	74
Corporate Debt Securities	7.4	1,223,899	1,443,333	(15)	1,223,899	1,457,550	(15)
Other Assets	8	1,439,303	1,136,503	27	1,497,346	1,173,910	28
Deferred Assets	15.2.2	62,430	113,544	(45)	62,430	113,544	(45)
Investments in Subsidiaries	9	678,710	678,710	-	-	-	-
Property, Plant and Equipment	10	1,364,795	1,254,019	9	1,888,323	1,788,444	6
Intangible Assets	11	599,568	679,057	(12)	679,200	758,318	(10)
Total Assets		100,821,640	82,416,846	22	102,005,552	83,247,872	23
LIABILITIES							
Deposits	12.1	66,497,627	48,353,755	38	66,438,942	48,314,555	38
Due to Banks		365,718	499,813	(27)	365,718	499,813	(27)
Borrowings	13	16,266,536	19,290,684	(16)	16,586,887	19,673,885	(16)
Other Liabilities	14	5,291,560	5,386,204	(2)	5,370,058	5,193,113	3
Deferred Liabilities	15	618,604	448,596	38	626,473	455,800	37
Debentures	16	3,670,000	1,835,000	100	3,670,000	1,835,000	100
Subordinated Loan	17	336,625	471,275	(29)	336,625	471,275	(29)
Total Liabilities		93,046,670	76,285,327	22	93,394,703	76,443,441	22
SHAREHOLDERS' FUNDS							
Stated Capital	18	5,101,369	4,367,631	17	5,101,369	4,367,631	17
Reserve Funds	19.2	472,365	155,696	203	493,003	155,696	217
Reserves	20.2	2,201,236	1,608,192	37	3,016,477	2,281,104	32
Total Shareholders' Funds		7,774,970	6,131,519	27	8,610,849	6,804,431	27
Total Liabilities and Shareholders' Funds		100,821,640	82,416,846	22	102,005,552	83,247,872	23
Commitments and Contingencies	21.1	83,526,539	60,843,585	37	83,035,389	60,547,441	37
Net Assets Value per Ordinary Share (Rs.)		33.72	29.25		37.34	32.46	

Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.




Ajith Akmeemana
Chief Financial Officer


The Notes to the Financial Statements from pages 158 to 189 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;



J. R. F. Petris
Chairman



A. K. Gunaratne
Director



Saliya Rajakaruna
Director/ CEO



Theja Silva
Company Secretary

Colombo
23rd February 2012

Income Statement

Year ended 31 st December	Note	Bank			Group		
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
GROSS INCOME	22	11,939,147	11,954,249	(0)	12,336,831	12,215,201	1
Interest Income	23	9,671,851	9,830,929	(2)	9,953,754	10,090,176	(1)
Interest Expense	24	(5,573,113)	(5,516,461)	1	(5,588,560)	(5,525,069)	1
NET INTEREST INCOME		4,098,738	4,314,468	(5)	4,365,194	4,565,107	(4)
Fees and Commission Income		529,934	425,351	25	621,917	499,192	25
Net Foreign Exchange Gain		343,351	314,824	9	343,351	314,824	9
Other Operating Income	25	1,394,011	1,383,145	1	1,417,809	1,311,009	8
NET INCOME		6,366,034	6,437,788	(1)	6,748,271	6,690,132	1
Less : Operating Expenses							
Personnel Costs		1,742,752	1,604,492	9	1,778,732	1,630,097	9
Provision/(Reversal) for Bad and Doubtful Debts		(218,996)	209,062	(205)	(208,209)	202,807	(203)
Other Fees and Charges		15,226	20,831	(27)	15,226	21,052	(28)
Provision for Staff Retirement Benefits		55,321	44,941	23	56,905	46,691	22
Premises, Equipment and Establishment Expenses		789,897	769,007	3	800,065	784,431	2
Other Operating Expenses		2,017,801	1,935,832	4	2,095,670	1,976,486	6
		4,402,001	4,584,165	(4)	4,538,389	4,661,564	(3)
PROFIT BEFORE TAXATION	26	1,964,033	1,853,623	6	2,209,882	2,028,568	9
Less: Taxation	27	(593,105)	(851,686)	(30)	(675,987)	(944,343)	(28)
PROFIT AFTER TAXATION		1,370,928	1,001,937	37	1,533,895	1,084,225	41
Earnings Per Share - Basic (Rs.)	28	6.01	4.66	29	6.73	5.04	33
Dividend Per Share (Rs.)	29	2.10	2.00	5	2.10	2.00	5

The Notes to the Financial Statements from pages 158 to 189 form an integral part of these Financial Statements.

Colombo
23rd February 2012

Statement of Changes in Equity

Bank

	Note	Stated Capital Rs. '000	Capital Reserve Rs. '000	Reserve Fund Rs. '000	Investment Fund Rs. '000	Revenue Reserve Rs. '000	Total Rs. '000
Balance as at 31 st December 2009		3,109,771	-	105,599	-	970,817	4,186,187
Dividend Paid for 2009		-	-	-	-	(314,465)	(314,465)
Shares issued on '2010 Warrants' exercised		1,257,860	-	-	-	-	1,257,860
Profit for the Year		-	-	-	-	1,001,937	1,001,937
Transfers during the Year	19.1	-	-	50,097	-	(50,097)	-
Balance as at 31 st December 2010		4,367,631	-	155,696	-	1,608,192	6,131,519
Dividend Paid for 2010		-	-	-	-	(461,215)	(461,215)
Shares issued on '2011 Warrants' exercised		733,738	-	-	-	-	733,738
Profit for the Year		-	-	-	-	1,370,928	1,370,928
Transfers to Investment Fund	19.2	-	-	-	248,123	(248,123)	-
Transfers during the Year	19.1	-	-	68,546	-	(68,546)	-
Balance as at 31st December 2011		5,101,369	-	224,242	248,123	2,201,236	7,774,970

Group

	Note	Stated Capital Rs. '000	Capital Reserve Rs. '000	Reserve Fund Rs. '000	Investment Fund Rs. '000	Revenue Reserve Rs. '000	Total Rs. '000
Balance as at 31 st December 2009		3,109,771	9,500	105,599	-	1,551,941	4,776,811
Dividend Paid for 2009		-	-	-	-	(314,465)	(314,465)
Shares issued on '2010 Warrants' exercised		1,257,860	-	-	-	-	1,257,860
Profit for the Year		-	-	-	-	1,084,225	1,084,225
Transfers during the Year	19.1	-	-	50,097	-	(50,097)	-
Balance as at 31 st December 2010		4,367,631	9,500	155,696	-	2,271,604	6,804,431
Dividend Paid for 2010		-	-	-	-	(461,215)	(461,215)
Shares issued on '2011 Warrants' exercised		733,738	-	-	-	-	733,738
Profit for the Year		-	-	-	-	1,533,895	1,533,895
Transfers to Investment Fund	19.2	-	-	-	268,761	(268,761)	-
Transfers during the Year	19.1	-	-	68,546	-	(68,546)	-
Balance as at 31st December 2011		5,101,369	9,500	224,242	268,761	3,006,977	8,610,849

The Notes to the Financial Statements from pages 158 to 189 form an integral part of these Financial Statements.

Colombo

23rd February 2012

Cash Flow Statement

Year ended 31 st December	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Cash Flow from Operating Activities				
Interest Received	9,609,090	9,751,952	9,875,986	9,992,097
Fees and Commission Received	529,934	425,351	621,917	499,192
Interest Paid	(4,997,943)	(5,706,060)	(4,999,541)	(5,711,904)
Foreign Exchange Income Received	343,419	248,599	343,419	248,599
Receipts from Other Operating Activities	1,388,742	1,184,701	1,430,691	1,150,557
Gratuity Payments Made	(7,420)	(9,895)	(8,341)	(9,895)
Payments to Employees and Suppliers	(4,016,058)	(4,288,963)	(4,079,770)	(4,376,151)
Net Cash flow from Operating Activities before Income Tax (A)	2,849,764	1,605,685	3,184,361	1,792,495
Income Tax paid	(542,441)	(460,349)	(600,087)	(538,005)
Operating Profit before Changes in Operating Assets and Liabilities	2,307,323	1,145,336	2,584,274	1,254,490
(Increase)/Decrease in Operating Assets				
Investments in Treasury Bills, Bonds & Reverse Repurchases	2,529,679	(3,122,180)	2,413,173	(940,437)
Investments and Other Placements	175,767	224,571	175,767	224,571
Corporate Debt Securities	230,376	447,680	263,684	447,680
Bills of Exchange	(194,450)	(364,818)	(194,450)	(364,818)
Loans and Advances including Leases	(17,049,823)	(9,096,778)	(17,380,816)	(8,549,906)
Other Assets	(305,064)	(327,113)	(114,905)	(344,339)
	(14,613,515)	(12,238,638)	(14,837,547)	(9,527,249)
Increase/(Decrease) in Operating Liabilities				
Customer Deposits	17,745,910	4,388,941	17,687,226	4,388,941
Securities sold under Repurchase Agreements	(2,670,054)	6,926,986	(2,750,468)	4,783,772
Other Liabilities	169,454	1,282,774	219,203	2,322,585
	15,245,310	12,598,701	15,155,961	11,495,298
Net Cash Flow from Operating Activities	2,939,118	1,505,399	2,902,688	3,222,539
Cash Flows from Investing Activities				
Purchase of Intangible Assets	(54,706)	(104,072)	(54,706)	(104,072)
Proceeds from sale of Property, Plant and Equipment	7,297	3,594	8,528	3,596
Purchase of Property, Plant and Equipment	(319,300)	(109,390)	(321,239)	(109,750)
	(366,709)	(209,868)	(367,417)	(210,226)
Cash Flows from Financing Activities				
Issuance of Ordinary Share Capital - Warrants	733,738	1,257,860	733,738	1,257,860
Decrease in Refinance Activities	(422)	(5,431)	(422)	(5,431)
Decrease in Call and Other Borrowings	(517,048)	(1,699,188)	(517,048)	(3,422,080)
Net Issue / (Redemption) of Debentures	1,835,000	(165,000)	1,835,000	(165,000)
Dividend Paid	(461,215)	(314,465)	(461,215)	(314,465)
	1,590,053	(926,224)	1,590,053	(2,649,116)
Net Increase in Cash and Cash Equivalents	4,162,462	369,307	4,125,324	363,197
Cash and Cash Equivalents at the beginning of the year	3,446,951	3,077,644	3,484,131	3,083,773
Cash and Cash Equivalents at the end of the year	7,609,413	3,446,951	7,609,455	3,446,970
Reconciliation of Cash and Cash Equivalents				
Cash in Hand, Balances with Banks and Due to Banks	1,676,416	1,023,845	1,676,458	1,023,864
Balance with the Central Bank of Sri Lanka	4,284,336	2,416,235	4,284,336	2,416,235
Money at Call and Short Notice	1,648,661	6,871	1,648,661	6,871
	7,609,413	3,446,951	7,609,455	3,446,970
A. Reconciliation of Operating Profit				
Profit Before Taxation	1,964,033	1,853,623	2,209,882	2,028,568
Depreciation	317,817	335,929	329,658	347,617
Profit on disposal of Property, Plant and Equipment	(5,269)	(205)	(5,876)	(205)
Provision / (Reversal) for Doubtful Debts	(218,996)	209,062	(208,209)	202,807
Provision for Gratuity	55,321	44,941	56,905	46,691
Decrease / (Increase) in Interest Receivable	204,462	(78,977)	229,034	(122,988)
Increase / (Decrease) in Interest Payable	438,142	(189,599)	436,797	(161,926)
Other Non Cash Items	101,674	(559,194)	144,511	(538,174)
Gratuity Payments Made	(7,420)	(9,895)	(8,341)	(9,895)
	2,849,764	1,605,685	3,184,361	1,792,495

The Notes to the Financial Statements from pages 158 to 189 form an integral part of these Financial Statements.

