

What's *next?*

Annual Report 2012

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What's *next?*

We've been making waves in our industry for a long time now, redefining just how progressive truly world-class banking services can be. Our efforts to create and maintain a distinctive profile have seen us move the goalposts each year, driving positive change and continuous improvement at every level of the bank.

Last year we discussed how we planned to reach out to an even wider audience, bringing our products and services to previously inaccessible regions and markets. That went well. Now we're making plans to extend our reach even further, as we continue to add value to our service offering and product portfolio while spreading our branch network islandwide.

We're not done yet. We know there's lots more to accomplish. And that's why we'll keep asking ourselves each year: what's next?

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*

The background of the entire image consists of numerous thin, curved lines radiating from a central point, creating a starburst or sunburst effect. The lines are primarily in shades of purple and pink, with some darker lines near the edges and lighter, more vibrant colors towards the center.

Human **Digital**

There's lots you can do...



Enabling access to a universe of enhanced and simplified services, to discover the pleasure of banking anywhere and everywhere...without restrictions or constraints. Imagine multiple new digitized services for financial transactions designed to speed up everyday life.

With Nation Trust Human Digital services you can:

- Check your account balances 24/7
- View your transaction history
- Transfer money between your Bank accounts
- Place stop payments
- View 60 days of account statement information
- Manage your Savings and Investments
- Payments of utility bills

Human
Digital

There's lots you can do...

Human Digital also offers online services for businesses.

Corporate on-line Banking

This comprehensive business service enables small business and corporate customers to:

- View both loan and deposit account balances
- View transaction history and account details
- Transfer funds between Bank accounts with Nations Trust Bank network and other Banks
- Place stop payments on cheques
- Request cheque books and inquire on status of cheques
- Initiate and manage Letters of Credit
- Inquire on foreign exchange rates.


Human *Digital*

There's lots you can do...



Exploring, testing, experimenting, being at the leading edge of technological innovation. Anticipating expectations in order to offer innovative, reliable, user-friendly and personalized services more speedily, in line with the way in which financial products are used today. Promoting closer, faster transactions between you and your bank.

There are many more new experiences awaiting our customers.

The background of the advertisement features a person's hand typing on a laptop keyboard. A glowing, white, digital graphic resembling a stylized leaf or a series of overlapping loops is positioned above the laptop. The background is a soft, out-of-focus indoor setting with warm lighting. The overall color palette is dominated by warm tones, with the glowing graphic providing a bright contrast.

Innovation is not always technological. Being able to call from anywhere and get an answer to any question about any service. Feeling supported in order to be able to understand all your bank's products and services. Being free to try out and then change your mind. That is also what Human Digital is about.... putting ourselves in our customer's position in order to make their life easier.

PLUS!

Bill Pay with Nation Trust

Nation Trust Bank's electronic bill pay service provides you with an easy method to pay your bills online anytime. Bill Pay is easy to set up and simple to use, conveniently accessed through our online banking service.

Human **Digital**

There's lots you can do...



Financial Highlights

	2012 Rs. Mn	2011 Rs. Mn	Change %
Results of the Year			
Operating Income	8,392	6,494	29%
Profit before Income Tax	2,766	2,335	18%
Income Tax Expense	815	729	12%
Profit for the Year	1,951	1,607	21%

At the Year End

Shareholders' Funds	10,095	8,628	17%
Deposits from Customers	86,190	67,633	27%
Loans and Advances (Net)	73,424	61,188	20%
Total Assets	122,447	102,073	20%

Information on Ordinary Share

Earnings per Share (Rs.)	8.46	7.05	20%
Net Assets Value per Share (Rs.)	43.78	37.42	17%
Market Value at the Year End	56.00	57.00	-2%

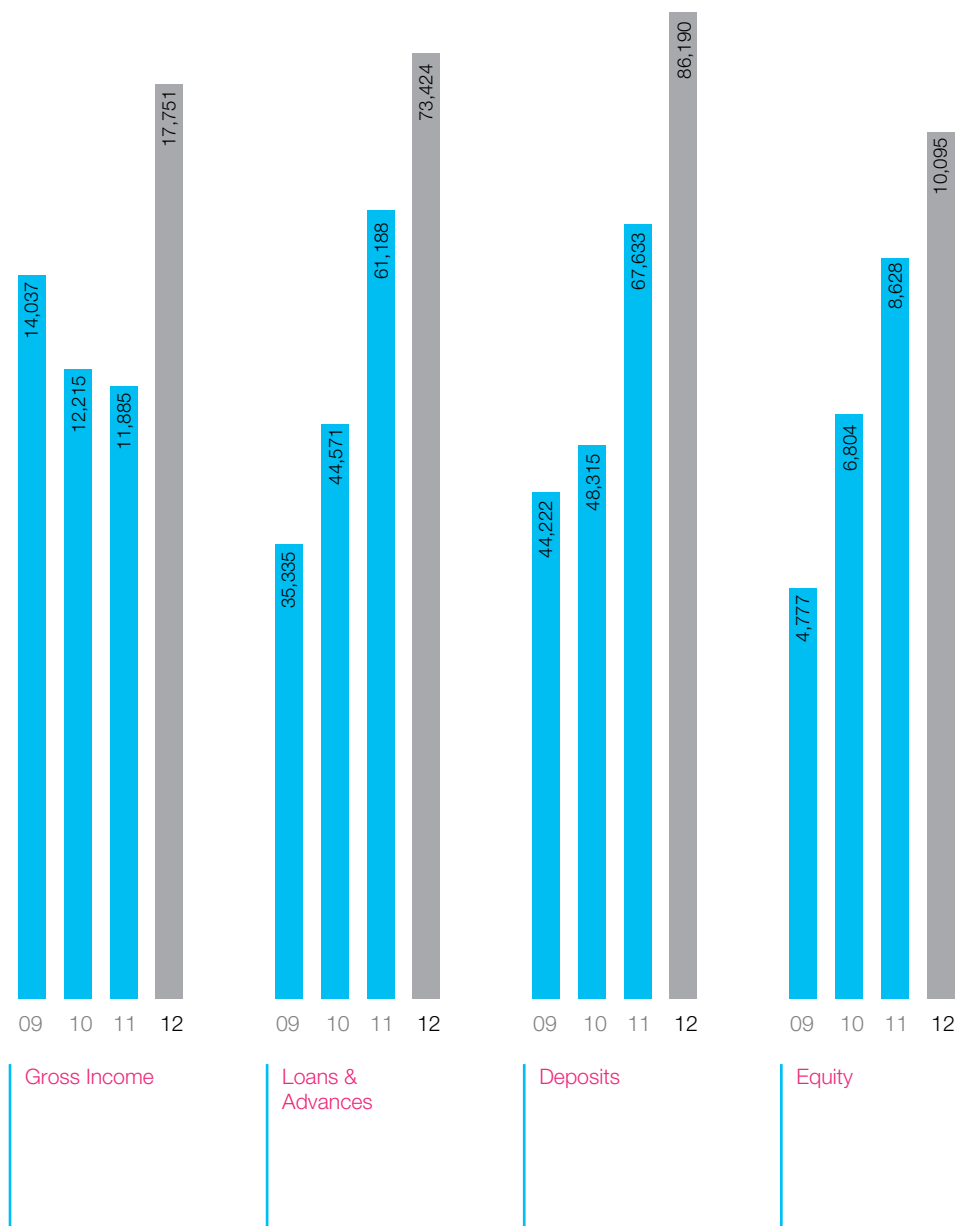
Ratios

Return on Average Assets (%)	1.74	1.73	-
Return on Average Shareholders' Funds (%)	20.84	20.83	-

Capital Adequacy Ratios

Tier I (%)	13.82	13.42	3%
Tier II (%)	18.18	17.44	4%

Nation Trust Bank continued its growth momentum by surpassing all of its previous year achievements to record improved financials



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



Outpacing industry growth rate

Bringing in more stability to the funding profile, deposits grew at a faster rate than loans and advances

27%

86.2 BN

Deposits
Total Deposits by end 2012

73.4 BN

Loans and Advances
Total Loans and Advances portfolio by
end 2012



A liquid and a well capitalized Statement of Financial Position

Total assets of the Bank has grown at an annual compounding growth rate of 20% over the past three years

BN

122

13.2 BN

Capital Position

Total capital base for the Group
by year end

20.8 %

ROE

Return on equity for the group by
year end

Highlights

2007 - 2012

At Nations Trust Bank, our commitment to deliver sustainable returns year on year is evidenced by the profitability growth chart

42%

Profit After Tax
3 Year CAGR

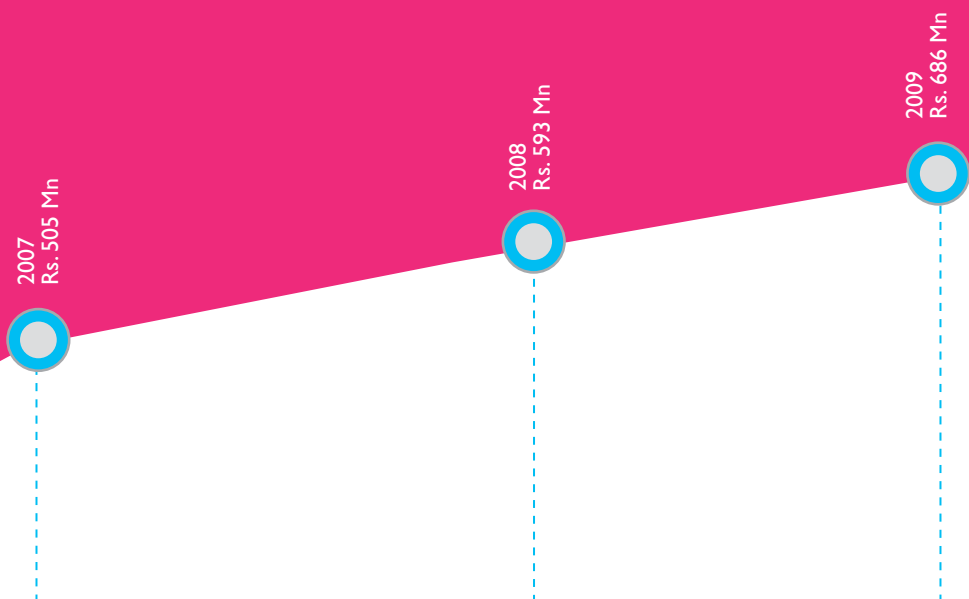
28%

Loans and Advances
3 Year CAGR

25%

Deposits
3 Year CAGR

Delivering sustainable returns through a well balanced growth across key performance indicators.



28%

Shareholders' Fund
3 Year CAGR

20%

Total Asests
3 Year CAGR

2010
Rs. 1,084 Mn

2011
Rs. 1,607 Mn

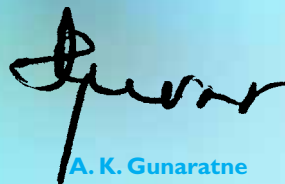
2012
Rs. 1,951 Mn

What's
been done.

We've been busy building on the foundations laid last year...

Chairman's **message**

The kaleidoscope of global and local ramifications completely altered the course of the global economy in 2012. We at NTB were able to successfully withstand these ebbs and flows, a true testament to our strength and resilience. So much so that our post-tax profit increased by 21% from Rs. 1,607 Mn recorded in 2011 to Rs. 1,951 Mn in 2012. Building on what was achieved in the year before we grew our total asset portfolio by 20%, to cross Rs. 122 Bn by the end of 2012.



A. K. Gunaratne
Chairman



Chairman's message

Although somewhat subdued in comparison to the previous year, 2012 saw consistent growth in the Sri Lankan Banking Industry. Total assets in the banking sector topped the Rs. 5 Trillion mark signifying a growth of 20 per cent...

Undisputed Strength. Enduring Resilience

Your bank made great strides in 2012, to record a commendable performance, a testament to our strength and resilience against a challenging macro economic environment. We at Nations Trust Bank were determined to continue our growth story, in a period where monetary policy measures were being tightened, adopted to counteract rapidly rising domestic credit and continuing stress in the global economy. I am pleased to report that we made a post tax profit for the year of Rs. 1,951 Mn, a growth of 21% from Rs. 1,607 Mn in 2011 and a total assets growth of 20%, to Rs. 122 Bn as at the end of 2012.

These are indeed tremendous accomplishments in the face of such testing circumstances and it is with immense pride that I present to you the audited Financial Statements and the Annual Report of your Bank for the year 2012.

Economic environment - Global and Regional

The sovereign debt crisis continued to malign the Eurozone economies yet again threatening the existence of the Euro. Rapidly deteriorating labour markets in the region only compounded matters with many Eurozone economies caving into recessionary pressures towards the end of the year. In the USA, the slim recovery witnessed at the start of the year failed to trigger any concrete change and growth in the US economy sputtered to a halt in the latter half of the year. The end of the year brought with it the ominous prospect of the fiscal cliff that would likely have tantamount to a recession in the forthcoming year. Brazil, Russia, China, India and other major emerging economies also appear to have felt the pinch during the year, where performance fell short of expectations.

Sri Lanka too was somewhat impacted by the Eurozone crisis, faced with the reality of waning demand for imported goods from the region. However, with major development work in progress, thankfully, we have not been too severely affected by the global economic downturn. The economy has continued to sustain its growth at over 6.5% albeit a lesser pace than evidenced during the previous two years. However pressured by the country's burgeoning trade deficit the government introduced extensive macro-economic changes in the first quarter of 2012. These measures had an immediate impact with many far reaching consequences. It was heartening to note that having achieved the desired results regulators stepped in towards the end of the year to provide redress and restore some equilibrium. This is definitely a move in the right direction which would no doubt be a boon for economic growth in the year ahead.

Developments in the Banking Industry at Home

Although somewhat subdued in comparison to the previous year, 2012 saw consistent growth in the Sri Lankan Banking Industry. Total assets in the banking sector topped the Rs. 5 Trillion mark signifying a growth of 20 per cent, while deposits and advances recorded growth of 17% and 21% respectively. It is noteworthy that banking sector investments grew rapidly during the year increasing at a higher rate than that recorded in the previous year. However, consumer demand which grew swiftly in the previous year was somewhat subdued during 2012 due to the credit ceiling enforced by the regulator. It is hoped that the withdrawal of the lending cap by 31 December 2012 would stimulate demand for credit in the year ahead.

The growth expectations for Sri Lanka's banking industry in the forthcoming year is reassuring, boosted mainly by the ongoing large scale infrastructure and tourism development projects. Also aligned to the GoSL's growth strategy for the future, are the developments in the agriculture and SME sectors which have already experienced a surge in activity in the current year. The limits on commercial bank's foreign exchange net open position was increased in early 2013 giving more flexibility in managing foreign exchange transactions. Restrictions on forward market transactions were also eased.

Banks were also encouraged to embrace diversifications of sources of funds predominantly through foreign sources. In this respect Banks will be permitted to borrow upto USD 50 Mn each year for three years without the approval of the Exchange Control Department. Sri Lanka's banking industry is therefore well placed to benefit from the imminent growth prospects that would ensue from this momentum.