Colombo
23rd February 2012

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 31st December 2011 comprise of 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 31st December 2011 were authorised for issue in accordance with the resolution of the Board of Directors on 23rd February 2012.

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, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee based activities, property rental, managing an operating lease portfolio and insurance broking respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, unless otherwise indicated. Assets and liabilities are grouped by nature and are listed in an order that reflect their relative liquidity.

No adjustments have been made for inflationary factors affecting these Financial Statements. These Financial Statements are prepared and presented in Sri Lankan Rupees, and all values are rounded to the nearest thousand (Rs. 000) unless indicated otherwise.

2.1.1 Statement of Compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS).

The preparation and presentation of these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

2.1.2 Prior Year Figures and Phrases

Certain prior year figures and phrases have been rearranged whenever necessary for better presentation and to conform to the current year's presentation.

2.2 Basis of Consolidation

(a) The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31st December each year. The Financial Statements of the subsidiaries are prepared for the same reporting year as the Bank using consistent Accounting Policies.

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

(c) Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continues to be consolidated until the date such control ceases.

2.3 Changes in Accounting Policies

The Accounting Policies adopted are consistent with those used in the previous financial year.

2.4 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Group's Accounting Policies, management is required to make judgments, estimates and assumptions that affect the amounts recognised in the Financial Statements. Use of available information and application of judgment is inherent in the formation of estimates. The Group believes its estimates for determining the valuation of its assets and liabilities are appropriate. Estimates and

underlying assumptions are reviewed on a continuous basis.

The key items which involve these judgments, estimates and assumptions are discussed below:

Impairment Losses on Loans and Advances

In addition to the allowance made for doubtful recoveries based on SLAS 23 on the Revenue Recognition and Disclosures in the Financial Statements of Banks and Central Bank guidelines and directives for specific and general provisions for loans and advances, the Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the Income Statement. Management is required to exercise judgment in the estimation of these amounts and such estimates are based on assumptions about a number of factors such as any deterioration of country risk, industry risk and technological obsolescence, as well as security values and deterioration in cash flows.

Impairment of Financial and Non-Financial Assets

The Group assesses whether there are any indicators of impairment for all financial assets at each reporting date. A provision is made for diminution in value of these assets only if they are expected to be permanent. The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in Notes 2.8.7 and 2.8.8.

The Cost of defined benefit plans

Gratuity is determined using an actuarial valuation as detailed in Note 2.9.2. (a) to the Financial Statements. The actuarial valuation involves making assumptions about discount rates, future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Bank has recourse to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainty

that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continued to be prepared on a going concern basis.

2.5 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Group's functional and presentation currency. All foreign exchange transactions are converted to Sri Lankan Rupees, at the middle rate of exchange prevailing on the date the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupee equivalents using year-end middle foreign exchange rates. The resulting gains and losses are accounted for in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to Sri Lankan Rupees using the exchange rates as at the date of the initial transactions.

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

2.6 Taxation

(a) Income Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

Income tax liabilities for the current period are measured at the amounts expected to be paid to the taxation authorities in accordance with the provisions of the Inland Revenue Act No. 10 of 2006. The tax rates applicable as of the Balance Sheet date are given below:

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

Effective from 1st April 2007, the Company enjoys a concessionary tax rate of 2% on its turnover for a

period of 15 years. Income tax has been provided at the rate of 28% on profits arising from other sources of income.

Subsidiary - Mercantile Leasing (Financial Services) Limited

Income tax on profit from operations is calculated at the rate of 28%. Tax losses as at 31st December 2011, amounted to Rs. 43 Mn, which can be carried forward indefinitely and can be set off against the total statutory income subject to the limit of 35% of the total statutory income in each year of assessment.

Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 10%. Income tax has been provided at the rate of 28% on profits arising from other sources of income.

(b) Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the Balance Sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

where the deferred income tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income 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 profits 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 income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are

recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantially enacted as at the Balance Sheet date.

Deferred income tax assets relating to items recognised directly in equity is recognised in the Equity Statement and not in the Income Statement.

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

(c) Value Added Tax

Nations Trust Bank PLC

During the year, the Bank's total value addition was subjected to a 12% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

Subsidiary - Waldock Mackenzie Limited

During the year, the Company's total value addition was subjected to a 12% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

(d) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further four years.

2.7 Events After the Balance Sheet Date

All material events occurring after the Balance Sheet date are considered and appropriate adjustments

Notes to the Financial Statements

and/or disclosures have been made in the Financial Statements, where necessary.

2.8 Valuation of Assets and Their Measurement Bases

2.8.1 Investments

(a) Treasury Bills and Bonds Held to Maturity

Investments in Treasury Bills and Bonds held to maturity are recorded at cost plus or minus a proportion of the discount or premium as the case may be on a yield to maturity basis over the tenor of the Treasury Bills and Bonds. Provision is made for diminution in value of these investments only if they are expected to be permanent.

(b) Treasury Bills and Bonds Held for Trading

Investments in Treasury Bills and Bonds held for trading are marked to market and carried at that value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

(c) Investment in Other Securities

Investment in Dollar denominated Sovereign Bonds are recorded at cost plus or minus a proportion of the discount or premium as the case may be on a yield to maturity basis over the tenor of the Bond. Investment in Sri Lanka Development Bonds (SLDB), are stated at cost plus interest accrued. All other interest-bearing securities and investments in unquoted shares are stated at cost. Provision is made for diminution in value of these investments only if they are expected to be permanent.

(d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with SLAS 26 on Consolidated and Separate Financial Statements.

2.8.2 Loans and Advances to Customers

(a) Loans and Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

(b) Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to customers, including consumer advances and credit cards.

The Bank's provisioning policy is more stringent than the guidelines issued by the Central Bank of Sri Lanka

and at the minimum, not falling below the following, except for the leasing portfolio.

Accordingly, specific provisions on corporate and wholesale lending and factoring advances have been made as follows:

Overdue Period	Provision Required (%)
90-179 days	20
180-365 days	50
Over 365 days	100

Specific provisions on credit cards are made on the basis of 50% when in arrears for 90 days and 100% when in arrears for 150 days.

Specific provisions on personal loans, housing loans, SME and retail lending are made on the basis of 50% when in arrears for 90 days and 100% when in arrears for 180 days.

Pawning advances unpaid since falling due is recovered by disposing of the articles pawned. Any shortfalls after disposing of the articles or outstanding in respect of unsold articles are written off within 3 months since falling due.

(c) A 0.5% (0.9% as at 31st December 2010) general provision as mandated by the Central Bank of Sri Lanka is maintained on all performing advances, in addition to the specific provisions made on non-performing advances to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting facilities secured against cash, gold and government securities with the Bank.

2.8.3 Finance Leases

(a) Lease Receivables

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases. Lease rentals receivable in the Balance Sheet represent total lease payments due net of unearned interest income not accrued to revenue, provision for bad and doubtful recoveries and the initial rentals received.

(b) Provision for Lease Receivables

Specific provision has been made in relation to identified bad and doubtful leases on the following basis which is in line with the directions issued by the Central Bank of Sri Lanka:

Notes to the Financial Statements

Overdue Period	Provision Required (%)
6-12 months	20
12-18 months	50
Over 18 months	100

A general provision for possible losses on lease receivables is made at 0.5% (0.9% as at 31st December 2010) of the total capital outstanding of the performing leases.

2.8.4 Advances to Margin Trading Customers

Advances to margin trading customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

2.8.5 Reverse Repurchase Agreements

These are advances collateralised by purchase of securities by the Group from counterparties to whom the Group has lent, subject to a commitment to resell them at a predetermined price. All reverse repurchase agreements involve debt instruments, such as Treasury Bills, Treasury Bonds and Corporate Papers.

In reverse repurchase agreements, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded recognising the right to receive it back. Interest earned on reverse repurchase agreements is recognised as interest income over the life of each agreement.

2.8.6 Property, Plant and Equipment

(a) Cost and Valuation

All items of Property, Plant and Equipment are initially recorded at cost. Land and buildings are subsequently revalued. Subsequent to the initial recognition as an asset at cost, revalued assets are carried at revalued amounts less any accumulated depreciation on buildings and accumulated impairment losses recognised after the date of revaluation. All other Property, Plant and Equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided for, on the bases specified in (b) below.

(b) Depreciation

The provision for depreciation is calculated by using a straight-line method on the cost or valuation of all Property, Plant and Equipment other than freehold land in order to write-off such amounts over the following estimated useful lives in equal installments as follows:

Buildings	over 20-40 years
Motor Vehicles	over 04 years
Office Equipment	
- Computer Equipment	over 04 years
- Other Equipment	over 04 years
- Electrical Equipment	over 08 years
Furniture and Fittings	over 08 years
Leasehold Improvements	Amortized over the lease period

Full depreciation was provided in the year of disposal and no depreciation was provided in the year of purchase on Property, Plant and Equipment acquired prior to 1st January 2006. Property, Plant and Equipment acquired after 1st January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if required at each financial year-end.

(c) Revaluation

Any revaluation surplus is credited to the asset revaluation reserve included under equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in profit or loss, except for a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(d) De-recognition

An item of Property, Plant and Equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

2.8.7 Intangible assets

(a) Business Combination and Goodwill

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(b) Other Intangible Assets

The Bank's other intangible assets comprise computer software and franchise fees. 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 Bank.

Intangible assets acquired separately are measured on initial recognition at cost. 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 are amortised over the useful life. Useful life of the intangible assets is reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Amortisation 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 franchise fees respectively.

2.8.8 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 such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, 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 makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of goodwill:

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates.

Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised.

Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31st December.

2.9 Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

2.9.1 Proposed Dividend

Dividend proposed/declared by the Board of Directors, after the Balance Sheet date is not recognised as a liability and is only disclosed as an event after the balance sheet date.

2.9.2 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method as per the SLAS 16 (Revised 2006) on "Employee Benefits".

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 liability is based on the actuarial valuation as of 31st December 2011, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following:

	2011	2010
Rate of Interest	10%	10%
Rate of Salary Increase	10%	10%
Retirement Age	55-60 years	55-60 years

The gratuity liability is not externally funded. This item is grouped under 'Deferred Liabilities' in the Balance Sheet.

(b) 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.

2.10 Repurchase Agreements

These are borrowings collateralised by sale of securities held by the Group to counterparties from whom the Group borrowed, subject to a commitment to repurchase them at a pre-determined price. All repurchase agreements involve debt instruments, such as Treasury Bills, Treasury Bonds and Corporate Papers.

In repurchase agreements, the cash received, including accrued interest is recognised on the Balance Sheet with a corresponding obligation to return it. Interest incurred on repurchase agreements is recognised as an interest expense over the life of each agreement.

2.11 Income Statement

2.11.1 Revenue Recognition

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

(a) Interest Income from Customer Advances

In terms of the provisions of SLAS 23 on Revenue Recognition and Disclosures in Financial Statements of Banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when loans and advances are classified as non-performing based on criteria set out in Notes 2.8.2 to 2.8.4. Interest accrued until such advances being classified as non-performing is eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis. Interest falling due on non-performing advances is credited to interest in suspense account which is netted in the

Balance sheet against the relevant interest receivable balances.

(b) Income on Discounting of Bills of Exchange

Income from discounting of Bills of Exchange is recognised on a cash basis.

(c) Income from Government Securities, Securities Purchased under Resale Agreement and other Securities

Discounts / Premium on Treasury Bills, Treasury Bonds and Sovereign Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on Securities Purchased under Resale Agreements and other Securities are recognised in the Income Statement on accrual basis.

(d) Fees and Commission Income

The Bank earns fees and commission income from a diverse range of services including fees receivable from customers for guarantees, factoring, credit cards and other services provided by the Bank together with foreign and domestic tariff. Such income is recognised as revenue as the services are provided.

(e) Profit or Loss on Sale of Securities

Profit or loss arising from the sale of securities is accounted for on the date of transaction.

(f) Lease Income

In terms of SLAS 19 (Revised 2005) on "Leases", the recognition of finance income on leasing is accounted based on a pattern reflecting constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease, commencing from the month in which the lease is executed in proportion to the capital outstanding.

Interest ceases to be taken in to revenue when leases are classified as non- performing, based on criteria set out in Note 2.8.3. Interest accrued until such leases are been classified as non-performing, is also eliminated from interest income and transferred to interest in suspense. Thereafter, interest income on these leases is recognised on a cash basis.

(g) Interest and Fees Receivable on Credit Cards

Interest and fees receivable on credit cards are recognised on an accrual basis. Interest and fees cease to be taken to revenue when the minimum payment is over due for three months. Thereafter, interest and fees are accounted for on a cash basis.

(h) Dividend Income

Dividend income from shares is recognised when the Bank's right to receive the dividend is established.

(i) Rental Income

Rental income is recognised on an accrual basis.

(j) Other Income

Other income is recognised on an accrual basis.

2.12 Expenses

In terms of the provisions of SLAS 23 on the Revenue Recognition and Disclosures in the Financial Statements of Banks, interest on deposits and borrowings and other expenses payable are recognised on an accrual basis in the Income Statement.

2.13 Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' in accordance with SLAS 9 on Cash Flow Statements, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise mainly of cash balances, call placements and balances with the Central Bank of Sri Lanka.

2.14 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segments) which is subject to risks and rewards that are different from those of other segments.

In accordance with SLAS 28 on Segment Reporting, segment information is presented in respect of the Group. The segments comprise of Banking, Investment Banking and Others.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Accounting Policies adopted for segment reporting are those Accounting Policies adopted for preparing the Financial Statements of the Group.

Notes to the Financial Statements

Inter-segment transfers are accounted for at competitive fair market prices charged to inter-bank counterparts for similar services. Such transfers are eliminated on consolidation.

2.15 Commitments and Contingencies

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

2.16 Off-Balance Sheet Transactions

The Bank enters into Off-Balance Sheet transactions such as forward contracts and currency / interest rate swaps. The Bank uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge its risks, associated with interest rate and exchange rate fluctuations. At the year end, profits and losses on such transactions are dealt with through the Income Statement.

2.17 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 152 for the Statement of the Directors' Responsibility for Financial Reporting.

2.18 Sri Lanka Accounting Standards effective from 01st January 2012

The Group will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01st January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Group has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Group has a 31st December year end, priority has been given to considering the preparation of an opening balance sheet in accordance with the new SLASs as at 01st January 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Group prepares its first new SLAS compliant financial statements for the year ending 31st December 2012. Set out below are the key areas where accounting policies will change and may have an impact on the financial statements of the Group. The Group is in the process of quantifying the impact on the financial statements arising from such changes in accounting policies.

- (a) SLFRS 1 – First Time Adoption of Sri Lanka Accounting Standards requires the Group to prepare and present opening new SLFRS financial statements at the date of transition to new SLAS. The Group shall use the same accounting policies in its opening new SLAS financial statements and throughout all

comparable periods presented in its first new SLAS financial statements.

- (b) LKAS 1 – Presentation of Financial Statements requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This standard also requires the Group to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- (c) LKAS 32 – Financial Instruments: Presentation, LKAS 39 – Financial Instruments: Recognition and Measurement and SLFRS 7 – Disclosures will result in changes to the current method of recognizing financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the group does not identify, categorise and measure financial assets and liabilities as per the requirements of the standard and also does not recognise certain derivative instruments on the balance sheet.

- (d) LKAS 12 – Income Tax requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.

Notes to the Financial Statements

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
3. CASH AND SHORT-TERM FUNDS				
Cash in Hand	1,370,877	873,295	1,370,885	873,303
Money at Call and Short Notice	1,648,661	6,871	1,648,661	6,871
Balances with Banks	671,257	650,363	671,291	650,374
	3,690,795	1,530,529	3,690,837	1,530,548

4. STATUTORY DEPOSIT WITH THE CENTRAL BANK OF SRI LANKA

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 31st December 2011, the minimum cash reserve requirement was 8% (7% as at 31st December 2010) 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.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
5. GOVERNMENT TREASURY BILLS AND BONDS				
Government Treasury Bills and Bonds held for Trading	6,270,703	15,195,791	6,549,788	16,033,313
Government Treasury Bills and Bonds held to Maturity (Note 5.1)	10,281,652	6,789,837	10,901,512	7,358,909
	16,552,355	21,985,628	17,451,300	23,392,222

- 5.1 The market value of these Treasury Bonds held to maturity as at 31st December 2011 in the Bank amounts to Rs. 10,239 Mn (2010- Rs. 7,029 Mn) and in the Group Rs. 10,878 Mn (2010- Rs. 7,670 Mn).

Notes to the Financial Statements

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
6. INVESTMENTS AND OTHER PLACEMENTS				
6.1 Other Placements, Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds				
Other Placements USD 10Mn (2010 - USD 15Mn)	1,142,892	1,671,164	1,142,892	1,671,164
Sri Lanka Development Bonds USD 10Mn (Note 6.1.1) (2010 - USD 11Mn)	1,142,224	1,224,039	1,142,224	1,224,039
Sri Lanka Sovereign Bonds USD 8Mn (Note 6.1.2)	916,107	884,286	916,107	884,286
	3,201,223	3,779,489	3,201,223	3,779,489

6.1.1 The investment in Sri Lanka Development Bonds amounts to USD 10 Mn (2010 - USD 11 Mn) and matures in year 2012.

6.1.2 The market value of Sri Lanka Sovereign Bonds amounts to Rs.950 Mn (2010- Rs. 978 Mn)

6.2 Investment Securities				
Unquoted - Shares				
Lanka Clear (Private) Limited 150,000 Ordinary Shares of Rs.10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau 9,000 Ordinary Shares of Rs.10/- each	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
SWIFT Shares of USD 20,989.23	2,391	2,331	2,391	2,331
Unquoted Preference Shares (Rated)				
Dialog Axiata PLC 117.5 Mn Cumulative Redeemable Preference shares of Rs 1/- each (2010 - 235 Mn)	117,500	235,000	117,500	235,000
Unquoted - Debentures				
Peoples Leasing Company Limited (600,000 number of Unsecured Redeemable Debentures of a par Value of Rs. 1000/- each)	487,500	-	487,500	-
	610,106	240,046	610,106	240,046
	3,811,329	4,019,535	3,811,329	4,019,535

6.2.1 The Directors' valuation based on cost of shares and Sri Lanka Development Bonds of the Bank and the Group amounts to Rs. 1,752 Mn (2010 - Rs. 1,464 Mn).