Gaining the trust of a Nation

Throughout the year we have promptly dealt with each challenge that was thrown our way. In doing so, we have been both inventive and resourceful while at the same time remaining true to the core values of Nations Trust. Today we stand tall and owe our success to the sheer commitment of the entire Nations Trust team. Their dedication is what has made us what we are today and we believe we have truly lived up to our name by gaining the trust of the nation. 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. 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 484Mn.

One Bank for the Nation

From humble beginnings just over a decade ago, Nations Trust Bank has evolved into an indomitable force in Sri Lanka's banking industry. We have grown in strength and stature over the years driven by our unconquerable spirit and sheer will to succeed. We have constantly sought guidance from our unfailing governance mechanisms while our risk management practices ensure that we never hesitate to err on the side of caution. We believe this approach has served us well in the past not only inspiring our ingenuity but also giving us the confidence to test the boundaries of conventional wisdom.

Our Pledge

True to our promise to provide our customers with unparalleled and unprecedented convenience, we will continue to rapidly expand our network presence, keep our doors open 365 days of the year with extended banking hours, provide innovative "lifecycle" products and offer "any time, any place" transactional capability and access with state of the art digital delivery solutions. To our employees we reaffirm our commitment to further

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develop our talent pool by identifying their development needs and providing them with the right skills and tools to progress their careers. We pledge allegiance to the environment and endeavor to minimize our carbon footprint through commitment to eco-friendly practices. In addition we will continue our tireless efforts towards uplifting social needs and working towards greater social development in the country. We assure all stakeholders that we would fully comply with all statutory and regulatory requirements. Over and above this we are guided by our internal self-regulating voluntary code of conduct that gives further assurance to all our stakeholders. We have undertaken to formulate our operational blueprint and realign our investments in cognizance with of all these goals while effectively balancing the bottom line. We strongly believe that herein lies the key that would catapult Nations Trust to the very pinnacle of Sri Lanka's banking industry.

In recognition...

At Nations Trust Bank, our primary focus has always been to provide an exemplary service to the Nation and awards and accolades have never been pursued with any vigour. Nevertheless throughout the years we have been besieged with numerous honours and the year 2012 was no exception. The bank came in for praise from the World Finance magazine, being recognized as the "Best Private banker in Sri Lanka in 2012". I believe this ideally captures our growing strength in Sri Lanka.

Continuing the Shared Vision

Mr. Ronnie Peiris, our former Chairman stepped down from the Board with effect from 31 October 2012. On behalf of all the Stakeholders of the Bank, I take this

opportunity to express my gratitude to him for the invaluable service he rendered to the Bank both as a director and as a chairman during the past nine years. The current stature of the Bank is a true testament to his dynamic contribution and stewardship.

I wish to congratulate and warmly welcome to the Board our former Deputy CEO, Ms. Renuka Fernando who was appointed Director / CEO on 15 September 2012 upon the retirement of the former CEO Mr. Saliya Rajakaruna. I have no doubt that with her vast knowledge and experience, Ms. Fernando would steer the Bank to even greater heights in the years ahead.

I extend a warm welcome to Mr. Suran Wijesinghe who joined the Board on 1 November 2012. His knowledge and expertise would no doubt be a tremendous asset to the Bank and we are indeed fortunate to have him.

Appreciations

I am indebted to all our stakeholders and loyal customers for the unstinted support extended to the Bank at all times. It is your trust that has given us the confidence to scale even greater heights. We are truly humbled by your unquestionable loyalty and pledge to make every endeavor to exceed your expectations.

It has been a momentous year for all of us at Nations Trust and we are doubly proud to have emerged unscathed and more resilient. For this I must thank my phenomenal team of people who are the mainstay of Nation Trust operations across the country. It is their dynamism that has helped us to move forward

despite uncertainty. The Board joins me once again in applauding the efforts of all our employees ably led by Ms. Renuka Fernando the Chief Executive Officer and her management team.

I also take this opportunity to express my heartfelt thanks to Mr. Saliya Rajakaruna our former CEO, for his visionary leadership that helped navigate Nations Trust in the face of difficult times.

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 unstinted support of my colleagues on the Board. Thank you for your contribution, your guidance and your enthusiastic participation in all Board matters.

I look forward to a promising year ahead...



A. K. Gunaratne
Chairman

22 February 2013

CEO's **message**

Throughout the year we continued to systematically build on our core competencies while developing each of our business pillars. We recognized that each business is unique in its own right and would be impacted differently by policy changes and global events.

A handwritten signature in black ink, appearing to read 'Renuka Fernando', with a stylized flourish at the end.

Renuka Fernando
Director/CEO



We saw opportunity in an uncertain business climate and decided to underpin this as our transition point to move towards a more enduring and broader business paradigm.

It is with a sense of accomplishment and pride that I share with you the annual report highlighting the performance of Nations Trust Bank in 2012. The year under review was marked by the continuation of our expansion programme on one hand and consolidation on the other, as the Banking industry faced different challenges under changing market conditions, amidst a tightening monetary policy framework. I am extremely pleased to report that your Bank successfully overcame these challenges, to emerge as a stronger and more resilient force in Sri Lanka's financial services industry.

How the World fared

The downward spiral of the crisis-ridden global economy continued largely unchanged, recording only lackluster growth throughout the year. The main developed economies stagnated at best with growth levels hovering below 1% for 2012.

The first two quarters of the year saw the US economy showing cautious signs of recovery boosted by the tentative revival of consumer spending patterns amid a more accommodative fiscal and monetary policy structure. However, the prospect of recovery proved only temporary as uncertainty set in towards the 3rd quarter fuelled by the deteriorating labour market. The prognosis for the year ahead remained unclear as fresh worries surfaced regarding the impact of the fiscal cliff that came into effect at the end of 2012.

Across the Atlantic, Europe continued to address the many problems that have plagued the continent for the second consecutive year. Austerity measures and bail out plans were mapped out during the year in a bid to contain the sovereign debt crisis that threatens to destabilise the entire region. The severity of these measures became obvious towards the latter part of the year with real GDP growth in the EU falling flat. No real overall growth was recorded with many countries

noting de-growth causing a meltdown of the Eurozone economies leading to recessionary conditions at the end of the year.

The sovereign debt crisis in Europe and uncertain direction on policies in the U.S. severely constrained investments in many developed nations. Consequently regional employment declined, leading to a drastic drop in demand for manufactured goods from developing nations. As China transitioned towards a more balanced growth model in a bid to reign in unrestrained growth, Japan began to feel the pinch of the global downturn. Large emerging economies like India and Brazil also reacted to the scenario by recording weaker than expected growth in 2012, on the back of weak import demand and domestic vulnerabilities. Thus global output remained low and fell well below expectations, highlighting the underlying weakness and downside risks facing the global economy in the year ahead.

Sri Lanka – A Snapshot 2012

The global economic slowdown did have a limited impact on Sri Lanka's economic performance during 2012. The country recorded 6.5% growth as at the end of the year. Although this was dramatically higher than the performance of the global economy, it fell short of the country's growth threshold established in the previous three consecutive years.

However, the most significant impact on the local economy was due to the government's three pronged strategy to introduce macro-economic reforms. The year commenced with the government introducing a series of aggressive changes in monetary policy in order to reign in uncontrolled credit growth, regulate the demand for imports and arrest the country's trade deficit. A mandatory credit ceiling that imposed caps on credit growth for commercial banks was followed by consecutive interest rate hikes.

As a stop gap measure the government also increased import duties on passenger vehicles, in a bid to curb large scale consumer spending on automobiles. This was followed by a steep devaluation of the rupee against the US dollar. As a result, economic activity slowed down as expected and triggered a chain of events that successfully regulated the money supply in the country. The YoY broad money supply growth declined significantly to 18.1% in November 2012 from a high of 22.9% in April 2012. The YoY credit growth was at 20.7% as at November 2012 having dropped significantly from a high of 35% in 2011.

The revision in import duty structure drastically curtailed the import of vehicles into the country which contributed to the sharp decline in import expenditure, observed during the rest of the year. As a result, the country's annual incremental export income exceeded the annual incremental import expenditure for the first time in many years which helped trim the trade deficit.

The stringent monetary policy measures adopted during the year appear to have provided the impetus to support the strategy of managed growth. The downward revision of the interest rates in mid-December is a move in the right direction and more importantly the relaxing the of credit ceiling at the end of 2012 would provide greater momentum for growth in the year ahead.

21%

Growth in Post Tax Profit

Nations Trust: A defining moment

Nations Trust commenced 2012 on a positive note riding high on the success of the previous year. However, the difficult macro-economic conditions and unexpected changes to the monetary policy, altered the banking industry's landscape. We at Nations Trust drew on our strengths and marshaled our resources to refine and realign our strategies to meet the needs of the times. We saw opportunity in an uncertain business climate and decided to underpin this as our transition point to move towards a more enduring and broader business paradigm.

Your Bank recorded a 21% growth in post tax profit to Rs. 1,951 million against the backdrop of several constraints for growth during the year. The Bank was able to grow Loans and Advances by 20% and deposits by 27% in keeping with prudent management of liquidity. The bank experienced stress on cost of funds in a rising interest rate regime which created intense competition for deposits. This was countered by a growth of 26% in our non funds based income to uplift earnings by 29% for the year. Impairment for loans and advances for the current year recorded an increase due to substantial recoveries recorded in 2011. Increase in operating expenses were managed despite cost escalations due to hikes in utility tariffs and investments on branch expansions. All prudential ratios were managed at comfortable levels and we closed the year with a strong capital base of Rs.13.2Bn and a total assets of Rs.122 Bn giving us the financial muscle to propel the Bank for the next phase of growth.

Year 2012 was truly a defining moment for our Leasing business. The drastic changes in the import duty regime and the sharp devaluation of the rupee had far reaching consequences on the leasing industry.

A resilient business model

Nations Trust Bank's customer credo has always been a source of immense pride for us. Our 365 day and extended banking hours concepts have always set us apart from our peers. This, together with our commitment to bring value to customers in whatever we undertake has further strengthened the close relationships we continue to maintain with our customers. In 2012 we re-evaluated the needs of our customers across the different segments and lifestyles and commenced the implementation of a digital banking strategy, aimed at enhancing the Bank's delivery capability and re-enforcing our vision of "making life simple by being the benchmark of convenience". We launched comprehensive SMS and Mobile banking services and officially launched the Nations Facebook page which has received 19,000 likes to date. The Bank also digitalized a number of internal processes and was the first bank to move to a paperless boardroom by pioneering the introduction of a comprehensive iPad based board paper management solution.

Throughout the year we continued to systematically build on our core competencies while developing each of our business pillars. We recognised that each business is unique in its own right and would be impacted differently by policy changes and global events. Hence we set out a strategic blueprint that would nurture each business line and drive future growth. Management of interest margins across all businesses was an area of focus, drawing attention to narrowing margins facing the industry as whole. It is indeed heartening to note that all the business lines of our bank contributed in a material manner to the revenue and profits of the bank, indicative of a sustainable business model.

The credit cap had a lasting impact on the operations of our Commercial banking unit. We were compelled to curtail the Commercial banking lending portfolio to allow for the other, relatively higher yielding asset portfolios to grow. Consequently we strategically broad based our Commercial portfolio, to capture a larger share of the fee based trade finance wallet, especially with regard to export trade. It is noteworthy that the Commercial banking unit was able to retain its position as a main contributor to the bank's overall profits despite restrictions imposed on the growth of its advances portfolio.

The Retail banking business saw significant growth as we steadily expanded our reach, with the island-wide expansion of our branch network. We capitalized on Nations Trust's growing visibility across the country to grow our deposit franchise. Our pioneering concepts of 365 day banking and extended banking hours together with the segmented offerings under Inner Circle and Private Banking supported by our "best in class" customer service standards, were well received and appreciated in the new geographies we established a presence. Given the lower than desired mix of savings balances in our deposits book, the crux of our retail strategy was to mobilise low cost deposits through a wider network of delivery channels. Additionally we used our rapidly expanding branch network to consolidate efforts in developing our product offerings, across the board, with specific focus on promoting pawning and remittances to a wider customer base.

Having identified tremendous potential in the fast expanding SME segment, we made further inroads to engage with these customers across Sri Lanka. We continued with our first to market concept of establishing "Nations Business Centers", as a one stop shop to meet the holistic financial and cash management needs of our SME customers. In line with our commitment to support the SME customers to enhance their knowledge

and build capacity in their businesses, we rolled out the International Finance Corporation's SME tool kit and organised a number of Nations Business Seminars throughout the year, for the benefit of our customers. The SME lending portfolio saw commendable growth during the year and contributed significantly to the performance of the bank. During the year we also recognised the growing potency of the factoring market across the country and aligned our business strategy to exploit prospects of this business further.

All the key business drivers under the Cards business umbrella, consisting of the Nations Trust Bank's flagship franchise, American Express, continued to perform beyond expectation. We are immensely proud to report that our cards business very successfully reconfigured the card business model, to counter the adverse impact of the interest cap imposed by the regulator in 2010. The business has grown from strength to strength over the last two years while brand recognition has spread island wide.

Year 2012 was truly a defining moment for our Leasing business. The drastic changes in the import duty regime and the sharp devaluation of the rupee had far reaching consequences on the leasing industry. The finance leasing industry went into a tailspin as a bulk of the market demand vanished in the blink of an eye. We used adversity as the launch pad to move away from our traditional market, to embrace a wider section of the market. We diversified our portfolio and successfully overcame what appeared to be a host of insurmountable obstacles as evidenced by the impressive growth in the leasing portfolio.

The Treasury division too faced significant challenges with the sudden devaluation of the Rupee and the consequent imposition of more stringent regulatory controls related to foreign exchange dealing. This coupled with the increasing interest rate regime and a tight liquidity environment necessitated proactive management of the Bank's large fixed income portfolio and foreign exchange business. The lackluster performance of the share market during the year required us to consolidate our margin trading activities. However the treasury division was able to capitalise on the available opportunities to contribute its fair share to the Bank's overall profits

During the year we strengthened our partnerships with two Development Financial Institutions and negotiated medium term foreign currency funding lines for 2012 and beyond. These collaborations would facilitate future funding for specific sector based lending projects along the lines of the government mandated long term sectorial development plan, while strengthening our tier 2 capital and medium term funding capability.

Strengthening our defences

During the year we invested in a number of risk management tools and systems to further strengthen our Integrated Risk Management capability across credit, market and operational risks. The bank formulated the ICAAP framework and moved to a new, more robust two dimensional Internal Risk Rating model, complying

We believe that Nations Trust Bank has reached a critical landmark in our brief history which requires us to rethink and review our future strategy with the objective of being a leading player in Sri Lanka's banking industry.

with BASEL requirements. This will allow the Bank to standardize its credit ratings across all customer segments. A new treasury system which seamlessly integrates the front, middle and back offices on a real time basis was also implemented.

Getting more from less

Consequent to the rapid expansion of our footprint and the aggressive growth in our business volumes, managing the Bank's cost income ratio becomes imperative and has become a centre of focus of our strategy. We recognize that improving our productivity is a key element not only to improve profitability but also to give us a competitive edge. During the year our attention also focused inwardly to start streamlining our operational procedures and processes across businesses and support divisions to improve our productivity ratios across all our major activities. We are confident that this will make us a leaner and more cost effective organisation and will form a firm foundation for future growth.