Notes to the Financial Statements

		Bank		Group	
		2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
7. LOANS AND ADVANCES					
7.1 Bills of Exchange					
Inland Bills		56,821	31,278	56,821	31,278
Export Bills		619,761	458,480	619,761	458,480
Import Bills		31,931	20,674	31,931	20,674
		708,513	510,432	708,513	510,432
Less:					
Loan Loss Provision		(3,528)	(4,594)	(3,528)	(4,594)
		704,985	505,838	704,985	505,838
7.2 Loans and Advances					
Overdrafts		14,656,208	10,979,783	14,656,208	10,979,783
Term Loans		20,474,547	13,602,673	20,474,547	13,602,673
Staff Loans		1,624,394	1,411,816	1,624,394	1,411,816
Import Loans		1,760,311	1,344,787	1,760,311	1,344,787
Packing Credit Loans		1,194,154	1,038,144	1,194,154	1,038,144
Other Advances		6,859,110	6,264,335	7,805,718	6,880,002
		46,568,724	34,641,538	47,515,332	35,257,205
Less:					
Loan Loss Provision		(753,373)	(849,833)	(748,828)	(834,502)
Interest-in-Suspense		(468,123)	(608,139)	(468,123)	(608,139)
		45,347,228	33,183,566	46,298,381	33,814,564
7.3 Lease Rentals Receivable					
Total Lease Rentals Receivable		17,184,534	11,125,654	17,184,534	11,125,654
Lease Rentals Receivable after One Year (Note 7.3.2)		(10,928,568)	(6,493,162)	(10,928,568)	(6,493,162)
7.3.1 Lease Rentals Receivable within One Year					
Unearned Lease Income		(1,617,300)	(1,250,180)	(1,617,300)	(1,250,180)
Overdue Lease Rentals		207,601	318,110	207,601	318,110
Terminated Leases		99,051	229,439	99,051	229,439
Accrued Income on Non-Performing Leases		(72,364)	(175,229)	(72,364)	(175,229)
Provision for Bad and Doubtful Leases		(62,771)	(113,056)	(62,771)	(113,056)
		4,810,183	3,641,576	4,810,183	3,641,576
7.3.2 Lease Rentals Receivable after One Year					
Lease Rentals Receivable after One Year		10,928,568	6,493,162	10,928,568	6,493,162
Unearned Lease Income		(1,812,690)	(1,155,874)	(1,812,690)	(1,155,874)
Provision for Bad and Doubtful Leases		(127,134)	(185,796)	(127,134)	(185,796)
		8,988,744	5,151,492	8,988,744	5,151,492

Notes to the Financial Statements

		Bank		Group	
		2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
7.4 Corporate Debt Securities					
Commercial Papers		719,121	847,511	719,121	861,728
Fixed / Floating Rate Notes		90,716	130,977	90,716	130,977
Trust Certificates		419,830	475,787	419,830	475,787
		1,229,667	1,454,275	1,229,667	1,468,492
Less:					
Loan Loss Provision		(5,768)	(10,942)	(5,768)	(10,942)
		1,223,899	1,443,333	1,223,899	1,457,550
7.5 Non-Performing Lending Portfolio					
Bills of Exchange		2,814	3,319	2,814	3,319
Overdrafts		615,714	639,014	615,714	639,014
Term Loans		1,017,103	1,115,740	1,017,103	1,115,740
Import Loans		30,237	53,618	30,237	53,618
Packing Credit Loans		42,073	124,225	42,073	124,225
Other Advances		133,952	81,119	133,952	81,119
Lease Rentals Receivable		484,588	1,020,872	484,588	1,020,872
		2,326,481	3,037,907	2,326,481	3,037,907

7.6 Movements in the Provision for Bad and Doubtful Debts and Suspended Interest

7.6.1 Bank

		Provision against Lending Portfolio			Suspended Interest Rs. '000
		Specific Rs. '000	General Rs. '000	Total Rs. '000	
As at the beginning of the Year		853,420	310,802	1,164,222	783,368
Provision/(Reversal) made during the Year		34,743	(53,505)	(18,762)	(242,881)
Write Off		(193,412)	-	(193,412)	-
Translation Difference in Foreign Currency Conversion		214	312	526	-
As at the end of the Year		694,965	257,609	952,574	540,487

7.6.2 Group

		Provision against Lending Portfolio			Suspended Interest Rs. '000
		Specific Rs. '000	General Rs. '000	Total Rs. '000	
As at the beginning of the Year		853,420	295,470	1,148,890	783,368
Provision/(Reversal) made during the Year		34,743	(42,718)	(7,975)	(242,881)
Write Off		(193,412)	-	(193,412)	-
Translation Difference in Foreign Currency Conversion		214	312	526	-
As at the end of the Year		694,965	253,064	948,029	540,487

Notes to the Financial Statements

7.7 Concentration of Credit Risk

Analysis of the Bank's Lending Portfolio reflecting the exposure to credit risk in various sectors of the economy is detailed below:

Sector	2011	%	2010	%
	Rs. '000'		Rs. '000'	
Food, Beverages and Tobacco	587,378	1	529,994	1
Textile and Wearing Apparel	600,008	1	324,890	1
Rubber and Leather Products	33,405	0	10,119	0
Metals, Chemicals and Engineering	429,239	1	238,187	1
Services	11,243,077	18	7,440,395	16
Tourism	575,462	1	980,714	2
Agro-Business and Fisheries	6,588,981	11	4,844,412	11
Industrial	4,839,674	8	3,247,677	7
Housing	2,911,949	5	2,394,543	5
Commercial Trading	10,802,545	17	8,991,035	20
Consumption - Leasing	8,643,798	13	3,178,914	7
- Others	15,312,584	24	13,692,514	29
	62,568,100	100	45,873,394	100

	Bank		Group	
	2011	2010	2011	2010
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
8. OTHER ASSETS				
Deposits and Prepayments	249,734	172,793	237,487	166,871
Other Receivables	1,189,569	963,710	1,259,859	1,007,039
	1,439,303	1,136,503	1,497,346	1,173,910

9. INVESTMENTS IN SUBSIDIARIES

Unquoted

Name of Company	Country of Incorporation	Holding %	2011		Holding %	2010	
			Cost	Directors' Valuation*		Cost	Directors' Valuation*
			Rs. '000	Rs. '000		Rs. '000	Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	-	618,679	100	-	487,437
Allied Properties Limited	Sri Lanka	100	652,907	728,957	100	652,907	704,826
Nations Insurance Brokers Limited	Sri Lanka	100	25,803	87,539	100	25,803	55,190
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,496	-	100	3,496	-
Provision for Diminution in Value			(3,496)	-		(3,496)	-
Net Carrying Amount			678,710	1,435,175		678,710	1,247,453

* Directors' value is based on net assets value of respective investee companies.

Notes to the Financial Statements

10 PROPERTY, PLANT AND EQUIPMENT

10.1 Bank

10.1.1 Gross Carrying Amounts

	Balance as at 01/01/2011 Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31/12/2011 Rs. '000
At Cost				
Land and Buildings	663,409	2,395	-	665,804
Motor Vehicles	36,512	16,100	(21,153)	31,459
Office and Electrical Equipment	244,537	51,791	-	296,328
Computer Equipment	911,834	176,039	(976)	1,086,897
Furniture and Fittings	350,631	78,546	-	429,177
Leasehold Improvements	165,767	8,891	-	174,658
Total Gross Carrying Amounts	2,372,690	333,762	(22,129)	2,684,323

10.1.2 Depreciation

	Balance as at 01/01/2011 Rs. '000	Charge for the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31/12/2011 Rs. '000
At Cost				
Buildings	23,181	5,270	-	28,451
Motor Vehicles	33,383	1,870	(19,153)	16,100
Office and Electrical Equipment	123,394	28,156	-	151,550
Computer Equipment	697,715	122,472	(948)	819,239
Furniture and Fittings	145,972	40,051	-	186,023
Leasehold Improvements	95,026	23,139	-	118,165
Total Depreciation	1,118,671	220,958	(20,101)	1,319,528

10.1.3 Net Book Value

	Balance as at 01/01/2011 Rs. '000	Balance as at 31/12/2011 Rs. '000
Land and Buildings	640,228	637,353
Motor Vehicles	3,129	15,359
Office and Electrical Equipment	121,143	144,778
Computer Equipment	214,119	267,658
Furniture and Fittings	204,659	243,154
Leasehold Improvements	70,741	56,493
Total Net Book Value	1,254,019	1,364,795

10.1.4 During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of Rs. 333.8 Mn (2010 Rs. 109.4 Mn). Cash payments amounting to Rs.319.3 Mn (2010 Rs. 109.4 Mn) were made during the year for purchase of Property, Plant and Equipment.

10.1.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 885.7 Mn (2010 Rs. 617 Mn).

Notes to the Financial Statements

10.2 Group

10.2.1 Gross Carrying Amounts

At Cost / Valuation	Balance as at 01/01/2011 Rs. '000	Transfers during the Year Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31/12/2011 Rs. '000
Land and Buildings	1,250,792	-	2,395	-	1,253,187
Motor Vehicles	39,405	-	16,100	(23,820)	31,685
Office and Electrical Equipment	245,777	-	51,791	-	297,568
Computer Equipment	919,593	(1,130)	176,929	(976)	1,094,416
Furniture and Fittings	350,862	-	79,595	-	430,457
Leasehold Improvements	165,767	-	8,891	-	174,658
Total Gross Carrying Amounts	2,972,196	(1,130)	335,701	(24,796)	3,281,971

10.2.2 Depreciation

At Cost / Valuation	Balance as at 01/01/2011 Rs. '000	Transfers during the Year Rs. '000	Charge for the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31/12/2011 Rs. '000
Buildings	78,082	-	16,254	-	94,336
Motor Vehicles	35,651	-	1,870	(21,195)	16,326
Office and Electrical Equipment	124,635	-	28,156	-	152,791
Computer Equipment	704,155	(638)	123,105	(948)	825,674
Furniture and Fittings	146,203	-	40,153	-	186,356
Leasehold Improvements	95,026	-	23,139	-	118,165
Total Depreciation	1,183,752	(638)	232,677	(22,143)	1,393,648

10.2.3 Net Book Value

	Balance as at 01/01/2011 Rs. '000	Balance as at 31/12/2011 Rs. '000
Land and Buildings	1,172,710	1,158,851
Motor Vehicles	3,754	15,359
Office and Electrical Equipment	121,142	144,777
Computer Equipment	215,438	268,742
Furniture and Fittings	204,659	244,101
Leasehold Improvements	70,741	56,493
Total Net Book Value	1,788,444	1,888,323

10.2.4 During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of Rs. 335.7 Mn (2010 Rs. 109.7 Mn). Cash payments amounting to Rs. 321.2 Mn (2010 Rs. 109.7 Mn) were made during the year for purchase of Property, Plant and Equipment.

10.2.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 893.2 Mn (2010 Rs. 625.8 Mn).

Notes to the Financial Statements

10.2.6 The land and building of Allied Properties Limited were revalued in October 2005, by Mr. P. B. Kalugalagedara, an independent chartered valuer. The results of such revaluation was incorporated in the Financial Statements from its effective date, which is 1st January 2006. The surplus arising from the revaluation was transferred to a Revaluation Reserve. Depreciation based on the last valuation was made commencing from 1st January 2006.

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost, less depreciation is as follows :

Class of Asset	Cost Rs. '000	Cumulative Depreciation if assets were carried at cost Rs. '000	Net carrying amount 2011 Rs. '000	Net carrying amount 2010 Rs. '000
Buildings	270,789	86,269	184,520	191,291

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
11 INTANGIBLE ASSETS				
11.1 Goodwill				
Balance as at the beginning of the year	372,053	372,053	451,314	451,314
Provision made to be compliant with the Banking Act (Note 11.1.2)	(372,053)	(372,053)	(372,053)	(372,053)
Balance as at the end of the year	-	-	79,261	79,261

11.1.1 Goodwill acquired through business combinations have been allocated to three individual cash-generating units, for impairment testing as follows;

Bank : Leasing and Factoring

Group : Investment Banking

Insurance Broking

The recoverable amounts of the above units have been determined, based on a value in use calculation, using cash flow projections, based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five year period are extrapolated using a zero growth rate.

11.1.2 A full provision was made in the books of the Bank in April 2007, against equity for the goodwill of Rs. 372,052,672/- that arose from the merger of Mercantile Leasing Limited with the Bank in order to be compliant with the provisions contained in Section 22 of the Banking Act, before the payment of the dividend for the year ended 31st December 2006.

Notes to the Financial Statements

11.2 Other Intangible Assets

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
At Cost				
Balance as at 1 st January	1,153,068	702,548	1,153,068	702,548
Additions	54,706	437,222	54,706	437,222
Disposals	-	(23,348)	-	(23,348)
Reclassifications*	-	36,646	1,130	36,646
Cost Adjustments to Opening Balance	(39,195)	-	(39,195)	-
Balance as at 31 st December	1,168,579	1,153,068	1,169,709	1,153,068
Accumulated Amortisation and Impairment				
Balance as at 1 st January	474,011	349,365	474,011	349,365
Amortisation charge for the year	95,000	112,322	95,121	112,322
Disposals	-	(23,348)	-	(23,348)
Reclassifications*	-	35,672	638	35,672
Balance as at 31 st December	569,011	474,011	569,770	474,011
Carrying Value as at the end of the year	599,568	679,057	599,939	679,057
Total Carrying Value of Intangible Assets	599,568	679,057	679,200	758,318

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

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
12 DEPOSITS				
12.1 Analysis of Deposits				
Demand Deposits	6,952,725	6,675,693	6,894,040	6,636,493
Savings Deposits	9,367,874	7,061,789	9,367,874	7,061,789
Call Deposits	2,820,453	882,083	2,820,453	882,083
Fixed Deposits	43,768,111	30,994,226	43,768,111	30,994,226
Certificates of Deposit	3,588,464	2,739,964	3,588,464	2,739,964
	66,497,627	48,353,755	66,438,942	48,314,555
12.2 Sources of Deposits				
Deposits from Banks	148	5,449	148	5,449
Deposits from Other Financial Institutions	1,541,488	1,542,690	1,541,488	1,542,690
Deposits from Other Customers	64,955,991	46,805,616	64,897,306	46,766,416
	66,497,627	48,353,755	66,438,942	48,314,555

Notes to the Financial Statements

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
13 BORROWINGS				
Money Market Borrowings	864,960	611,726	864,960	611,726
Borrowings under Repurchase Agreements				
- Treasury Bills, Treasury Bonds and Commercial Papers	14,769,833	17,411,161	14,489,321	17,411,161
Trust Certificates	29,610	182,450	29,610	163,360
Refinance Borrowings	-	422	-	422
Other Borrowings	602,133	1,084,925	1,202,996	1,487,216
	16,266,536	19,290,684	16,586,887	19,673,885
14 OTHER LIABILITIES				
Interest Payable and Other Accrued Expenditure	2,646,063	2,432,675	2,659,087	2,441,063
Margin Balances	481,175	342,183	481,175	342,183
Pay Orders	304,285	242,884	304,285	242,884
Tax Payable	203,843	549,739	205,615	537,155
Amounts Due to Related Parties	-	164,308	-	-
Others	1,656,194	1,654,415	1,719,896	1,629,828
	5,291,560	5,386,204	5,370,058	5,193,113
15. DEFERRED LIABILITIES / (ASSETS)				
Retirement Benefits Obligation - Gratuity (Note 15.1)	222,966	175,066	230,835	182,270
Deferred Taxation - Liability (Note 15.2.1)	395,638	273,530	395,638	273,530
	618,604	448,596	626,473	455,800
Deferred Taxation - Assets (Note 15.2.2)	(62,430)	(113,544)	(62,430)	(113,544)
15.1 Retirement Benefits Obligation - Gratuity				
Balance as at the beginning of the Year	175,066	140,020	182,270	145,474
Interest Cost	17,507	14,020	18,227	14,870
Current Service Cost	34,197	29,448	35,056	30,293
Benefits Paid	(7,420)	(9,895)	(8,340)	(10,774)
Actuarial Loss	3,616	1,473	3,622	2,407
Balance as at the end of the Year	222,966	175,066	230,835	182,270
15.2 Deferred Taxation				
Balance as at the beginning of the Year	159,986	(16,233)	159,986	(16,233)
Charge during the Year	173,222	176,219	173,222	176,219
Balance as at the end of the Year (Note 15.2.2)	333,208	159,986	333,208	159,986

Notes to the Financial Statements

	Bank	
	2011 Rs. '000	2010 Rs. '000
15.2.1 Deferred Tax Liability		
Accelerated Depreciation Allowances for Tax Purposes (Lease Rentals Receivable)	297,972	191,864
Accelerated Depreciation Allowances for Tax Purposes (Property, Plant and Equipment)	97,666	81,666
	395,638	273,530
15.2.2 Deferred Tax Assets		
Specific Provision for Loans and Advances and Lease Rentals Receivable	-	(64,526)
Defined Benefit Plan	(62,430)	(49,018)
	(62,430)	(113,544)
Bank		
Net Deferred Tax Liability	333,208	159,986
Group		
Net Deferred Tax Liability	333,208	159,986

Deferred tax has been determined based on the effective tax rate of 28% (2010-28%).

15.2.3 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 the 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.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
16. DEBENTURES				
Balance as at the beginning of the Year	1,835,000	2,000,000	1,835,000	2,000,000
Issued during the Year	2,000,000	-	2,000,000	-
Redemptions during the Year	(165,000)	(165,000)	(165,000)	(165,000)
Balance as at the end of the Year	3,670,000	1,835,000	3,670,000	1,835,000

In 2006, the Bank issued unsecured subordinated 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 with future redemptions of Rs.170 Mn 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 2009, the Bank issued a further Rs. 500 Mn worth of unsecured redeemable debentures (senior debt) that will mature in 2013.

During 2011, the Bank issued 2 Mn, rated, unsecured, subordinated redeemable debentures that will mature in 2016, for an aggregate value of Rs. 2,000 Mn by way of a private placement. The debentures will be listed in the Colombo Stock Exchange in due course.

Notes to the Financial Statements

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
17. SUBORDINATED LOAN				
Balance as at the beginning of the Year	471,275	605,925	471,275	605,925
Repayments during the Year	(134,650)	(134,650)	(134,650)	(134,650)
Balance as at the end of the Year	336,625	471,275	336,625	471,275

The above represents 100% of the Sri Lanka Rupee designated Subordinated Housing Loan Credit Facility obtained from Financierin Maatschappij Voor Ontwikkelingslanden N.V (Netherlands Development Finance Company).

This loan is repayable in 10 equal semi-annual installments commenced from 01st October 2009.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
18. STATED CAPITAL				
Balance as at 1 st January - 209,643,340 Ordinary Shares (167,714,672 Shares in 2010)	4,367,631	3,109,771	4,367,631	3,109,771
Shares issued on 'Warrants' exercised (20,963,943 Shares in 2011 and 41,928,668 Shares in 2010)	733,738	1,257,860	733,738	1,257,860
Balance as at 31 st December 2011 - 230,607,283 Ordinary Shares (209,643,340 Shares in 2010)	5,101,369	4,367,631	5,101,369	4,367,631
19. RESERVE FUNDS				
19.1 Reserve Fund				
As at the beginning of the Year	155,696	105,599	155,696	105,599
Transferred during the Year	68,546	50,097	68,546	50,097
As at the end of the Year	224,242	155,696	224,242	155,696

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.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
19.2 Investment Fund Account (IFA Reserve)				
As at the beginning of the Year	-	-	-	-
Transferred during the Year (Note 19.2.1)	248,123	-	268,761	-
As at the end of the Year	248,123	-	268,761	-
Total Reserve Funds	472,365	155,696	493,003	155,696

Notes to the Financial Statements

					Bank 2011 Rs. '000	Group 2011 Rs. '000
19.2.1 Utilization of Investment Fund Account (IFA Reserve)						
A)	Total Transferred to IFA				248,123	268,761
B)	Loans Granted					
	Sector Description	No. of Loans	Interest Rate	Tenure	Disbursed Amount	Disbursed Amount
	a) Agriculture	3	10 to 11.06%	5 Years	150,000	150,000
	b) Small and Medium Enterprises	3	9.5 to 10.5%	5 Years	64,918	64,918
					214,918	214,918
C)	Total investments in Government Securities - Short Term				-	20,638
	Total Granted				214,918	235,556
D)	Balance Available for Utilisation				33,205	33,205

- 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 29th April 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. 215 Mn were granted under this scheme.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20. RESERVES				
20.1 Revenue Reserves				
As at the beginning of the Year	1,608,192	970,817	2,271,604	1,551,941
Profit for the Year	1,370,928	1,001,937	1,533,895	1,084,225
Dividend Paid	(461,215)	(314,465)	(461,215)	(314,465)
Transfers to Reserve Fund during the year (Note 19.1)	(68,546)	(50,097)	(68,546)	(50,097)
Transfers to IFA Reserve Fund during the year (Note 19.2)	(248,123)	-	(268,761)	-
As at the end of the Year	2,201,236	1,608,192	3,006,977	2,271,604
20.2 Capital Reserves				
Issue of Bonus Shares by a Subsidiary	-	-	9,500	9,500
Total Reserves	2,201,236	1,608,192	3,016,477	2,281,104

Notes to the Financial Statements

21. COMMITMENTS AND CONTINGENCIES

21.1 Contingencies

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Acceptances	2,950,618	989,383	2,950,618	989,383
Documentary Credits	6,122,823	3,666,356	6,122,823	3,666,356
Guarantees	656,918	246,603	656,918	246,603
Bonds and Warranties	4,003,747	4,283,867	4,003,747	4,283,867
Bills sent on Collection	2,268,211	1,540,036	2,268,211	1,540,036
	16,002,317	10,726,245	16,002,317	10,726,245
Commitment and Direct and Indirect Advances				
Undrawn Facilities	41,314,513	32,477,664	40,823,363	32,181,520
	41,314,513	32,477,664	40,823,363	32,181,520
Forward Exchange Purchases	13,302,312	10,399,181	13,302,312	10,399,181
Forward Exchange Sales	12,907,397	7,240,495	12,907,397	7,240,495
Foreign Exchange Contracts	26,209,709	17,639,676	26,209,709	17,639,676
Total Commitments and Contingencies	83,526,539	60,843,585	83,035,389	60,547,441

21.2 As of 31st December 2011, the national value of Interest Rate Swap Agreements outstanding amount to Rs. 1,639 Mn. These agreements entered into in 2008 will mature in 2012.