Looking beyond

We believe that Nations Trust Bank has reached a critical landmark in our brief history which requires us to rethink and review our future strategy with the objective of being a leading player in Sri Lanka's banking industry. It is with this in mind that we contracted the services of the Boston Consultancy Group, a US based independent consultancy firm, to help us prepare a strategic roadmap for Nations Trust, aligned to the medium term growth prospects of the country. Our clearly demarcated strategies are designed to realise specific goals in gaining market share and maximising shareholder value in each of our businesses while remaining firmly entrenched in

our Bank's core values. The Bank will further review and reconfigure the operational structures where needed with the objectives of enhancing customer value and increasing productivity. We are confident that the results of this exercise will have significant impact in a relatively short time frame on our growth and profitability to propel Nations Trust Bank to the forefront of the banking industry in Sri Lanka.

Responsible Corporate Citizen

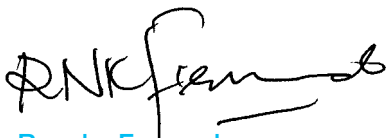
In pursuance of its sustainable growth plans, the Bank continued with its project to invest in uplifting several rural schools in the country by providing basic facilities for the students in under privileged schools. The Bank has set up "Maths Labs" in these schools and undertakes the teacher training with the cooperation of the Department of Education. The Bank's bio diversity project in Hiyare continued with its workshops and seminars. We also sponsored the launch of a book entitled "Sri Lankan Primates" in September which was the first of its kind published in Sri Lanka.

Our Hidden Treasures

At Nations Trust we have always considered our staff as the most valuable resource we have and attribute our success to their passion and commitment. Hence we place great importance on the development and management of this most valuable asset. We believe in nurturing our staff and empowering them to help them grow to become responsible employees and exemplary citizens. We also firmly believe in developing our talent pool and motivating them to maintain a winning organisation. During the year we commenced the implementation of the first phase of our succession planning and development strategy for the senior management cadre of the Bank.

Gratitude

I extend my sincere gratitude to the management and staff of Nations Trust, without whose professionalism and “can do” attitude we would not have been able to record such a commendable performance. Their determination to face any challenge and come out as winners is a true testament of the “Nations Way”. I wish to extend a special note of appreciation to the Corporate Management of the Bank who have extended their unwavering support to me at all times. I wish to thank my predecessor, Mr. Saliya Rajakaruna for his contribution and stewardship of the Bank during his tenure and wish him well in his future endeavours. A special thank you to the Bank’s former Chairman, Mr. Ronnie Peiris for his unstinting support and encouragement. I am grateful to the Chairman and the Board of Directors for their invaluable counsel and guidance throughout the year. Their support and guidance has given me immense strength. I wish to thank the Governor and officials of the Central Bank of Sri Lanka for their guidance and continuous support. My gratitude also extends to Messers Ernst and Young, our external auditors for their valuable input.



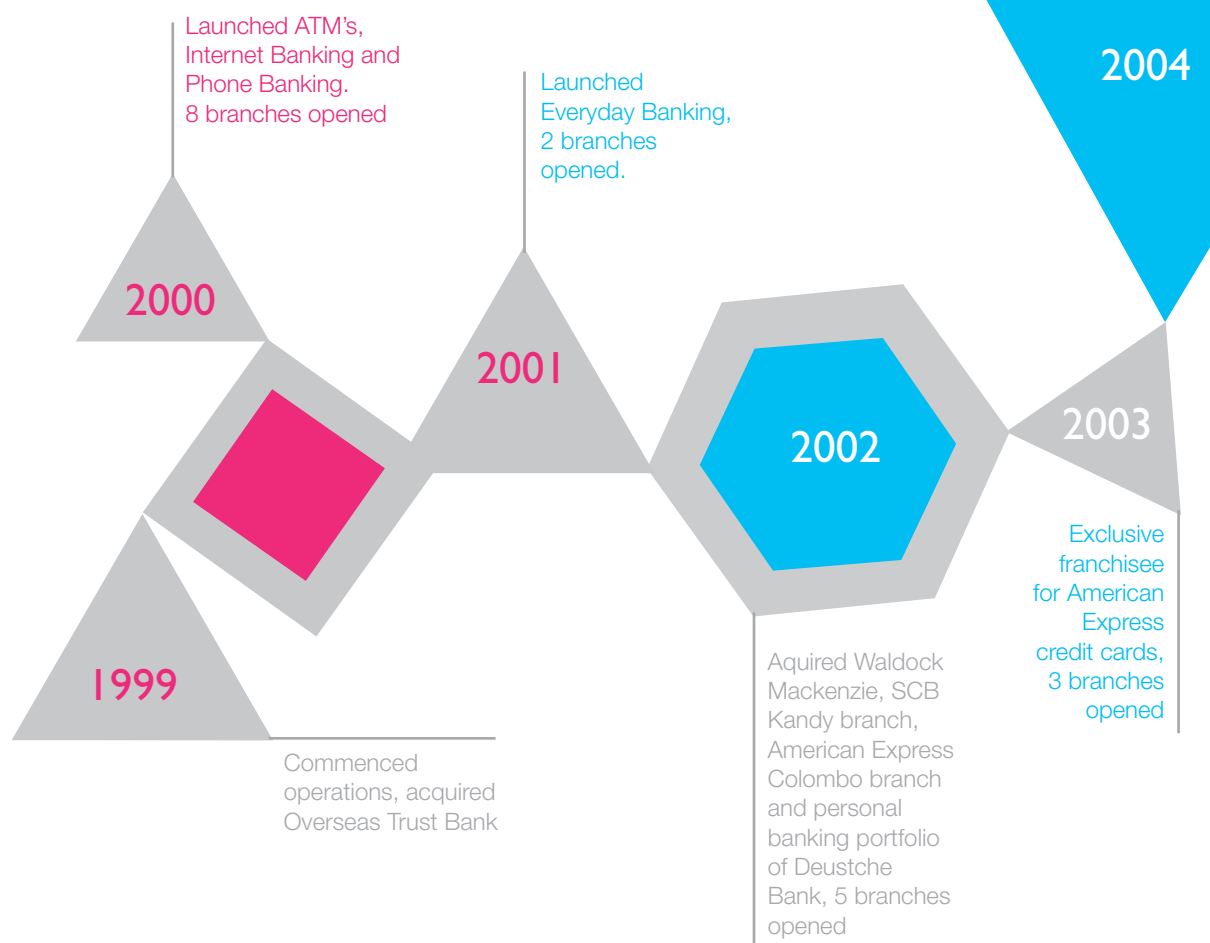
Renuka Fernando
CEO/Director

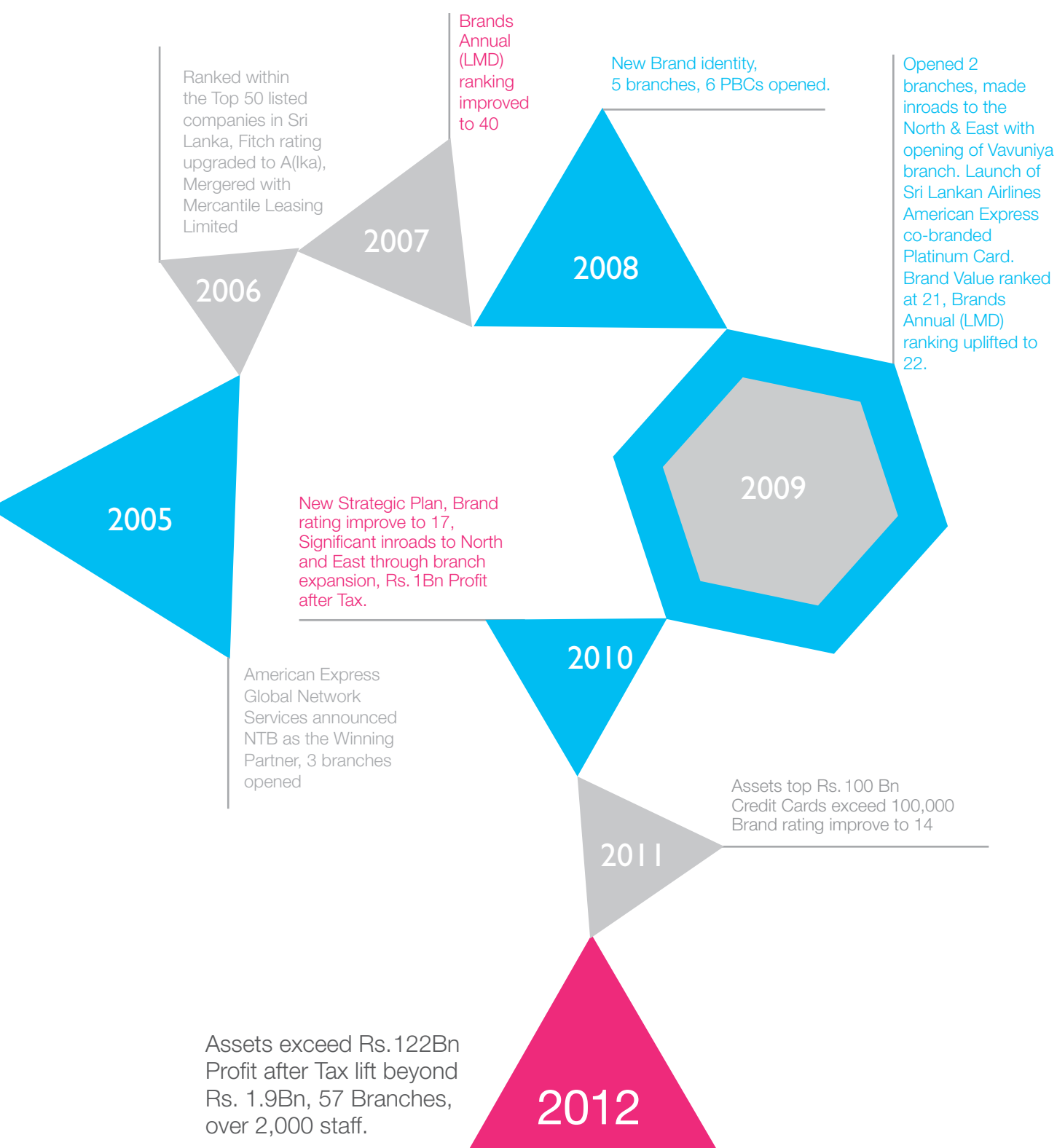
22 February 2013

Our Journey

1999 - 2012

We have progressed rapidly, growing in size and stature to become a key player in the financial services industry. As we showcase our journey of 12 years, underpinned by growth, delivery of sustainable returns and embracing change, we look forward to accomplishing further milestones in our next phase of growth.....





Management Discussion **and Analysis**

The measured growth tangent of the banking industry during 2012 challenges the notions of industry skeptics and provides reassurance on the continuity of the industry.

GLOBAL ECONOMIC ENVIRONMENT IN 2012

In 2012 the global economy was characterised only by sporadic growth spurts which failed to ignite any lasting momentum prolonging the hope of recovery. Key global economies, barely stirred during the year with many of Europe's crisis ridden economies desperately struggling to stay afloat.

The US economy showed signs of only a modest economic recovery, particularly in the first half of the year following a notable revival in private consumption. The gradually improving labour market in the US triggered a change in customer sentiments inclined to a more spend-centric culture. Coincidentally during this period the US government leaned towards a more accommodative monetary policy which culminated in a brisk 2.3% economic growth in the first half of 2012. However, sustaining this momentum would prove to be a difficult undertaking, particularly in view of fiscal cliff that came in to effect on 31 December 2012. The management of the fiscal cliff is a delicate balancing act that could either spearhead extraordinary growth or tip the scales to gridlock potential growth and force the US economy into a nose dive.

The deepening sovereign debt crisis in the EU underscored the critical nature of the region's economic misfortunes during the year. The catastrophic economic decline in the region continued unabated in 2012 with economic activity in the 17 nation bloc contracting by 0.5%. A slackening of factory output was observed at the start of the second half of the year as the region faced the possibility of an impending recession to conclude a dismal year. The prognosis for the EU in the

forthcoming year remains grim, with the credit crunch expected to continue and the overall growth potential for the region expected to hover in the current depressive state. It is believed that the only respite would come in the form of a comprehensive policy platform that directly addresses the debt crisis, supported by a stringent long term credit control mechanism.

Major Asian economies too underwent some significant changes during the year. Japan embarked on the path to gradual economic recovery following the cataclysmic impact of the earthquake in early 2011. The stagnant global economic climate and volatile exchange rates put a damper on Japan's export earnings during 2012. The country had to contend with weaker than expected demand from advanced economies. Despite these challenges Japan recorded a steady 1.9% growth during the year bolstered by the growing domestic demand. The year ahead remains promising for Japan. A stable currency platform and the revival of the export sector being the catalyst of growth for 2013.

During the year China transitioned towards a more sustainable growth curve following the country's meteoric rise as a global powerhouse. In China too, domestic demand offset the weak export demand demonstrated by the notable decline in factory output in the second half of the year. China's export sector has been the engine of growth for the country for the

2.3%

Brisk economic growth in the first half in US

past several years. However, commendable policy changes implemented during the year underscored the importance of concurrently developing China's domestic consumption. The resilience of these policies would underpin China's growth prospects for the next year in the face of unpredictable global conditions.

SRI LANKA'S ECONOMIC ENVIRONMENT IN 2012

Sri Lanka's economy too was susceptible to the global economic conditions that persisted during 2012. The year commenced with the country experiencing the post-war consumerism climate impacted by the global economic conditions.

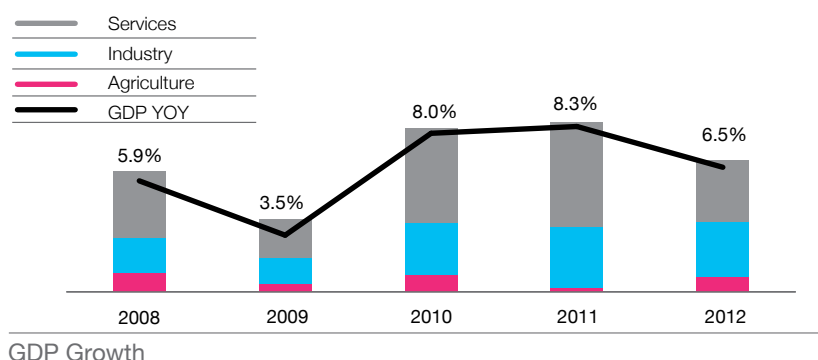
The government initiated economic stimulus package introduced in 2011 to infuse a spend-centric culture began to materialise in early 2012. The reduction in import tariffs that came into effect in late 2011 together with the accommodative labour policies gave rise to a 16.0% increase in domestic private consumption for 2012. Personal loans and loans for consumer durables increased in the first quarter leading to an immediate acceleration of inflation to 6.7%. To arrest the situation, policymakers imposed two consecutive upward revisions to the interest rate structure during the year to effectively curtail spending and encourage greater savings. The first quarter of the year witnessed a free float of the rupee. Amid the resulting volatility the rupee depreciated significantly against the US dollar but gained a measure of stability to close the year with an overall 12% devaluation.