As of 31st December 2010, the notional value of Interest Rate Swap Agreements outstanding amount to Rs. 2,665.75 Mn. These agreements entered into in 2007 and 2008 would mature in the years of 2011 (Rs. 1,057.5 Mn) and 2012 (Rs. 1,608.25 Mn).

21.3 Forward Contracts to Buy / Sell Government Securities

The Bank has entered into commitments with customers to buy / sell Government Securities of which face values as of the balance sheet dates are given below.

	2011 Rs. Mn.	2010 Rs. Mn.
Contracts to buy Government Securities	100	-
Contracts to sell Government Securities	100	-

21.4 Capital Commitments

The Commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31st December 2011 are as follows.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Capital Commitments for Property, Plant and Equipment				
Approved and contracted for	82,192	22,063	82,192	22,063
Approved, but not contracted for	30,009	5,811	30,009	5,811
	112,201	27,874	112,201	27,874
Capital Commitments for Intangible Assets				
Approved and contracted for	73,676	377	85,568	377
Approved, but not contracted for	67,031	-	67,031	-
	140,707	377	152,599	377
Total Capital Commitments	252,908	28,251	264,800	28,251

Notes to the Financial Statements

21.5 Material Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably established, the Bank makes provisions to account for any adverse effects which the claims may have on its financial standing.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
22. GROSS INCOME				
Interest Income	9,671,851	9,830,929	9,953,754	10,090,176
Fees and Commission Income	529,934	425,351	621,917	499,192
Net Foreign Exchange Gain	343,351	314,824	343,351	314,824
Other Operating Income	1,394,011	1,383,145	1,417,809	1,311,009
	11,939,147	11,954,249	12,336,831	12,215,201
23. INTEREST INCOME				
Customer Advances	6,692,957	6,353,852	6,851,109	6,460,776
Treasury Bills and Bonds	2,484,750	2,924,420	2,605,377	3,056,128
Deposits with Other Banks	164,959	168,929	164,959	168,929
Corporate Debt Securities	138,624	235,478	140,535	253,305
Other Interest Income	190,561	148,250	191,774	151,038
	9,671,851	9,830,929	9,953,754	10,090,176
24. INTEREST EXPENSE				
Customer Deposits	3,392,195	2,932,580	3,392,195	2,932,580
Borrowings	818,880	1,057,593	845,983	1,065,465
Treasury Bills, Bonds and Corporate Papers Repurchased	1,362,038	1,526,288	1,350,382	1,527,024
	5,573,113	5,516,461	5,588,560	5,525,069
25. OTHER OPERATING INCOME				
Gain on Sale of Government and Corporate Debt Securities	45,735	59,196	64,101	45,026
Fees and Other Income	1,348,276	1,323,949	1,353,708	1,265,983
	1,394,011	1,383,145	1,417,809	1,311,009
26. PROFIT BEFORE TAXATION				
Stated after charging the following among others;				
Included in Personnel Cost				
Defined Contribution Plan Cost - EPF and ETF	145,465	127,452	148,854	130,350
Included in Provision for Staff Retirement Benefits				
Defined Benefit Plan Cost - Gratuity	55,321	44,941	56,905	46,691
Included in Premises, Equipment and Establishment Cost				
Depreciation and Amortisation	315,957	335,929	327,797	347,617
Legal Fees	16,548	19,349	16,548	19,375
Business Promotion and Advertising	286,490	175,912	286,490	175,912
Transport	85,022	75,843	85,913	76,722
Net Profit on Disposal of Property, Plant and Equipment	(5,269)	(205)	(5,269)	(205)

Notes to the Financial Statements

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
27. TAXATION				
Income Tax on Profit for the Year (Note 27.1)	439,402	730,973	514,077	823,630
Adjustments of Taxes in respect of prior years	(19,519)	(55,505)	(11,312)	(55,505)
Charge for Deferred Tax (Note 15.2)	173,222	176,218	173,222	176,218
	593,105	851,686	675,987	944,343
27.1 Reconciliation of Accounting Profit and Taxable Income				
Accounting Profit (Profit before Taxation)	1,964,033	1,853,623	2,209,882	2,028,568
Add: Disallowable Expenses	5,116,376	4,347,997	5,173,785	4,394,297
	7,080,409	6,201,620	7,383,667	6,422,865
Less: Allowable Expenses	(5,336,984)	(3,916,652)	(5,338,580)	(3,917,290)
Less: Exempt Income	(174,132)	(227,341)	(174,132)	(227,341)
Statutory Income	1,569,293	2,057,627	1,870,955	2,278,234
Less: Tax Losses Brought Forward and Utilised	-	-	(396)	(20)
Taxable Income	1,569,293	2,057,627	1,870,559	2,278,214
Income Tax expenses for the year is made up of;				
Current Income Tax Expense	439,402	730,973	514,077	823,630
Adjustments of Taxes in respect of prior years	(19,519)	(55,505)	(11,312)	(55,505)
Charge for Deferred Tax	173,222	176,218	173,222	176,218
	593,105	851,686	675,987	944,343
Effective Income Tax Rate	30.20%	45.95%	30.59%	46.55%

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

28. EARNINGS PER SHARE

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

	Bank		Group	
	2011	2010	2011	2010
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (Rs.'000)	1,370,928	1,001,937	1,533,895	1,084,225
Number of Ordinary Shares Used as the Denominator:				
Ordinary Shares at the beginning of the year	209,643,340	167,714,672	209,643,340	167,714,672
Weighted Average Number of Shares issued during the year	18,433,785	47,288,043	18,433,785	47,288,043
Weighted Average Number of Ordinary Shares in issue	228,077,125	215,002,715	228,077,125	215,002,715
Earnings per Ordinary Share - Basic (Rs.)	6.01	4.66	6.73	5.04

29. DIVIDENDS PROPOSED

A first and final dividend of Rs. 2.10 per share has been proposed by the Board of Directors for the year 2011 to be approved at the Annual General Meeting. However, no provision is made for this proposed dividend in these Financial Statements in accordance with SLAS 12. A dividend of Rs. 2/- was paid in April 2011 for the year ended 31st December 2010.

Notes to the Financial Statements

30 SEGMENTAL INFORMATION

	Banking		Investment Banking		Others		Elimination/Allocated		Group	
In Rs. '000	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Total Revenue	11,939,147	11,954,249	540,624	599,826	141,712	104,791	(284,652)	(443,665)	12,336,831	12,215,201
Segment Results										
Profit before Taxation	1,964,033	1,853,623	205,530	172,420	70,441	48,329	(30,122)	(45,804)	2,209,882	2,028,568
Taxation	(593,105)	(851,686)	(64,589)	(77,182)	(10,086)	(13,730)	(8,207)	(1,745)	(675,987)	(944,343)
Net Profit for the Year	1,370,928	1,001,937	140,941	95,238	60,355	34,599	(38,329)	(47,549)	1,533,895	1,084,225
Segment Assets	100,821,640	82,416,846	2,829,426	3,775,253	853,287	799,536	(2,578,062)	(3,823,024)	101,926,291	83,168,611
Goodwill	-	-	-	-	-	-	79,261	79,261	79,261	79,261
Total Assets	100,821,640	82,416,846	2,829,426	3,775,253	853,287	799,536	(2,498,801)	(3,743,763)	102,005,552	83,247,872
Segment Liabilities	92,428,066	75,836,731	2,207,629	3,287,815	61,930	64,985	(1,929,395)	(3,201,890)	92,768,230	75,987,641
Deferred Liabilities	618,604	448,596	3,118	2,513	4,751	4,691	-	-	626,473	455,800
Total Liabilities	93,046,670	76,285,327	2,210,747	3,290,328	66,681	69,676	(1,929,395)	(3,201,890)	93,394,703	76,443,441
Others										
Additions to Property, Plant and Equipment and Other Intangible Assets	388,468	546,612	-	-	1,939	360	-	-	390,407	546,972
Depreciation and Amortisation	315,957	335,929	-	-	11,840	11,688	-	-	327,797	347,617
Non-Cash Expenses										
Provision / (Reversal) for Bad and Doubtful Debts	(218,996)	209,062	-	-	-	-	10,787	(6,255)	(208,209)	202,807
Provision for Gratuity	55,321	44,941	605	686	979	1,064	-	-	56,905	46,691

Notes to the Financial Statements

31 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:

31.1 Transactions with Related Entities

	Significant Investors*		Subsidiaries**	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance Sheet Items				
Assets				
Loans and Advances	208,461	32,153	908,850	1,703,906
Corporate Credit Cards	359	395	-	-
Reverse Repurchase agreements	-	-	648,721	1,193,185
Other Assets	-	-	12,246	34,080
Liabilities				
Deposits	2,300,223	2,172,974	58,683	39,199
Borrowings	931,187	2,923,005	280,511	19,090
Other Liabilities	-	-	-	229,172
Equity				
Dividends Paid (net)	211,349	146,574	-	-
Off Balance Sheet Items				
Undrawn Facilities	50,356	218,985	491,150	296,144
Letter of credit / Guarantees	8,185	63,467	-	450
Income Statement Items				
Interest Income	3,843	1,587	217,710	360,712
Interest Paid	176,098	625,285	17,543	13,513
Other Income	2,866	1,620	-	2
Dividend Received (Gross)	-	-	13,250	53,750
Expenses	24,185	23,347	30,793	30,008

* Significant Investors include John Keells Holdings PLC, Mackinnon & Keells Financial Services Limited, Mackinnon & Keells Financial Services Limited Executive Staff Provident Fund, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Private) Limited.

** Subsidiaries of the Group include Waldock McKenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing Financial Services Limited.

Notes to the Financial Statements

31.2 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 in subsidiary companies and Corporate management of the Bank.