Foreign direct investments (FDI) to the country continued to successfully maintain the YoY growth quotient fuelled by substantial infrastructure and rebuilding efforts supported by the government of China.

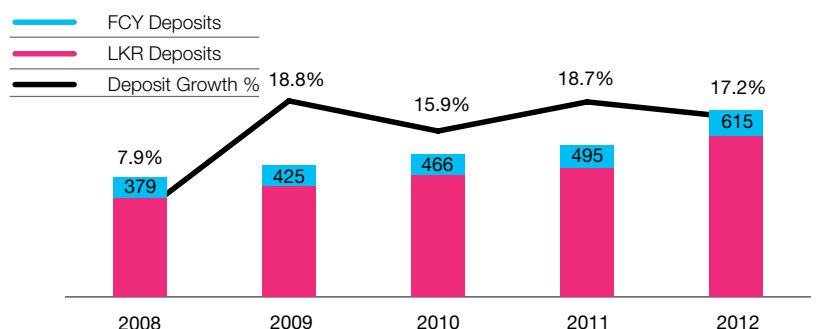
The tourism industry having exceeded the arrivals recorded in the previous year also extended the growth trajectory of the year before. The investments and development in the tourism industry continued unabated during the year, indicative of the immense future potential for this key growth sector.

Despite exceeding expectations, the growth in exports declined during the year. The downturn in exports can be attributed predominantly to the dwindling demand for external goods from the EU to where more than a third of Sri Lanka's total annual exports are headed.

During the year the CBSL implemented initiatives to curtail the demand for imports, key among them being the upward revision of the import duty structure for passenger vehicles. The scheme proved to be successful in realising the desired results by the end of the year. Imports were restricted thereby arresting the country's burgeoning trade deficit.



Management Discussion and Analysis



Banking Sector Deposit Growth

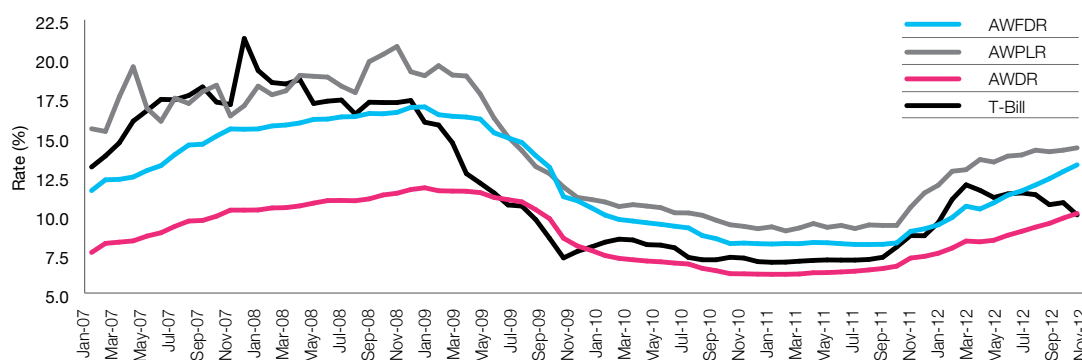
BANKING SECTOR DEVELOPMENTS IN 2012

The year 2012 was one of tentative growth for the banking sector following the sensitive impact of the government led macro-economic changes that ensued throughout the year. However, a measure of stability was observed in the 4th quarter signaling the resilience of the industry with all key indicators closing the year on a positive note. The overall asset base in the banking sector surpassed the Rs 5 Trillion mark by the year end. This translated as a 20% overall growth in the asset base of which 56% was due to the growth in loans and advances, which amounted to 21% YoY growth. However, deposits grew at a slower pace to end the year with an increase of 17% over that of the previous year. It is noteworthy that no material shift was observed in the composition of banking sector assets or liabilities with the product mix recorded in 2011 remaining relatively unchanged.

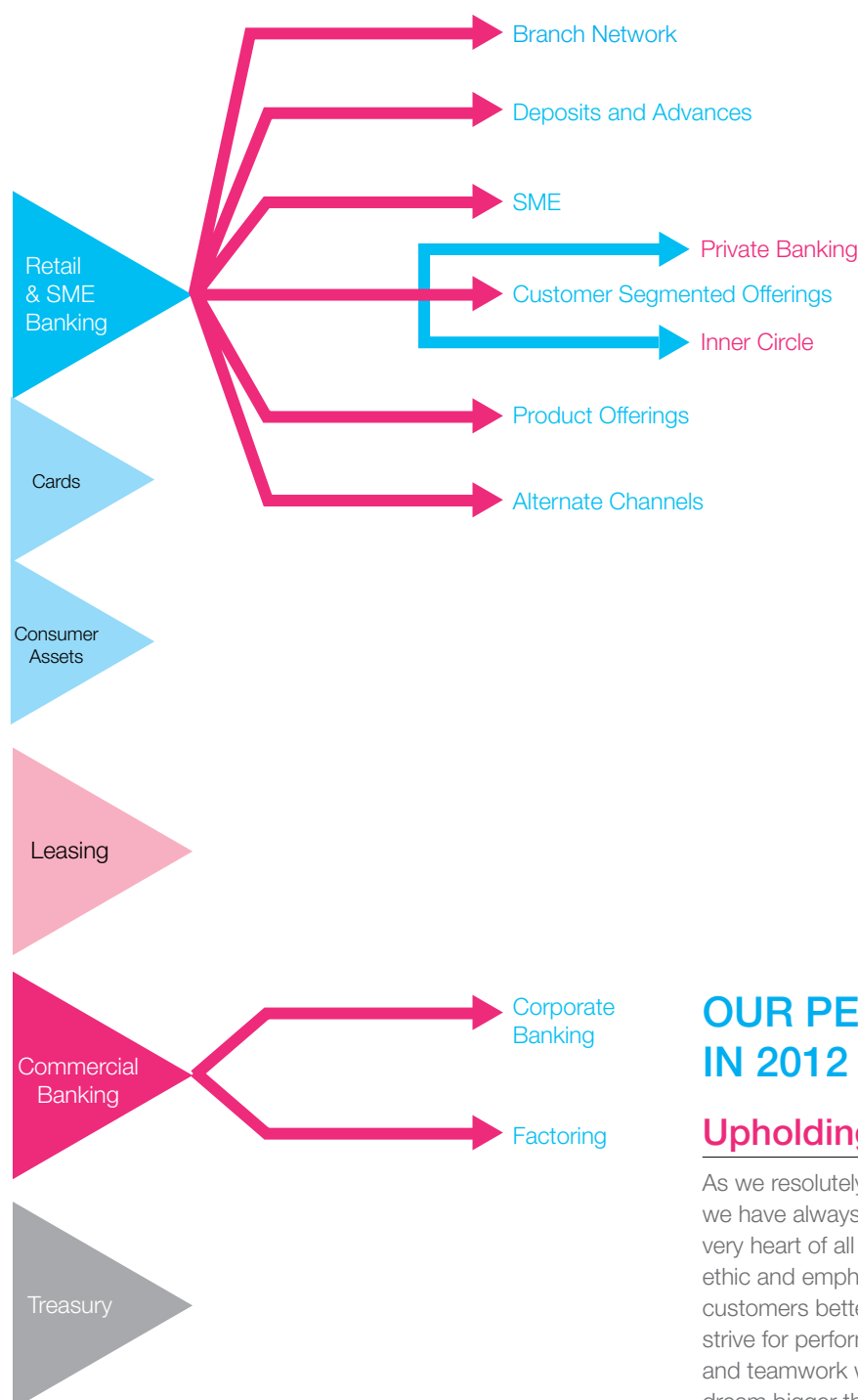
The rupee lending quotient for the year recorded a growth of 20% in line with overall lending portfolio growth for the year. Analysis of the product-wise lending concentration revealed the tendency towards increased lending for pawning, overdrafts and housing loans during the year.

The overall asset quality of loan portfolio for industry remained healthy during the year. Further all key liquidity ratios were also maintained throughout the year, while the capital adequacy ratio experienced only a marginal change.

The measured growth tangent of the banking industry during 2012 challenges the notions of industry skeptics and provides reassurance on the continuity of the industry.



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



OUR PERFORMANCE IN 2012

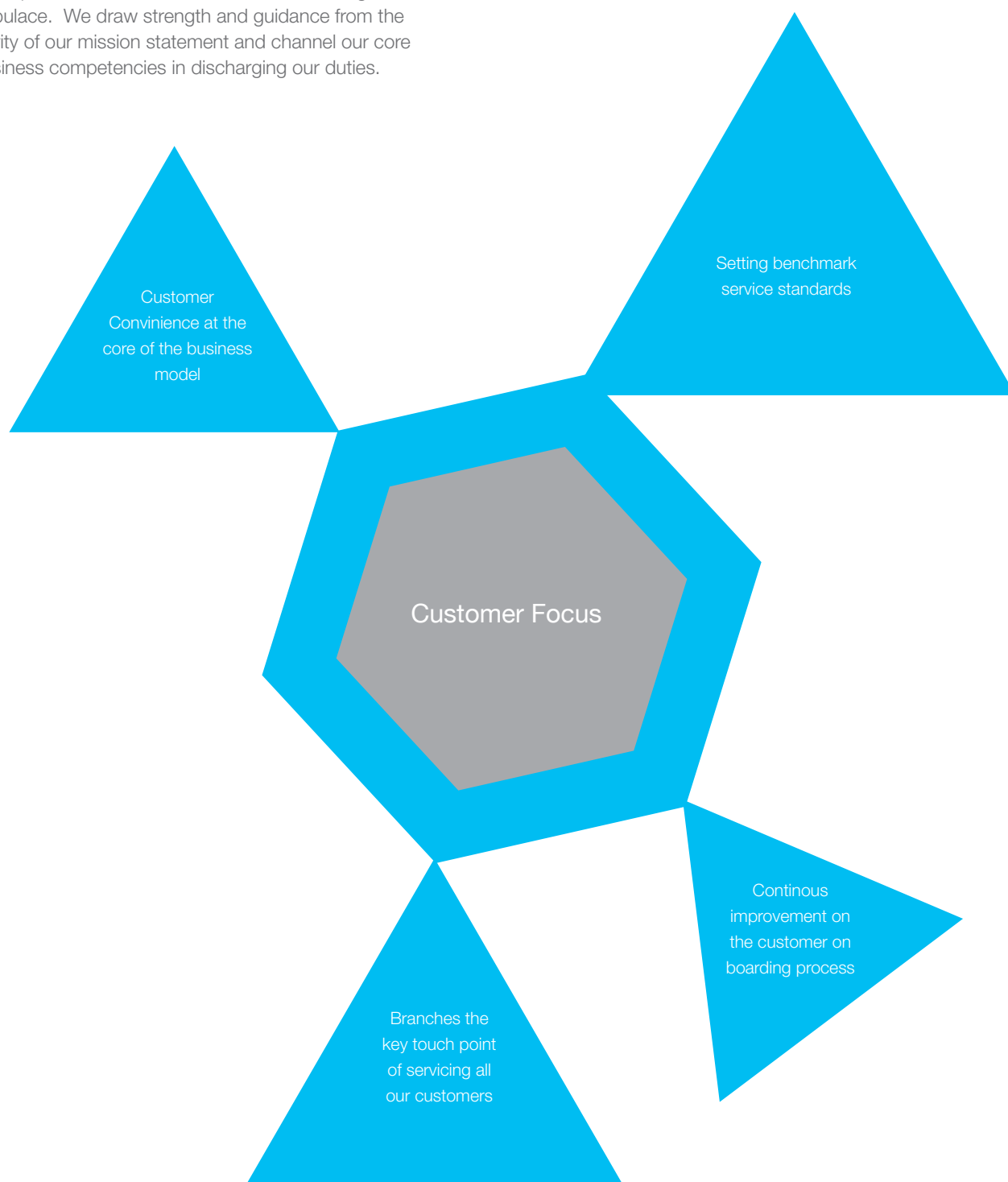
Upholding Values

As we resolutely march forward towards our goal, we have always believed that integrity lies at the very heart of all that we do. It defines our work ethic and emphasises our pledge to serve our customers better. It instills in us the confidence to strive for performance excellence through honesty and teamwork while giving us the courage to dream bigger through creativity and innovation. These deeply entrenched values have been instrumental in creating our dynamic business pillars that define our unique value proposition.

Management Discussion **and Analysis**

Who we are

At Nations Trust Bank our business paradigm is shaped by our vision to reinvent the benchmark as an enabler of simplified convenience to Sri Lanka's banking populace. We draw strength and guidance from the clarity of our mission statement and channel our core business competencies in discharging our duties.





Our vision, mission, values, business competencies and operating model, all of which are guided by our unique selling proposition of providing unparalleled and unprecedented levels of convenience to our customers

RETAIL AND SME BANKING

Creating a new banking culture

Branch Network

Overview

Understanding localised needs through greater interaction is the rationale which drives our branch model. The extensive network supports the Bank's strategy of creating greater value for a broader customer base by facilitating enhanced accessibility and greater convenience. Uniformity and consistency is applied throughout all aspects of the branch network ranging from operational code, products and service standards to image and appearance. All branches are structured true to our customer driven service approach promoting the 365 banking concept along with extended banking hours which is the perfect complement to the banks professional service standards. The plush upscale design and layout of all branches is on par with international standards and has completely redefined the banking culture among local banks. The outstation clientele in particular have enthusiastically embraced Nation Trust innovative approach and dynamic image.

Performance and Focus in 2012

During the year under review we added 9 new branches with the island wide network growing to 57 branches by the year end. In line with the Bank's core growth strategy to develop an island wide stronghold, 8 of the 9 new branches were commissioned in the outstations.

In the year under review, branches played a crucial role in implementing the SME strategy of the Bank by enhancing the lending proposition in a concerted effort to tap into the SME sector. Driving low cost deposits was the primary focus on the deposit mobilisation effort. Branch strategies together with the support of centralised sales teams were continuously improved to keep up the new account acquisition momentum.

Looking Ahead

In the year ahead the Bank hopes to expand the branch network while continuing to further refine procedures to ensure a timely and accurate servicing of clientele via the branches. The branch model would also be re-conceptualised to be identified as the critical distribution channel for the Bank's entire product line.

Our 56th branch opening in Ambalangoda





TRINCOMALEE DISTRICT

Trincomalee

Sanga gracing the opening of the Trincomalee Branch



KALUTARA DISTRICT

Aluthgama

Celebrating the opening of the 50th Branch



Management Discussion and Analysis



JAFFNA DISTRICT Nelliady

Strengthening our presence
in the North



PUTTALAM DISTRICT Wennappuwa

Entering in to the
Fast developing
town Wennappuwa



KURUNEGALA DISTRICT Kuliyapitiya

Moving to one of the
largest cities in
Kurunegala





POLONNARUWA DISTRICT

Kaduruwela

Making the mark in Rajarata, surrounded by ancient history, giant tanks and great paddy fields.