	2011 Rs. '000	2010 Rs. '000
a) Compensation to Key Management Personnel		
Emoluments / Fees Paid	193,513	113,771
Post Employment Benefits	5,563	5,888
	199,076	119,659

b) Transactions, Arrangements and Agreements involving Key Management Personnel

	Key Management Personnel and their Close Family Members(CFM)	Entities in which KMPs and their CFMs have control, joint control or significant influence		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance Sheet Items				
Assets				
Loans and Advances	39,508	50,500	-	-
Credit Cards	3,094	5,969	-	-
Reverse Repurchase Agreements	200	-	-	-
Liabilities				
Deposits	204,438	245,088	100,314	3,768
Borrowings	16,215	16,000	-	-
Equity				
Dividends Paid (net)	11,108	6,972	-	-
Off Balance Sheet Items				
Undrawn Facilities	25,254	22,131	-	-
Income Statement Items				
Interest Income Earned	2,432	3,351	1	2
Interest Expenses Paid	15,561	9,442	58	-
Other Income Earned	717	98	2	103
Expenses Paid	-	-	2	3,297

During the year 2011, Key Management Personnel (KMP) have acquired 1,187,753 (2010 - 2,189,941) shares of the Bank and there have been no shares sold (2010-19,000).

31.3 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 31st December 2011, has contributed a sum of Rs. 116.38 Mn to the Fund (2010 - Rs. 101.8 Mn).

As at 31st December 2011, the Fund has invested a sum of Rs. 711.09 Mn with the Bank (2010- Rs. 642.13 Mn).

During the year a sum of Rs. 61.78 Mn (2010 - 68.59 Mn) was paid by the Bank as interest expense to the Fund.

Notes to the Financial Statements

32. MATURITY ANALYSIS

32.1 Bank (Rs. '000)	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	2011 Total
Assets						
Interest Earning Assets						
Money at Call and Short Notice	1,648,661	-	-	-	-	1,648,661
Government Treasury Bills and Bonds	7,299,283	3,586,501	5,666,571	-	-	16,552,355
Reverse Repurchase Agreements	7,013,974	228,113	20,893	-	-	7,262,980
Corporate Debt Securities	825,211	259,918	138,770	-	-	1,223,899
Bills of Exchange	704,985	-	-	-	-	704,985
Loans and Advances	27,235,836	4,591,191	6,919,260	3,757,483	2,843,458	45,347,228
Investments and Other Placements	40,426	2,630,997	983,400	151,400	5,106	3,811,329
Lease Rentals Receivable	1,283,942	3,526,240	7,024,662	1,963,032	1,051	13,798,927
	46,052,318	14,822,960	20,753,556	5,871,915	2,849,615	90,350,364
Non-Interest Earning Assets						
Cash and Short term Funds	2,042,134	-	-	-	-	2,042,134
Statutory Deposit with the Central Bank of Sri Lanka	2,608,851	1,261,929	240,778	163,782	8,996	4,284,336
Other Assets	995,424	186,465	157,163	61,411	38,840	1,439,303
Deferred Assets	-	-	-	-	62,430	62,430
Investments in Subsidiaries	-	-	-	-	678,710	678,710
Property, Plant and Equipment	-	-	-	-	1,364,795	1,364,795
Intangible Assets	-	-	-	-	599,568	599,568
	5,646,409	1,448,394	397,941	225,193	2,753,339	10,471,276
Total Assets	51,698,727	16,271,354	21,151,497	6,097,108	5,602,954	100,821,640
Liabilities						
Interest Bearing Liabilities						
Deposits	33,539,521	19,586,529	3,737,137	2,542,084	139,630	59,544,901
Borrowings	11,406,510	3,942,583	886,088	31,355	-	16,266,536
Subordinated Loan	-	134,650	201,975	-	-	336,625
Debentures	170,000	-	1,500,000	2,000,000	-	3,670,000
	45,116,031	23,663,762	6,325,200	4,573,439	139,630	79,818,062
Non - Interest Bearing Liabilities						
Deposits	6,952,726	-	-	-	-	6,952,726
Due to Banks	365,718	-	-	-	-	365,718
Deferred Liabilities	-	-	-	111,482	507,122	618,604
Other Liabilities	4,462,524	409,180	380,849	38,726	281	5,291,560
Stated Capital	-	-	-	-	5,101,369	5,101,369
Reserve Funds	-	-	-	-	472,365	472,365
Reserves	-	-	-	-	2,201,236	2,201,236
	11,780,968	409,180	380,849	150,208	8,282,373	21,003,578
Total Liabilities and Shareholders' Funds	56,896,999	24,072,942	6,706,049	4,723,647	8,422,003	100,821,640

Notes to the Financial Statements

Bank (Rs '000)	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	2010 Total
Assets						
Interest Earning Assets						
Money at Call and Short Notice	6,871	-	-	-	-	6,871
Government Treasury Bills and Bonds	17,165,874	2,215,025	2,604,729	-	-	21,985,628
Reverse Repurchase Agreements	4,407,751	260,570	8,960	-	-	4,677,281
Corporate Debt Securities	862,745	342,782	233,748	15,000	-	1,454,275
Bills of Exchange	490,974	19,458	-	-	-	510,432
Loans and Advances	21,228,371	2,867,092	4,825,296	2,538,555	1,708,716	33,168,030
Investments and Other Placements	113,107	1,459,915	2,441,467	-	5,046	4,019,535
Lease Rentals Receivable	1,042,323	2,599,253	4,111,837	1,038,839	816	8,793,068
	45,318,016	9,764,095	14,226,037	3,592,394	1,714,578	74,615,120
Non-Interest Earning Assets						
Cash and Short term Funds	1,523,658	-	-	-	-	1,523,658
Statutory Deposit with the Central Bank of Sri Lanka	1,365,214	750,660	271,361	29,000	-	2,416,235
Other Assets	995,850	89,290	44,534	6,829	-	1,136,503
Deferred Assets	-	-	-	-	113,544	113,544
Investment in Subsidiaries	-	-	-	-	678,710	678,710
Property, Plant and Equipment	-	-	-	-	1,254,019	1,254,019
Intangible Assets	-	-	-	-	679,057	679,057
	3,884,722	839,950	315,895	35,829	2,725,330	7,801,726
Total Assets	49,202,738	10,604,045	14,541,932	3,628,223	4,439,908	82,416,846
Liabilities						
Interest Bearing Liabilities						
Deposits	20,645,006	15,022,227	5,430,491	580,339	-	41,678,063
Borrowings	13,612,613	3,476,199	2,201,872	-	-	19,290,684
Subordinated Loan	-	134,650	269,300	67,325	-	471,275
Debentures	165,000	-	1,670,000	-	-	1,835,000
	34,422,619	18,633,076	9,571,663	647,664	-	63,275,022
Non - Interest Bearing Liabilities						
Deposits	6,675,692	-	-	-	-	6,675,692
Due to Banks	499,813	-	-	-	-	499,813
Deferred Liabilities	-	-	-	87,533	361,063	448,596
Other Liabilities	5,386,204	-	-	-	-	5,386,204
Stated Capital	-	-	-	-	4,367,631	4,367,631
Reserves	-	-	-	-	1,763,888	1,763,888
	12,561,709	-	-	87,533	6,492,582	19,141,824
Total Liabilities and Shareholders' Funds	46,984,328	18,633,076	9,571,663	735,197	6,492,582	82,416,846

Notes to the Financial Statements

32.2 Group (Rs. '000)	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	2011 Total
Assets						
Interest Earning Assets						
Money at Call and Short Notice	1,648,661	-	-	-	-	1,648,661
Government Treasury Bills and Bonds	7,321,048	4,463,681	5,666,571	-	-	17,451,300
Reverse Repurchase Agreements	6,365,253	228,113	20,893	-	-	6,614,259
Corporate Debt Securities	825,211	259,918	138,770	-	-	1,223,899
Bills of Exchange	704,985	-	-	-	-	704,985
Loans and Advances	28,182,445	4,591,191	6,919,260	3,757,483	2,848,002	46,298,381
Investments and Other Placements	40,426	2,630,997	983,400	151,400	5,106	3,811,329
Lease Rentals Receivable	1,283,942	3,526,240	7,024,662	1,963,033	1,050	13,798,927
	46,371,971	15,700,140	20,753,556	5,871,916	2,854,158	91,551,741
Non-Interest Earning Assets						
Cash and Short term Funds	2,042,176	-	-	-	-	2,042,176
Statutory Deposit with the Central Bank of Sri Lanka	2,608,851	1,261,929	240,778	163,782	8,996	4,284,336
Other Assets	1,053,467	186,465	157,163	61,411	38,840	1,497,346
Deferred Assets	-	-	-	-	62,430	62,430
Property, Plant and Equipment	-	-	-	-	1,888,323	1,888,323
Intangible Assets	-	-	-	-	679,200	679,200
	5,704,494	1,448,394	397,941	225,193	2,677,789	10,453,811
Total Assets	52,076,465	17,148,534	21,151,497	6,097,109	5,531,947	102,005,552
Liabilities						
Interest Bearing Liabilities						
Deposits	33,539,522	19,586,529	3,737,136	2,542,084	139,630	59,544,901
Borrowings	11,726,861	3,942,583	886,088	31,355	-	16,586,887
Subordinated Loans	-	134,650	201,975	-	-	336,625
Debentures	170,000	-	1,500,000	2,000,000	-	3,670,000
	45,436,383	23,663,762	6,325,199	4,573,439	139,630	80,138,413
Non - Interest Bearing Liabilities						
Deposits	6,894,041	-	-	-	-	6,894,041
Due to Banks	365,718	-	-	-	-	365,718
Deferred Liabilities	-	-	-	115,417	511,056	626,473
Other Liabilities	4,541,021	409,180	380,849	38,726	282	5,370,058
Stated Capital	-	-	-	-	5,101,369	5,101,369
Reserve Funds	-	-	-	-	493,003	493,003
Reserves	-	-	-	-	3,016,477	3,016,477
	11,800,780	409,180	380,849	154,143	9,122,187	21,867,139
Total Liabilities and Shareholders' Funds	57,237,163	24,072,942	6,706,048	4,727,582	9,261,817	102,005,552