AMPARAI DISTRICT

Akkaraipattu

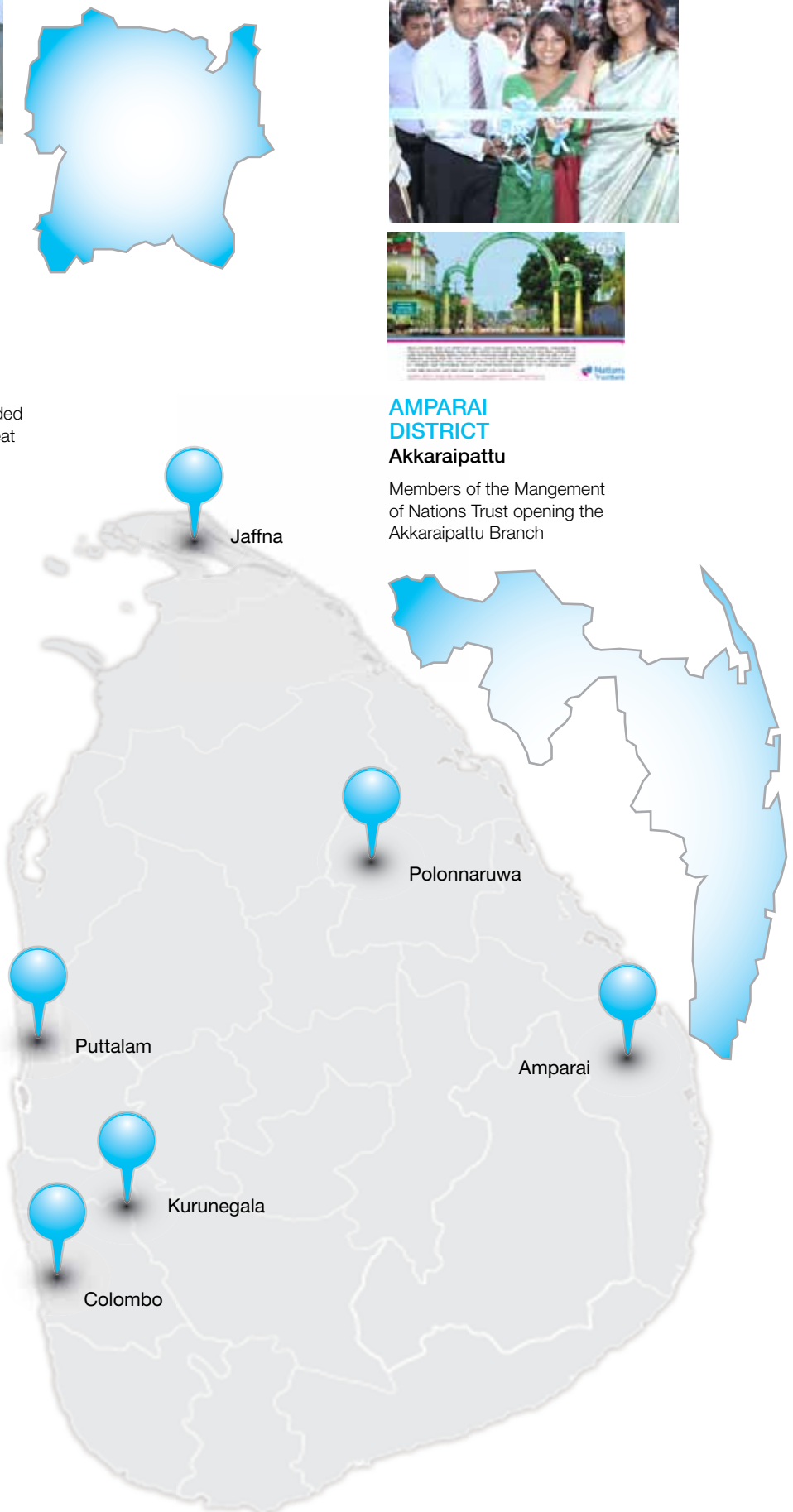
Members of the Mangement of Nations Trust opening the Akkaraipattu Branch



COLOMBO DISTRICT

Pettah (Branch 2)

Opening day deposit rush at our 2nd branch in Pettah



Management Discussion and Analysis

Deposits Mobilisation

Overview

Nation Trust offers customers a diversified range of long term and short term deposit options, spearheaded by the Retail and SME unit.

Performance and focus in 2012

The year under review was a momentous one for the deposit arm. Three consecutive interest rate hikes during 2012 sparked frenzy of activity in the deposit market. Investor optimism grew rapidly fuelling a frantic rush to invest in term deposits. The lucrative possibilities of the term deposits and savings platform prompted investors to channel funds to the deposit market having discharged their funds from alternative sources of investment. The Bank too capitalised on this scenario through a vigorous deposit mobilisation campaign accompanied by an intensified island wide publicity push. The measures proved highly successful, as evidenced by the growth in overall business volume. The deposit portfolio of Retail and SME grew by 33% in 2012, a clear demonstration of customer confidence in the Bank. The overall liquidity position of the bank grew with the influx of deposits.

In line with the Bank's strategy to grow the deposit book, the Bank launched a promotional campaign for its "Nations Saver" product during the year. The rationale behind the main publicity thrust was to capture a greater share of the transactional accounts of individuals by combining conventional banking with an attractive value added proposition using a multi-tiered benefit scheme. Despite the considerable challenge of mobilising these

low cost deposits, a substantial growth of Nations Saver accounts was observed as at the year end. This is a definite sign of the growing customer propensity to seek greater value as an essential component of modern banking products.

Looking ahead

It is expected that interest rate would stabilise in 2013 offering a credible structure that would eliminate sporadic growth and facilitate a consistent deposit mobilisation platform. Reiterating the importance of low cost deposit mobilisation, in the year ahead the Bank hopes to expand the current and savings (CASA) deposit base while continuing to nurture customer confidence and strive for sustainable growth of the business unit.

SME

Overview

The Bank's business model for the SME sector operates on an evolutionary landscape. The range of products and services offered by the Bank seeks to empower the customer with resources that will facilitate sustainable long term development.

Performance and Focus in 2012

The SME segment was a key area of interest for Nation Trust during the year under review. Pursuant to the Bank's aim to increase exposure to the SME sector, we opened new specialised SME centers during the year taking the total to 7 centers across the island by the year end.

Business seminar held in Kurunegala



Nations Business Centre opening in Ratnapura

The SME credit line that commenced two years ago saw a significant portfolio growth during the year in line with the government mandate to develop Small and Medium scale industries in the country. Consequently in 2012, the Bank was able to diversify the SME lending portfolio by making inroads into a number of new sectors within the SME segment. In 2012, a higher proportion of the portfolio consisted of lending to traders and manufacturers while the government stipulated minimum 10% exposure to the agriculture sector was also successfully fulfilled. It is noteworthy that despite the diversification and the obvious increase in the volumes, the Bank continued to maintain good quality of the portfolio, illustrated by relatively low impairment. This is a clear indication of the Bank's commitment to encourage credible financial practices across the SME sector. The SME business banking model was also revamped during the year and an innovative new loyalty (rewards points) scheme was introduced for all business accounts in the sector. This is a pioneering initiative that would encourage the SME customers to retain higher balances in their business account. The scheme was introduced as a pilot project in 2012 and more visible promotion of the product is expected in coming years.

Throughout the year the Bank reinforced its pledge to enrich the SME sector by introducing a series of innovative financial and decision making tools. With the objective of inculcating basic financial discipline in the sector, the Bank introduced a SME specific financial toolkit in partnership with IFC and Dialog Axiata. The ambitious project combines IFC's financial know-how together with a sophisticated IT platform supported by Dialog. The tri-lingual toolkit is accessible to all SME customers via a web portal. A dedicated terminal is located at all SME Centres for convenient accessibility while the branch staff is well trained to provide any additional support required by customers. In order to ensure consistency of knowledge transfer, IFC conducted comprehensive training sessions for all our branch staff. A number of interactive forums were also conducted at provincial level to promote the toolkit among the SME customers. The feedback from customers has been very encouraging and as the popularity of the toolkit grows it is hoped that the SME sector would transform into a financially mature and more sustainable market for the Bank.

33%

Growth in Retail and SME deposits

Looking ahead

In the year ahead, we anticipate the SME sector to be a catalyst of growth for the bank. The systematic groundwork engineered, in 2012 would underpin our growth in the SME sector in 2013. Additional funding obtained from multilateral lenders would guarantee the Bank a stronger foothold in the sector while distinguishing itself as the premium provider of SME services. In the forthcoming year, the Bank would also actively promote the business account rewards concept among SME customers in addition to enhancing customer value through a range of attractive business benefit programmes. Finally in order to continuously improve our staff knowledge in this sector, an "SME Academy" will be launched during the first quarter 2013, offering an internationally accredited learning programme to our SME Relationship Managers.

Customer Segmented Offerings

Epitomising personal success!

Private Banking

Nations Trust Bank's private banking concept has been a resounding success from the very inception. The exclusive privileges and exceptional relationship services offered to our private banking customers have fast become the hallmark of the private banking field in Sri Lanka. Customers have wholeheartedly welcomed the ability to access the service provided via any of the Banks' network of island wide branches. This together with the increasingly attractive interest rate scenario during the year propelled the business unit to grow rapidly. The year produced a notable shift towards a more widespread island wide growth as opposed to the predominantly Western Province based growth pattern observed in the previous years.

In the year ahead, the Bank expects to capitalise on this trend by mobilising the branch network to drive an aggressively country-wide publicity drive to promote private banking. The Bank reaffirms its commitment to this customer segment by continuously enhancing customer privileges and refining service standards to further augment customer value.

Inner Circle

While continuing to uphold the values of conventional banking ideology, the Bank's Inner Circle banking model has evolved considerably since its introduction. Each new change has resulted in a positive outcome for the Bank and the segment has grown steadily over the years. During the year the Bank channeled its core competencies and intensified steps to fine tune the Inner Circle service platform in anticipation of the potential for future growth in this segment. Key among these measures was the stationing of specialist Inner Circle ambassadors throughout the island wide branch network. All Inner Circle ambassadors function in a dedicated advisory capacity exemplifying the Banks high service standards. To ensure consistency all Inner Circle ambassadors were rigorously trained throughout the year.

In the year ahead the Bank expects to use the existing Inner Circle platform as a springboard to capture an even greater market share.



Exclusively for Inner Circle customers

Product Offerings

Transcending boundaries

Pawning

Overview

The year 2012 proved to be one of much discovery for the Bank in relation to the pawning arm. The upward spiral of the world gold prices observed in the previous year continued throughout 2012 as well with dramatic consequences for the pawning market in Sri Lanka. As world gold prices rose unchecked, customers were increasingly drawn towards pawning as a convenient borrowing alternative.

Performance and Focus for 2012

During the year the Bank identified an astounding demand for pawning across the country particularly with the opening up of the North and East markets. The Bank did not hesitate to exploit these potential markets by increasing the number of customer touch points across the country. The year witnessed the commissioning of 19 new pawning centers within the existing branch network bringing the total number of island wide pawning centers to 36 by the year end. The unprecedented growth in the pawning portfolio during the year is indicative of the success of the Bank's pawning blueprint but also the

tremendous potential that exists to further develop this product offering.

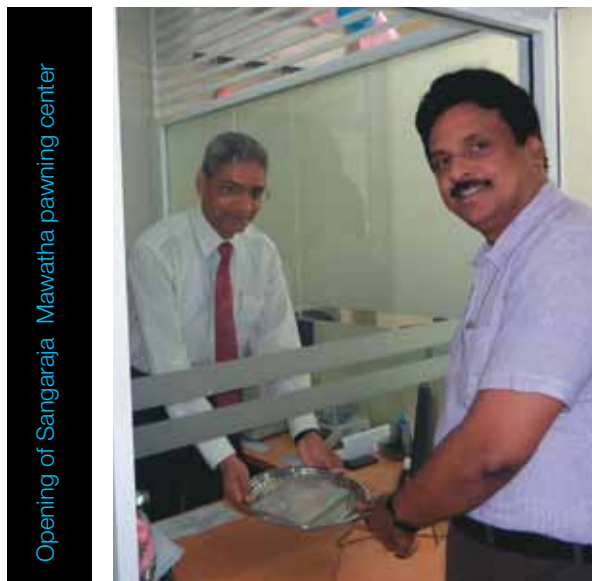
Looking Ahead

Acting from a position of strength and stability, the Bank expects to further intensify efforts to fulfill the growing needs of the pawning market and possibly transitioning it as a key product offering in the forthcoming year.

Remittances

Overview

As the volume of inward remittances grows exponentially, the economic importance of these inflows continues to determine the economic stability and growth trajectory of the Sri Lankan economy. Official estimates indicate that inward remittances through formal channels amount to approximately USD 6.0 Bn for 2012 an increase over 25% that of the previous year. This is possibly only 50% of the remittance market as it is believed that at least an equal amount is remitted to the country via unofficial channels. Our strategy is to capture this second tier market using our credibility and standing as a launch-pad to entice a greater portion of remittances to be channeled through the formal medium via the Bank's channel partners.



Tie ups with reputed money transfer brands

Performance and focus in 2012

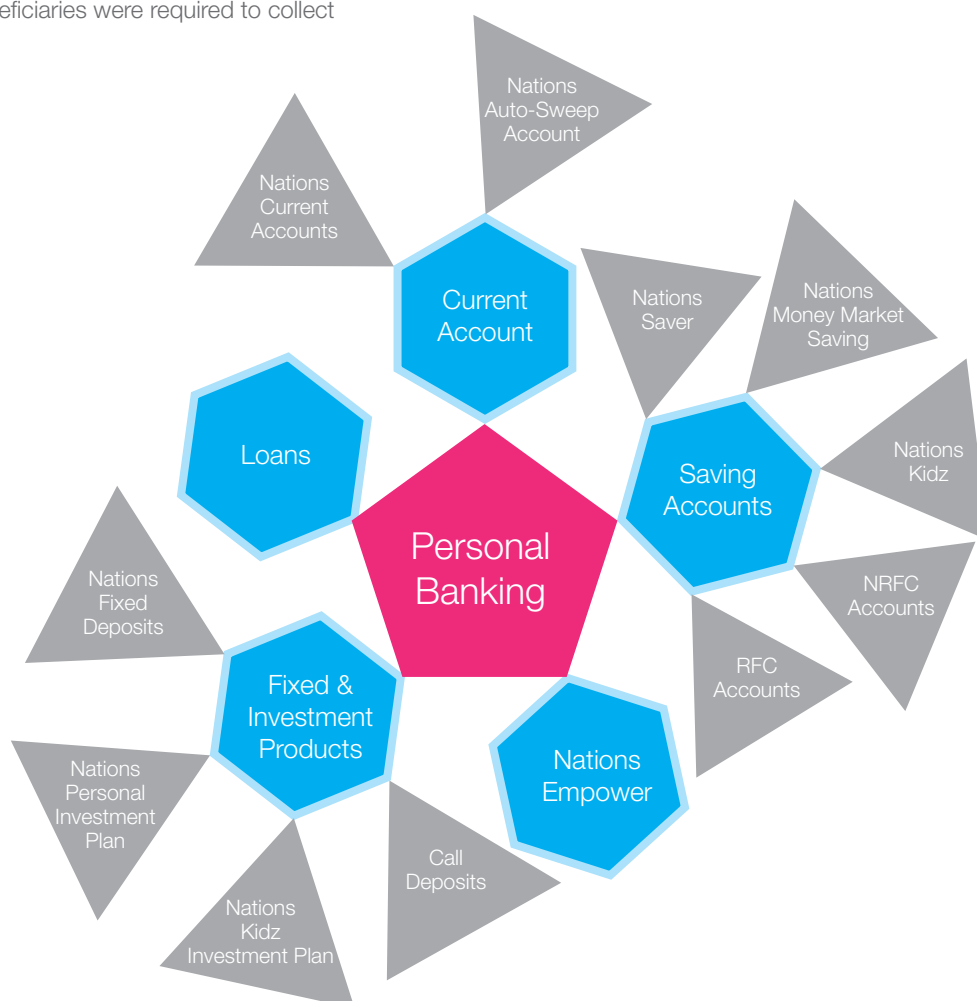
An extensive market mapping exercise revealed Italy and the USA as potential emerging markets in addition to the core Middle East market. A region-specific action plan was instigated during the year to establish a stronghold in these identified markets. The overseas staff cadre was strengthened in key regions with the aim of promoting Nations Trust among expatriate communities as the premium choice for remittances to Sri Lanka. A number of successful tie ups were established to expand the channel partner network. True to the Banks' vision of "Making life simple by being the benchmark of convenience", we partnered with Xpress Money, a well reputed UK based instant money transfer brand with a presence in more than 95 countries. In December 2012 the Xpress money "Country Specific Anywhere Payout" facility was launched throughout the Banks' island wide branch network. The service was accessible not only to our customers but also non-customers as well. Though in its relative infancy, customer responsiveness to the service has been remarkable given the traditional practice where beneficiaries were required to collect

Xpress Money remittances from the bank specified in the remittance. During the year we also tied up with a number of large international remittances houses including Ria, Al Zaman and Nonoo along with trusted region specific partners. These moves coincided well with the countrywide branch expansion drive in providing access to a larger clientele through greater island wide coverage.

Looking Ahead

The Bank has ambitious plans for the forthcoming year to target gaps and increase the Bank's exposure in this highly rewarding market. As part of strategy an extensive promotional campaign has been earmarked to galvanise the resident expatriate populations in the Middle East, Europe and Australia into endorsing Nations Trust as ultimate choice for foreign currency remittances to Sri Lanka.

Other products



Alternate Channels

Endless possibilities

Overview

The Bank has consistently pledged to deliver leading edge banking solutions that seamlessly integrate technology with the Bank's renowned service standards to provide customers with unmatched convenience. The digital banking portal was designed following extensive grass-root level research conducted by a team of our own young and dynamic staff to ascertain a deeper understanding of the lifestyle driven requirements of the modern consumer. The resulting investment in technology supports a simplified user interface for all digital platforms including ATM, Internet and SMS banking providing customers with secure, effective solutions that offer flexibility and convenience.

Performance and Focus for 2012

The groundwork done to develop the digital platform was transitioned to reality in 2012. During the year the Bank launched the key elements of the digital portal through a phased approach. The SMS banking concept was successfully launched in the 1st quarter of 2012.

The SMS banking module encompasses not only the transactional accounts of customers but also extends to American Express card members by providing them with precise up-to-the-minute information via SMS alerts. The customer response has been phenomenal with over 3,000 customers having registered for the service by the year end. Inspired by the success of the SMS banking module, the soft launch of limited mobile banking services ensued in the last quarter of the 2012. Initial indications show that customers have wholeheartedly welcomed this additional convenience to their lives particularly with the growing dependence on the smart phone as a true mobile medium of access.

Throughout the year the Bank continued to systematically enhance customer access vis-à-vis the ATM network.

Looking Ahead

As part of the next phase of the digital banking the Bank expects to provide customers with the complete range of mobile banking applications within the 1st quarter of 2013.

Your World, now digitalized with Nations
Mobile Banking

Our newest branch is now open on your mobile phone

Nations Trust Bank

Digital Banking

Nations Trust Bank

Using banking at your convenience with Nations Mobile Banking. Register to download our easy-to-use digital mobile app, now available for any smart phone and experience a new way of banking that suits your busy lifestyle.

Point Transfers | Utility Bill Payments | Account Balance Inquiry
Mini Statement | American Express® Card Balance Inquiry

Nations Trust Bank
Nations Mobile Banking

Cards

Energising lifestyles

Overview

In 2012, the Bank completed 9 successful years in issuing American Express (Amex) flagship centurian line credit cards in Sri Lanka. American Express cards are offered to Consumer and Corporate segments. A clear understanding of consumer behavior and spending patterns has prompted the Bank to maintain a three tier structure to serve the consumer space in Sri Lanka. The Premium product targets the affluent market, the Gold product targeting the mass affluent market and the Blue, Green products targeting the affordable mass market.

Performance and Focus in 2012

American Express has long been the front runner in the credit card arena among the local banks. Customers have come to depend on the Amex brand as the only superlative credit card option in the market and the popularity of the card continues to grow at an exponential rate. During the year, a record number of new cards were issued and the customer base grew considerably to reach the milestone set of for the year 2012. Correspondingly both spend and receivables surpassed the comparative periods for the previous year by 22% and 36% respectively. Profitability of the product increased in parallel to growing business volumes.

Cuisine of your choice with American Express®
30% savings each day of the week with a variety of new restaurants.

MON	TUE	WED	THUR	FRI	SAT	SUN
Mango Tree	Il Ponte	Chesa Swiss	Jack Time	Prima Taste	Nuga Gama	Golden Dragon

Valid from 5th November - 31st December 2012 (excluding 24th, 25th and 31st December)
For details and terms and conditions visit www.americanexpress.lk

Nations TrustBank

Exclusive promotions for American Express Card holders

All consumer cards are combined with multiple loyalty programmes which, add value to the product and serve to enhance the appeal of the American Express card as the best choice in the payment space. The Bank is also the sole acquirer for the American Express in Sri Lanka, which enables acceptance in 16,000 merchant net-work and a fully integrated multi currency payment gateway.

The American Express Corporate card epitomises corporate success and is crafted to provide users with bespoke corporate solution facilitating payment solutions.

**BUY FOR RS.2,500
WIN RS.25,000 DAILY**

Buy for Rs.2,500
Win Rs.25,000 Daily

Exclusively for Selected Express® Cardholders

For more information visit www.americanexpress.lk or call 433 43 43 #4343

Nations TrustBank

Enjoy Reduced Redemption Rates Exclusively with The SriLankan Airlines Platinum American Express® Card
The fastest way to bring your dream destination closer

Destination	Standard Redemption Rate (SriLankan Miles)	Platinum Redemption Rate (SriLankan Miles)
London	22,000	17,000
Maldives	22,000	17,000
Paris	22,000	17,000
Perth	22,000	17,000
Singapore	22,000	17,000
Tokyo	22,000	17,000
Yokohama	22,000	17,000
London	22,000	17,000
Perth	22,000	17,000

SriLankan Airlines **Expedia** **Nations TrustBank**

The Bank proceeded with the phased strategy initiated following the interest cap that came into effect in 2010. The cards business was reconfigured and rescaled where market segments were prioritized according to business potential. It was changed in favour of a more spend-centric culture with fees being a key driver of total income. This systematic blueprint would effectively counteract any negative business impact caused by the interest ceiling into the future. The business is ideally placed to benefit from customer aspirations in Sri Lanka's march to middle income country status in the post war era.

Looking Ahead

The cards unit hopes to introduce a number of new initiatives to expand the business in the forthcoming year in tandem with the overall bank expansion strategy. Operating from this position of strength and utilising capabilities, the Bank expects to expand the existing network and capacity by facilitating a more inclusive strategy in the year ahead. The potential for alternative payment solutions would also be explored.

American Express promotion conducted at
Bandaranayake International Airport



American Express Centurian Platinum promotion

Consumer Assets

Overview

The Banks consumer asset portfolio has been one of considerable value to the bank with a multitude of personal loan offerings under one umbrella.

Performance and Focus in 2012

The portfolio was straddled with slow volume growth due to increased interest rates during the early part of the year. A complete review of the portfolio was carried out to re-establish its strategic direction for the medium term with a view to optimising returns. Consequently, to overcome the issue of depleting short term NIMs, the Bank initiated tentative steps to migrate to alternative customer segments to be spearheaded by the expanding branch footprint. Consistent growth was pursued by a strategy designed to cater to the credit appetite for a fixed rate product.

The results of this dual strategy were evident towards the latter part of the year as processes were streamlined to improve approval in order to accommodate the emerging new customer segments. These measures, together with a notable decline in pre-mature closures, infused a measure of stability to the portfolio towards the year end.

Apart from the centralised sales teams, branches also contributed well in sourcing new business. Many promotions were held to position branches as a key delivery channel and contact point for selling personal loans.

Looking Ahead

In the year ahead the Bank expects to magnify its presence in the alternative market segments penetrated in 2012. The Bank is confident that intensifying the present market penetration strategy would further stimulate these markets while exploring the possibilities to venture into new market segments.

Expanding our personal loans delivery channels

MATARA to MANIPAY

NATIONS TRUST BANK TURNS A NEW PAGE IN CONSUMER LENDING

Now all our branches have the flexibility to offer Personal Loans to a multitude of customers!

HOW

Non Approved Company <ul style="list-style-type: none"> Need not be employed in a approved company Salaried or Self Employed Maximum Loan will be LKR 300k 	CASA Holder <ul style="list-style-type: none"> Identified Basic Pre-approved LKR 1 Mn Personal Loan Good CRIS only
Lead Code 90630 and Branch code	Lead Code 90740 and Branch code

QUARTERLY REWARDS

Cluster Competition Winner - LKR 50,000 Runner Up - LKR 25,000	Zone Competition Winner - LKR 150,000
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Nations Trust Bank
Personal Loans

LEASING

Overview

The Banks' leasing portfolio comprises of a combination of two primary products namely, finance leases and higher purchase facilities. Nations Leasing commenced 2012 on an optimistic note with the spillover effects of the vehicle leasing boom of the previous year.

Performance and focus for 2012

There were three key aspects that reshaped the landscape of leasing industry in 2012: firstly, the rupee devaluation in the 1st quarter, secondly, the interest rate hike and finally, the upward revision of vehicle import duty in April 2012 mounted challenges in the leasing industry. Triggered by these challenges leasing unit initiated an action plan that successfully realigned its strategic focus in cognizance with changing market trends. It was decided to move away from the established business prototype to encompass a more challenging risk-reward driven model. The Bank intensified its campaign to migrate from the captive customer base and venture into alternative customer segments. The marketing plans were redefined to capture a greater share of the higher purchase market. Consequently during the year the unit successfully developed strategic partnerships with United Tractors to make inroads into the equipment market, and with DIMO to secure their commercial vehicle market. In a bid to capitalise on the increasing popularity of hybrid vehicles, a new product titled "The Nations Green Lease" was launched in July 2012.

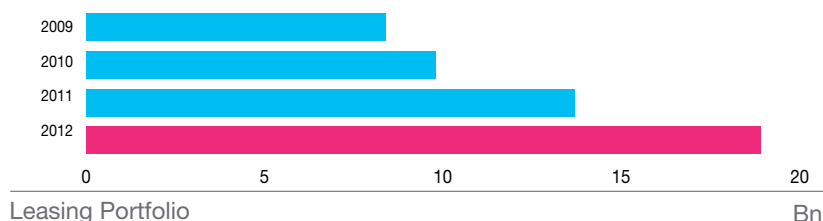
These efforts resulted in the Bank recording a net volume growth of Rs.5.5 Bn an increase of 40% against the previous year. The phenomenal performance of the Banks leasing arm is a testament to the timely action taken by the unit to transform the potentially disastrous business climate into a catalyst for growth. Margin management and debt recovery also remained critical aspects of the overall control process.

Rs. 5.5 BN

Growth in Lease Portfolio



First customer receiving his vehicle key under Nations Green Lease



Management Discussion and Analysis

The operational model for the leasing business was also restructured during the year, driven by the need to embrace a broader island wide customer base. The previously centralised leasing operations were decentralised during the year. Under this initiative 90% of core operational duties were transferred to the branch network with only the final approval procedure being done centrally. This enabled the Bank to extend its reach and expand the leasing network by 13 centers totaling 32 centers as at the end of 2012.

Despite the obvious drawbacks in the industry, the performance of the Bank's leasing unit for the year is ample evidence of the success of the strategy realignment process. The Bank has now carved out a uniquely niche position for itself in the leasing market by drawing on the business synergies of inherited leasing experience and a wealth of banking expertise.

Looking ahead

In the forthcoming year, the leasing unit is committed to further expand the business portfolio to benefit from the potential business opportunities in the market. Accordingly, plans are underway to improve the efficiency and lead times for outstation leases. Simultaneously the number of leasing centers would also be expanded. Collection and recovery would be aggressively pursued to further improve on impairment provisions.

Promotions conducted by Nations
Leasing in 2012



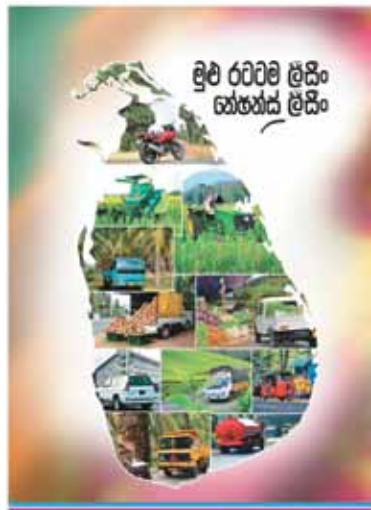
A combination of strength and flexibility

Special leasing packages and discounts for Caterpillar machinery

- Attractive rates
- Doorstep service
- Minimum documentation

Call: (011) 4 218 218

For any comments or suggestions, please contact us during the month of November. Please advise Nations Trust Bank is a financial services provider regulated by the Central Bank of Sri Lanka.



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Nations Trust Bank Leasing

COMMERCIAL BANKING

Corporate Banking

Overview

The Bank's corporate banking arm has set the benchmark as a dynamic facilitator of working capital funding requirements for the top and mid- tier corporates in Sri Lanka. The Bank offers a suite of multi-functional products for these customers while bespoke financial solutions are created to satisfy the more discerning corporate needs.

Performance and Focus in 2012

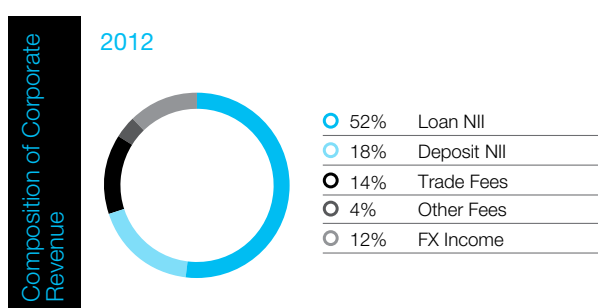
Driven by an extreme rate sensitive business model, the year 2012 proved to be a challenging one for the corporate banking industry as a whole, particularly in view of the high interest rates prevalent throughout the year. The Central Bank imposed credit ceiling too continued to impede growth.