Notes to the Financial Statements

Group (Rs. '000)	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	2010 Total
Assets						
Interest Earning Assets						
Money at Call and Short Notice	6,871	-	-	-	-	6,871
Government Treasury Bills and Bonds	17,996,145	2,231,609	3,164,468	-	-	23,392,222
Reverse Repurchase Agreements	3,214,566	260,570	8,960	-	-	3,484,096
Corporate Debt Securities	867,443	352,301	233,748	15,000	-	1,468,492
Bills of Exchange	490,974	19,458	-	-	-	510,432
Loans and Advances	21,859,369	2,867,092	4,825,296	2,538,555	1,708,716	33,799,028
Investments and Other Placements	113,107	1,459,915	2,441,467	-	5,046	4,019,535
Lease Rentals Receivable	1,042,323	2,599,253	4,111,837	1,038,839	816	8,793,068
	45,590,798	9,790,198	14,785,776	3,592,394	1,714,578	75,473,744
Non-Interest Earning Assets						
Cash and Short term Funds	1,523,677	-	-	-	-	1,523,677
Statutory Deposit with the Central Bank of Sri Lanka	1,364,361	751,269	271,582	29,023	-	2,416,235
Other Assets	1,033,257	89,290	44,534	6,829	-	1,173,910
Deferred Assets	-	-	-	-	113,544	113,544
Property, Plant and Equipment	-	-	-	-	1,788,444	1,788,444
Intangible Assets	-	-	-	-	758,318	758,318
	3,921,295	840,559	316,116	35,852	2,660,306	7,774,128
Total Assets	49,512,093	10,630,757	15,101,892	3,628,246	4,374,884	83,247,872
Liabilities						
Interest Bearing Liabilities						
Deposits	20,645,005	15,022,227	5,430,491	580,339	-	41,678,062
Borrowings	13,995,815	3,476,198	2,201,872	-	-	19,673,885
Subordinated Loans	-	134,650	269,300	67,325	-	471,275
Debentures	165,000	-	1,670,000	-	-	1,835,000
	34,805,820	18,633,075	9,571,663	647,664	-	63,658,222
Non - Interest Bearing Liabilities						
Deposits	6,636,493	-	-	-	-	6,636,493
Due to Banks	499,813	-	-	-	-	499,813
Deferred Liabilities	-	-	-	91,135	364,665	455,800
Other Liabilities	5,193,113	-	-	-	-	5,193,113
Stated Capital	-	-	-	-	4,367,631	4,367,631
Reserves	-	-	-	-	2,436,800	2,436,800
	12,329,419	-	-	91,135	7,169,096	19,589,650
Total Liabilities and Shareholders' Funds	47,135,239	18,633,075	9,571,663	738,799	7,169,096	83,247,872

33 Post Balance Sheet Events

No material events have taken place since 31st December 2011 that require disclosure or/and adjustments in these accounts, except for the following;

- (a) Subject to approval of the Shareholders at the forthcoming Annual General Meeting, the Directors recommended the payment of a first and final dividend of Rs. 2.10 per share for the year ended 31st December 2011.

Glossary

ACCEPTANCES

Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

BILLS FOR COLLECTION

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

CAGR

Compounded annual growth rate. The rate at which it would have grown if it grew at an even rate compounded annually.

CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

CASH EQUIVALENTS

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

CONTINGENCIES

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

COST TO INCOME RATIO

Operating expenses (excluding provision for bad and doubtful debts) expressed as a percentage of net income

DEFERRED TAX

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

DOCUMENTARY CREDITS

Commercial Letters of Credit provided for payment by a bank to the named beneficiary, usually the seller of merchandise, against delivery of documents specified in the credit.

EARNINGS PER ORDINARY SHARE

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the profit before taxation.

EMPLOYEE ENGAGEMENT INDEX

A measure of the extent employees are engaged with the organisation. An increase in the index reflects a situation where employees feeling engaged and finding personal meaning and motivation in work, receiving positive interpersonal support and operating in an efficient work environment.

FINANCE LEASE

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

FOREIGN EXCHANGE PROFIT

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/ Balance Sheet date. Also arises from trading in foreign currencies.

FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owning a debt if that person fails to perform.

GROSS DIVIDENDS

The portion of profits distributed to the shareholders including tax withheld.

INTEREST IN SUSPENSE

Interest suspended on non-performing loans and advances.

INTEREST MARGIN

Net interest income expressed as a percentage of interest earning assets.

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

LIQUID ASSETS RATIO

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

LOAN LOSSES AND PROVISIONS

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of their becoming partly or wholly uncollectible.

LOANS TO DEPOSITS RATIO

Total loans and advances expressed as a percentage of the total deposit portfolio.

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

NET DIVIDENDS

Dividends net of withholding tax.

NET INTEREST INCOME

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NON -PERFORMING LOANS

A loan placed on a cash basis (i.e. Interest income is only recognised when cash is received) because, there is reasonable doubt regarding the collectibility of principal and interest. Loans are automatically placed on cash basis when three instalments are overdue.

NPL RATIO

Non Performing Loans expressed as a percentage of the total loans and advances.

OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

PROVISION COVER

Total provision for bad and doubtful debts expressed as a percentage of net non performing loans before discounting for provisions for non performing loans.

PRUDENCE

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

RETURN ON ASSETS

Profit after tax divided by average assets.

RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

RETURN ON AVERAGE ASSETS

Profit after Tax divided by the average assets.

RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

REPURCHASE AGREEMENT

Contract to sell and subsequently repurchase securities at specified date and price.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS

Total of stated capital and capital and revenue reserves.

STATUTORY RESERVE FUND

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY COMPANY

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as a parent).

TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

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.

VALUE ADDED

Value of wealth created by providing banking and other related services, less the cost of providing such services.

Registered Name

Nations Trust Bank PLC

Legal Form

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988.

A Public Limited Liability Company incorporated in Sri Lanka.

Company Registration Number

PQ 118

Date of Incorporation

21st January 1999

Registered Office

No. 242, Union Place, Colombo 2.

Telephone : 4313131

Facsimile : 2307854

E-mail : customerservice@nationstrust.com

Web page : www.nationstrust.com

Company Secretary

Theja Silva

Auditors

Messrs. Ernst & Young

Chartered Accountants,

No. 201, De Saram Place, Colombo 10.

Credit Rating

A (lka) from Fitch Ratings Lanka Ltd.

Directors

J.R.F. Peiris (Chairman)

M.E. Wickremesinghe (Senior Director)

A.R. Rasiah

A.K. Gunaratne

C.H.S.K. Piyaratna

Dr. (Ms.) D. Weerakoon

K. N. J. Balendra

Murtaza Jafferjee

Dr. Kemal De Soysa

D. Prasanna De Silva

Ms. N. S. Panditaratne

S.G. Rajakaruna

Board Supervisory Committee

A.K. Gunaratne (Chairman)

C.H.S.K. Piyaratna

K. N. J. Balendra

Murtaza Jafferjee

Board Audit Review Committee

M. E. Wickremesinghe (Chairman)

A. R. Rasiah

Dr. (Ms.) D. Weerakoon

D. Prasanna De Silva

A. Fernandez - Head of Internal Audit -
(Secretary - Board Audit Review Committee)

Human Resources and Remuneration Committee

J. R. F. Peiris (Chairman)

A. K. Gunaratne

Dr. (Ms.) D. Weerakoon

A.R. Rasiah

Nomination Committee

M.E. Wickremesinghe (Chairman)

J. R. F. Peiris

Murtaza Jafferjee

D. Prasanna De Silva

Credit Committee

J. R. F. Peiris (Chairman)

A.K. Gunaratne

C.H.S.K. Piyaratna

Integrated Risk Management Committee

A.R. Rasiah (Chairman)

A.K. Gunaratne

Dr. Kemal De Soysa

D. Prasanna De Silva

Ms N. S. Panditaratne

Notice of Meeting

Notice is hereby given that the Thirteenth Annual General Meeting of Nations Trust Bank PLC will be held on 30th March, 2012 at 10.00 a.m. at the Auditorium of the Institute of Chartered Accountants Sri Lanka at No. 30A, Malalasekara Mawatha, Colombo 7.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December, 2011 with the Report of the Auditor's thereon.
3. To declare a first and final dividend of Rs. 2.10 per share on the ordinary shares of the Company.
4. To re-elect Mr. J. R. F. Peiris, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. C. H. S. K. Piyaratna, who retires by rotation at the Annual General Meeting as a Director.
6. To re-elect Mr. S. G. Rajakaruna, who retires by rotation at the Annual General Meeting as a Director.
7. To elect Mr. D. P. De Silva as a Director pursuant to Article No.91 of the Articles of Association of the Company.
8. To elect Ms. N. S. Panditaratne as a Director pursuant to Article No.91 of the Articles of Association of the Company.
9. To reappoint Auditors and to authorise the Directors to determine their remuneration.
10. To authorise the Directors to determine and make donations.
11. To consider any other business of which due notice has been given.

Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board,



Theja Silva
Company Secretary

Colombo
23rd February 2012

Form of Proxy

I/We of being
a member/members of Nations Trust Bank PLC., hereby appoint of or

failing him/her

Mr. J.R.F. Peiris

or failing him

Mr. A.K. Gunaratne

or failing him

Dr. Dushni Weerakoon

or failing her

Mr. M.E. Wickremesinghe

or failing him

Mr. A.R. Rasiah

or failing him

Mr. C.H.S.K. Piyaratna

or failing him

Mr. K. N. J. Balendra

or failing him

Mr. M. Jafferjee

or failing him

Dr. Kemal De Soysa

or failing him

Mr. D. P. De Silva

or failing him

Ms. N. S. Panditaratne

or failing her

Mr. S.G.Rajakaruna

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30th March, 2012 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this () day of March 2012 .

Signature/s

Please indicate with a (✓) in the space below how you wish your votes to be cast:

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31 st December 2011 with the Report of the Auditors thereon.	<input type="text"/>	<input type="text"/>
2. To declare a first and final dividend of Rs. 2.10 per share on the ordinary shares of the Company.	<input type="text"/>	<input type="text"/>
3. To re-elect Mr. J. R. F. Peiris, who retires by rotation at the Annual General Meeting as a Director.	<input type="text"/>	<input type="text"/>
4. To re-elect Mr. C. H. S. K. Piyaratna , who retires by rotation at the Annual General Meeting as a Director.	<input type="text"/>	<input type="text"/>
5. To re-elect Mr. S. G. Rajakaruna as a Director of the Company.	<input type="text"/>	<input type="text"/>
6. To elect Mr. D. P. De Silva as a Director pursuant to Article No.91 of the Articles of Association.	<input type="text"/>	<input type="text"/>
7. To elect Ms. N. S. Panditaratne as a Director pursuant to Article No.91 of the Articles of Association.	<input type="text"/>	<input type="text"/>
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="text"/>	<input type="text"/>
9. To authorise the Directors to determine and make donations.	<input type="text"/>	<input type="text"/>

Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

Please fill in the following details:

NIC No.:

Share Folio No.:

Name:

Address:

Jointly with:

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