Despite these external pressures, the performance of the corporate banking unit surpassed expectations while continuing to be a key contributor to the banks bottom line. The unit consolidated its lending portfolio as growth opportunities to expand were limited due to the credit ceiling. The division pursued trade finance income by focusing on acquiring export related trade volumes during the year to counteract the drop in import volumes. The unit seized available business opportunities to mobilise a larger volume of corporate business transactional accounts through specialised transactional banking teams. These teams were deployed to cultivate close business relationships with corporate clientele with the aim of capturing their operational accounts. This strategy proved to be successful as evidenced by the increased number of new corporate accounts mobilised by the end of 2012. Further, a systematic approach led to the streamlining of operational functions

and restructuring of service parameters. The existing corporate banking teams were reinforced and trained as industry-wise specialists.

The predominant focus of this exercise was to provide expertise to the sectors earmarked under the GOSL designated growth strategy for the country.

Creating business value to customers is no doubt a critical aspect of our operational strategy. However we also believe that nurturing closer customer relations not only enriches the lives of our clientele but also fosters sustainable long term business partnerships for the Bank. Accordingly key among the Bank's customer relationship initiatives is the Nations Trust American Express Golf Extravaganza and the Nations Trust Corporate Quiz. The golf extravaganza is a much looked forward event on the Bank's annual social calendar. 2012 marked the 5th consecutive year that this highly successful event was conducted and saw the participation of 230 players comprising of the Banks Corporate and Retail customers and American Express Card members.



Management Discussion and Analysis

Nations Trust corporate quiz is also a much awaited annual event that brings together the Bank's corporate elite in an intellectually challenging and competitive environment. The popularity of the event has grown with each year and 2012 marked the 6th consecutive year that the event was held.

Looking Ahead

The critical business thrust for the corporate banking unit in the forthcoming year would be to make inroads into a broader spectrum of the export sector companies. The key focus would be to accelerate growth of the foreign currency lending portfolio. The Bank also expects to develop a mature trade finance portfolio in the year ahead while simultaneously promoting the Bank as the unrivaled choice for end-to-end trade financing and payment solutions. A series of initiatives has been mapped out to increase the Banks' exposure to this product segment in the year ahead.

Factoring

Overview

The emphasis of Nations Factoring, the Banks branded factoring arm, is to facilitate the financing requirements of the small scale entrepreneurs primarily through invoice discounting. This unwavering commitment to the core business prototype has earned Nations Factoring the distinctive status of having the largest pure factoring portfolio among peers in the industry.

Performance and Focus in 2012

During the year under review the business unit continued to grow in strength and stature in tandem with the increasing appeal of factoring as an ideal financing option for smaller scale businesses with limited access to traditional bank funding. In 2012, the factoring portfolio experienced a YoY growth of 20% in correlation with the Bank branch expansion drive. The Bank's resourcefulness and resolute commitment to trim inefficiencies resulted in the business unit realising a higher return during the year.

Buoyed by the resounding success of Nations Factoring in the Western province the bank reinforced efforts to introduce the factoring concept to the outstations using the well spread branch network as the delivery channel to reach a wider customer base. A phased out plan was launched in 2012 which saw the commissioning of new factoring centers within the existing branch network. These units were aligned to the in-house SME center at branch level and serviced by specialist relationship managers thus providing customers with a complete suite of products. As optimism grew, it was observed that customers demonstrated increasing receptivity towards the factoring concept, a clear indication of the considerable potential for future growth.

Looking ahead

In the year ahead the Bank expects to fully explore the potential for factoring in the outstations by further commissioning new Nations Factoring support centers at strategic branch locations across the country within the branch network. In addition, 2013 would be a transitional year where the factoring model would be further refined to enable a fully integrated service platform.



"The battle of the Corporate Gladiators"
Corporate Quiz 2012 won by Central Finance



TREASURY

Overview

The Bank Treasury Division comprises of Foreign Exchange, Money Market, Fixed Income Securities, Margin Trading and Corporate Debt Sales Desks.

Performance and focus in 2012

The free float of the rupee during early 2012 contributed to a high volatility that prevailed in the Foreign Exchange market through out the year. This warranted active management of the Bank's foreign currency exposure against the related Market Risk factors. Liberalisation of the exchange rate mechanism resulted in approximately a 12% annual depreciation of the currency against the US Dollar even though there was an initial knee-jerk reaction which decreased the Rupee value by around 18% at its lowest. Despite these volatile market conditions Foreign Exchange desk performed commendably with a well-managed strategy to increase exchange income through a combination of customer transactions and market positioning.

Consecutive interest rate hikes in the first quarter heightened market uncertainty and the year commenced with a cautious investment climate. As a result, the secondary market activities in Fixed Income securities reduced with market players adopting a wait-and-see approach while high interest rates offered by the banks lured investors towards term deposits. Reading these events in advance, the Treasury division proactively engaged in re-pricing assets and liabilities to manage the pressure on interest margins. Liquidity was maintained at comfortable levels, well within the Central Bank requirements. These timely actions actively supported the growth of the banking book. In mid-December 2012, the policy rates were revised downward in response to the emerging economic indicators. This revision and the subsequent market trading activities provided the Fixed Income securities market with the impetus for a last-minute growth spurt. Capitalising on the opportunities with well thought through trading strategies, the Fixed Income desk closed the year with successful rewards to the Banks' bottom line with a total FIS book of Rs. 31Bn.

In 2012 the Treasury division also emphasised on expanding the customer driven business proposition targeting high net worth individuals and corporate clients. The Treasury sales team continued to strengthen customer relationships to better understand their needs which were translated into specific solutions. In the endeavour of achieving greater operational efficiency, strong risk management functionality and superior product capability, the Treasury successfully implemented a fully automated system in the 4th Quarter 2012 which has enhanced the Treasury units' capacity to better serve our customers.

Looking Ahead

In the year ahead, the strategic thrust of the Treasury division would be aligned to the overall strategic focus of the Bank. The division would predominantly concentrate on achieving the most successful customer / product mix while pursuing further growth of the corporate client base.

Rs. 31^{BN}

Total FIS book by year end

Risk Management

The complexities of the modern business environment are known to permeate itself on the business platform as multi-dimensional risk challenges. It is therefore imperative to have in place a pre-emptive mechanism that would shed light on any impending risk that could possibly undermine the course of potential business growth. A detailed discussion on Intergrated Risk Management is given later in this report.

Compliance

The preliminary groundwork done in the previous year transitioned into definitive action in the year under review as the Banks financial statements were prepared in compliance with the Sri Lanka Financial Reporting Standards (SLFRS). The key standards were those pertaining to financial instrument presentation, disclosure, recognition and measurement.

The complexities in modern international banking arena sometimes bypass established compliance parameters pinpointing the need for an even greater control mechanism. In recent years the issue of money laundering has raised its ugly head, reverberating throughout the banking world and threatening to sully the respected image of the formal banking system. It is a recurrent problem that continues to plague all global economies.

With a view to arresting the situation in Sri Lanka in 2012, CBSL introduced tighter controls and monitoring measures that demanded more stringent compliance standards from all banks in the local industry. The Bank welcomed these measures that would further reinforce the Bank's commitment towards regulatory compliance. Accordingly, during the year the Bank forged ahead with plans to facilitate a fully integrated anti-money laundering (AML) software platform on par with international banking standards. Systematic groundwork was done during the year which is to be followed by a phased implementation plan. The first phase, is expected to be commissioned during the 1st quarter of 2013.

During the year the Bank fulfilled compliance requirements of the customer charter introduced by the CBSL in the previous year. As per the regulations stipulated in the customer charter, the Bank is able to create better opportunities for a level playing field, supported by more transparent practices that enrich the business relationships with customers.

Operations and Technology

Nations Trust has always reiterated the fundamental need for up-to-date technological support as a vital component of the Bank's evolutionary growth strategy. Growing emphasis is placed on the importance of continuous monitoring and evaluation to establish the adequacy of technological support and to ascertain the accuracy of operational systems.

The perennial shifting of the boundaries of the modern corporate world applies enormous pressure on conventional business norms with strong implications for the bottom line. In recent times the advent of the green movement has thrust the business world to an entirely new operational stratum by rewriting traditional business codes. Recognising the imperative need to create a carbon friendly global environment, the Bank took proactive steps to invest in a paperless boardroom. The large volume of paperwork previously routed through the board room would now be accessible to the board of directors via a gamut of the latest electronic and mobile devices supported by state-of-the-art software applications and wireless technology. Since its introduction in February 2012, the paperless boardroom has resulted in material cost savings in addition to a host of unquantifiable benefits, while effectively reducing the Bank's carbon footprint. The example set by the top echelons at Nations Trust will no doubt be a standard to aspire among the industry peers.

All operational functions across the Bank were also strictly examined both in isolation as well as in their capacity as contributories to the overall operational performance of the bank. Inefficiencies were weeded out and addressed to maximise operational competencies. One such area that came under the microscope during the year was the overall printing and stationery cost. Over the years as the Bank grew in size and stature, the stationery cost too grew at a similar tangent. Having recognised the urgent need to trim unnecessary costs, we decided to streamline all procedural and purchasing aspects relating to printing and stationery. The restructured operational code for printing and stationery has already resulted in considerable cost savings through the use of more efficient practices that support efforts to reduce the Bank's carbon footprint.

Following the expansion of the treasury business during 2012, the IT platform for the Treasury unit, and Treasury Services Departments came under scrutiny. A decision was made to completely revamp the existing IT mechanism to be replaced with a fully-fledged Treasury Solution encompassing Fixed Income Securities, Foreign Exchange & Money Market portfolios across the front, middle and back offices. The state-of-the-art new software would facilitate seamless process integration and is geared to provide an end-to-end customer solution. The simplified procedures eliminate manual inefficiencies and promote greater transparency by enabling dealers to monitor their limits through an online portal.

Financial Review

Summary

With the macroeconomic conditions being conducive for business, we managed to improve our performance in all areas notably in deposit mobilisation and core earnings in a controlled credit growth environment. All business segments put up solid performances and contributed evenly to the bottom line. The Bank closed the year with a post-tax profit of Rs 1,951Mn surpassing the comparative period of last year by 21%. Pre-tax profit grew by 18% to Rs. 2,766 Mn. Specific challenges faced during the early part of the year with the rising interest rate scenario, devaluation of the currency and the changes in the import tax structure for vehicles were well managed with prudent positioning of portfolios and timely execution of alternate strategies. Deposits grew by 27%, higher than the average growth rate for the rest of the industry whilst loans and advances recorded a growth of 20%.

Important :

Details and analysis presented in the financial review is based on the Annual Accounts prepared and presented in accordance with SLFRS. However, due to the transition from previous Accounting Standards to SLFRS, there have been adjustments which have impacted revenue and expenses due to the underlying interpretation of standards. In the Financial Review, comparatives for the current and previous years are analysed and presented on similar basis. However, in order to draw and conclude on meaningful comparisons for the full year, we have indicated relevant SLFRs adjustments along with the reported financials as per Audited Accounts.

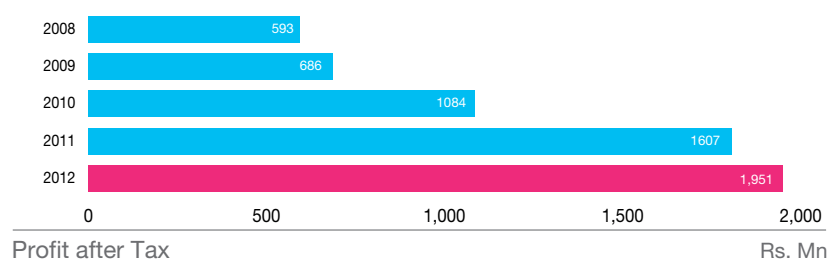
Net Interest Income

Across the industry Net Interest Margins (NIMs) depleted due to the rising cost of funds and intensifying competition. For the Bank in particular, the impact of rising cost of funds was greater due to having a relatively lower current and savings (CASA) balance and some customer assets being subject to interest rate ceilings. Internal pricing strategies to balance risk and rewards on customer assets were reviewed frequently to manage the margin pressure whilst the mobilisation effort on deposits continued with emphasis given to acquire low cost deposits. Driving low cost deposits was even more challenging in the backdrop of rising interest rates.

	2012	2011	Growth		
	Interest Income/Expense	Interest Income/Expense	Rs.	%	Attributable to SLFRs Adjustments
Total Interest Income	15,113	9,795	5,318	54%	488
Customer Advances	11,308	6,814	4,494	66%	488
Fixed Income Securities	3,512	2,695	817	30%	
Investments	293	287	6	2%	

Total Interest Expenses	9,358	5,391	3,967	74%	-111
Deposits	6,831	3,371	3,461	103%	-111
Borrowings	2,527	2,020	507	25%	

Net Interest Income	5,755	4,404	1,350	31%	599
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Total interest income in 2012, amounted to Rs.15,113 Mn, representing an increase of 54% over 2011. The increase in interest income resulted from increases in both customer advances and fixed income securities. Customer advances during the year increased by Rs.12.2 Bn resulting in an increase in absolute interest income as a result of growth in volumes and increase in overall yields. Higher yields on customer assets was attributable to both the shift in the asset mix as portfolios were prioritized towards high yielding assets and upward re-pricing to keep pace with rising cost of funds. The larger fixed income securities portfolio holding in 2012 compared to 2011, at higher yields assets also resulted in a increase of interest income. A significantly larger portion of lower yielding assets in held to maturity portfolio matured during the latter part of the year and replaced with higher yielding assets.

Interest expense on the other hand amounted to Rs. 9,358 mn in 2012, an increase of 74% mainly attributable to increase in cost of deposits due to both volume growth and increase in yields. Customer deposits volume growth was 27% at a much higher weighted average cost of funds rate than in 2011, as interest rates steadily climbed up with CASA share depleting, putting further pressure on keeping cost of funds low.

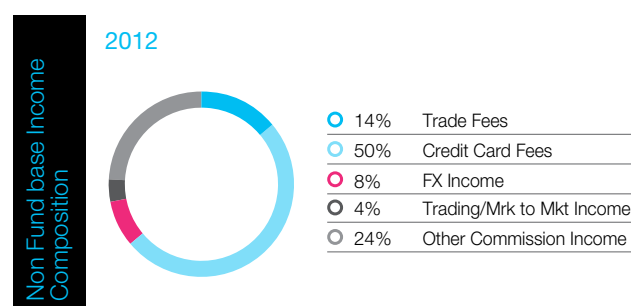
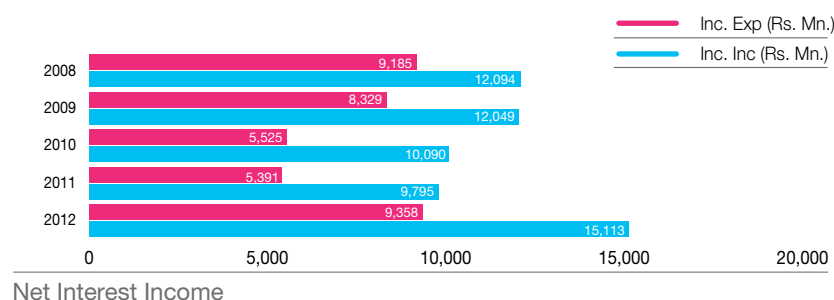
Despite interest costs increasing at a faster rate than interest income and narrowing NIMs, the growth in business volumes compensated for the negative impact as Net Interest Income (NII) for the year recorded an

increase compared to previous period. Continuous monitoring and direction given by ALCO on re-repricing gaps for assets and liabilities also assisted in managing NIMs and achieving targets set for Net Interest Income growth for the year. The increase in NII by 31% also accounted for a positive impact on account of SLFRs adjustments with respect to the treatment of SLAS defined interest in suspense and FX SWAP cost.

Sustainable NIMs has become an industry wide phenomena as banks are continuously challenged by regulatory controls on pricing, customer demands and competition. Measures are afoot to ensure that we mitigate any significant margin erosion that may occur by re-balancing the deposit mix, boosting low-cost rupee deposit funds and looking for alternative cheaper sources of funding to counter the expensive fund base. On the assets side, it is ensuring pricing is based on a proper trade off between risks and rewards.

Non Fund Base Income

Non fund based income(NFB) recorded a robust growth of 26% over the previous period. Primary drivers of NFB income growth was credit cards at 36% and fees and commission income from loans and deposits at 30%. The growth in these areas reflected the conducive macro economic factors which prevailed during the year with increased consumer spend and transactional mobility.



Credit card related non-fund based income growth was underpinned by strong performances in both issuing and acquiring businesses. New cards issuance expanded steadily during the year with both spend and receivables surpassing the comparative periods for the previous year by over 20%. Greater attention was paid to increase business drivers on spend and card acquisitions with the re-configured cards business model coming into force post the introduction of interest ceiling.

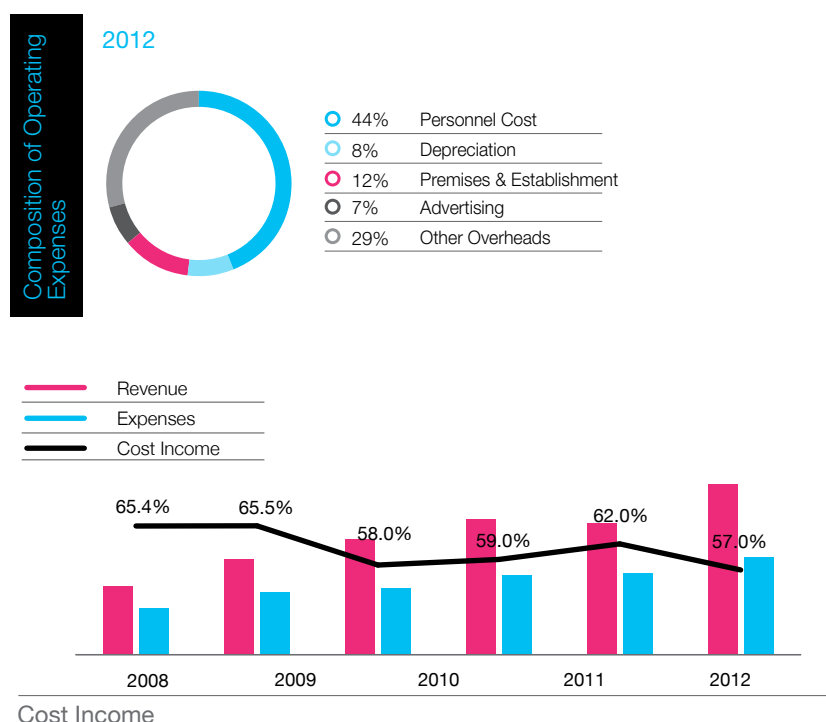
In contrast, changes to import tax regulations coupled with the depreciation of the rupee curtailed imports volume, and negatively impacted Trade Finance income which recorded a drop of 17% over previous year. Much emphasis was placed on enhancing export business volumes to mitigate negative impact on trade business due to a drop in imports. Our corporate banking unit strategically explored avenues to enhance this area. The benefits of the efforts and initiatives undertaken to grow export business in 2012 are expected to materialise in the forthcoming year.

The Bank managed to convert opportunities arising from the movement in the yield curve towards the latter part of year recording trading and mark to market gains on the fixed income securities book amounting to Rs. 90Mn. This, in comparison to losses of Rs. 218Mn recorded in the previous year positively impacted the overall NFB growth.

Strategically, our focus has been to enhance income generation that minimises capital utilisation with the objective of diversifying our revenue base. Despite the internal and external impediments faced during the year to grow our non-fund base revenue we closed the year on NFB to Net Income ratio at 31% and maintaining at previous year levels.

Operating Expenses

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 realising the evermore important need to improve productivity to maintain profitability in a competitive environment. The increases in fuel prices and electricity tariff which occurred during the early part of the



year resulted in escalating the operating cost base. To this end, the Bank undertook specific initiatives towards addressing the cost structures and processes to manage some of the key operational cost lines. i.e printing and stationary, travelling. Benefits of these initiatives have already materialised as the Bank managed to limit the increase in some of these identified large cost pools despite significant increases in volumes processed.

Further more, our operating cost base which accounts for a larger fixed cost element has also seen favourable trends year on year. The centralised business model which is more retail driven and epitomises customer convenience across processes has also contributed the high fixed cost base. As with any other capital intensive sector, a relatively high fixed cost element is common till economies of scales are reached, the downside of which is having to incur such cost increases irrespective of the level of revenue generation or business volume growth. Productivity and efficiency improvements have been at the core of business operations during the year and in this regard Bank also took the first steps in digitalising a number of its internal processes.

Operating expenses recorded an increase of 18% over previous year. Highest increase over the previous period was seen in other overheads and premises cost which

included the full impact of the branches opened in 2011 and the new branches opened in 2012. Group cost to income ratio stood at 57%

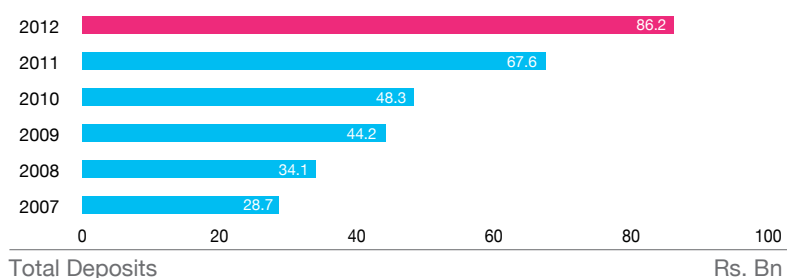
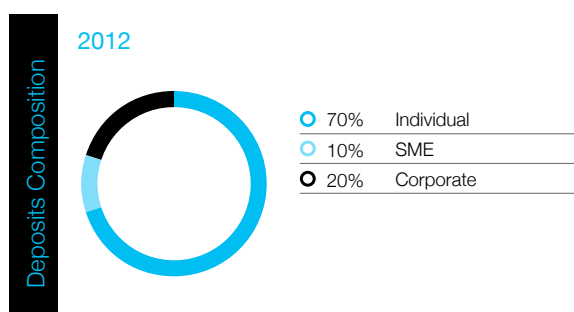
Cost composition has been maintained at consistent levels over the years with personnel costs continuing to be the largest cost component for the Bank, accounting for 44% of total costs in 2012.

The Bank has laid down strategies towards managing costs and is committed on driving the cost to income ratio below 50% in the medium term.

Deposits

Bank has a fairly stable deposit base with over 70% 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. There is limited reliance on corporate and institutional deposits which accounts for 20% of the deposit base.

A significant portion of the funding of the asset book was through deposits which also improved the Loans to Deposit ratio, bringing in increased stability to the Bank's financial position. In anticipation of the rising interest rates. The Bank pushed for deposit growth in the medium term tenor category and resulted in closing the year with a 27% growth in deposits, outpacing industry growth and the budgets set for the year.



The substantial interest differential between savings and time deposits saw a steep shift towards term deposits across the industry, which experienced a negative year. In this context, new branches opened during the year contributed significantly by sourcing over 40% in low cost funds. Despite efforts on acquisition of new CASA accounts through the branch network and sales teams, 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% and above previous year levels deteriorated to 25% by the year end.

Loans and Advances

The loan book growth was monitored vigilantly and portfolios prioritised to gain maximum leverage on the imposed credit ceilings whilst ensuring that mandatory lending requirements towards certain economic sectors were maintained. Group closed the year with a 20% growth in LKR loan book and total net advances growing by 18%. Retail/SME, Leasing and Cards were the primary contributors towards growth whilst Corporate contracted to allow for growth in other areas. However, it is pertinent to note that average corporate loan book was maintained at 23% higher than previous year due to significant disbursements during the year which were recalled and settled by end of the year.

The Bank maintained a well diversified loan book bringing stability to its revenue streams and a healthy distribution across customer, product and economic segments.

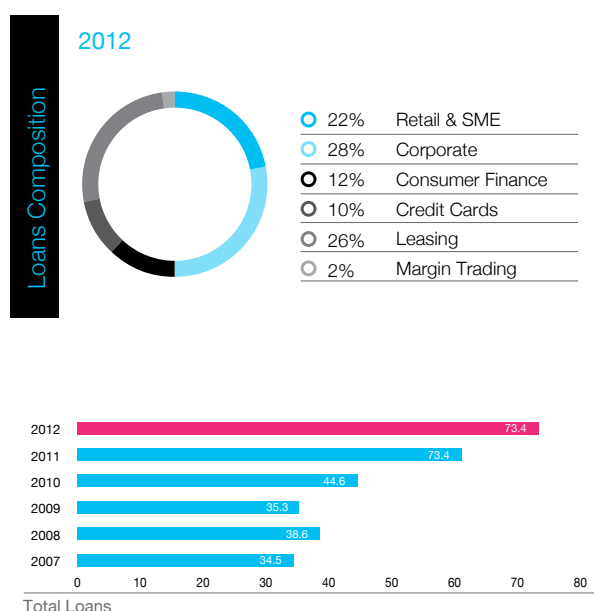
Loan Impairment Provisions

The Bank has a sound credit risk management and monitoring framework imbedded in the business model with centralized approval and disbursement independent of the businesses which acquired the business. Several measures have been undertaken over the years to make improvements to this area centering on tightening of underwriting standards, early identification of problem credits and revamping of collection recovery processes. Impaired loans to total loans ratio stood at of 2.5% for 2012 compared to 2.4% for 2011. Impairment for loans and advances for current year was Rs. 430.9Mn compared to a reversal of Rs. 241.4Mn for the previous year. Under SLFRS, impairment provision is calculated on the total receivable, including interest from the customer while interest is continued to accrue under income statement on impaired loans.

The Bank has also taken risk mitigating steps to address the lower loan loss provision cover based on SLAS arising from a disproportionately higher concentration of customer assets in leasing and consumer and the underlying behavior of these customers.

Capital Base

The Banks' total capital base stood at Rs. 13.2 Bn with tier 1 and 2 ratios at comfortable levels. A more detail review of the capital position is given under Risk Management sections of the Annual Report.



Looking Ahead

Amidst the myriad challenges that befell the banking industry during 2012, Nations Trust Bank's performance has been resilient, consistently demonstrating sustainable returns. Our business pillars ably supported by a sound risk management framework and a superior operational platform have spurred the Bank to reach for even more ambitious goals in the year ahead.

It has been a rewarding journey so far. We are excited about the prospects for our country and are ready to capture the opportunities presented by its growth trajectory. We remain a dynamic organisation with a young team aspiring to take the Bank to the next phase of growth.

Board of **Directors**



K. N. J. Balendra
Director



C. H. S. K. Piyaratna
Director



A. K. Gunaratne
Chairman



M. E. Wickremesinghe
Director



N. S. Panditaratne
Director



D. Prasanna De Silva
Director

Board of **Directors**



Murtaza Jafferjee
Director

Renuka Fernando
CEO/Director

Dr. Kemal de Soysa
Director



A. R. Rasiah
Director



Dr. Dushni Weerakoon
Director



K. O. V. S. M. S. Wijesinghe
Director

A. K. Gunaratne

Chairman/Non Executive Director

Mr. Gunaratne was appointed as the Chairman of Nations Trust Bank PLC on 1 November, 2012. He has been a member of the Board of the Bank since 1 May, 2005. He is the Director - Group Co-ordination of Central Finance Company PLC, a leading Non-Banking Financial Institution (NBFi) in the country where he oversees the functions of Strategic Planning and Risk Management. He is a Fellow Member of The Chartered Institute of Management Accountants of UK and The Institute of Chartered Accountants of Sri Lanka. Mr. Gunaratne also serves on the Board Supervisory Committee, Board Credit Committee and Human Resources and Remuneration Committee of the Bank and recently was appointed as the Chairman of the said Committees. He is a member of the Nomination Committee of the Bank. Until recently, Mr. Gunaratne served on the Integrated Risk Management Committee of the Bank.

R. N. K. Fernando

Executive Director/CEO

Mrs. Fernando was appointed as the Director/ CEO of Nations Trust Bank PLC on 15 September, 2012. She joined the Bank in September, 2001 as AGM- Corporate Financial Solutions and thereafter held the positions of DGM-Retail Banking and DGM-Consumer Banking. In June, 2011 she was appointed as the Deputy CEO of the Bank. Prior to joining the Bank she was with ABN AMRO Bank N.V, Sri Lanka, where she held the positions of Vice President/ Head -Global Transactional Services and Head of Consumer Banking. During her banking career spanning 30 years, Mrs. Fernando has also worked at Banque Indosuez, Sri Lanka as Manager- Corporate Banking and Nederlandsche Middenstands Bank -Hong Kong. Mrs. Fernando is an Associate of Chartered Institute of Bankers, UK and possesses a H. Dip. in Business Administration (Banking).

M. E. Wickremesinghe

Independent Non Executive Director/ Senior Director

Mr. Maithri Wickremesinghe is President's Counsel, a Fellow of the Chartered Institute of Management Accountants of the United Kingdom, holds an Honours Degree in Laws from the University of Colombo and obtained First Class Honours at the Final Examination of the Sri Lanka Law College. He specialises in litigation in Corporate, Banking and Intellectual Property Law both in the original and appellate courts, and engages in an advisory practice in financial restructuring, investment transactions and commercial transactions. He had advised on several mergers, acquisitions and leveraged management buyouts including the leveraged management buyout of the Sri Lankan subsidiary of Pfizer Corp. New York, arguably the first leveraged management buyout in Sri Lanka, and the leveraged management buyout of Millennium Information Technologies, which was later acquired by the London Stock Exchange. He has previously lectured and examined at the Faculty of Laws of the University of Colombo, at the University of Moratuwa and at the Kotalawela Defence Academy and functioned as an examiner for the Institute of Chartered Accountants of Sri Lanka. Mr. Wickremesinghe was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. He functions as the Chairman of the Board Audit Review Committee and of the Nomination Committee of the Bank. Mr. Wickremesinghe has previously served on the Integrated Risk Management Committee of the Bank.

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 PLC in October 2006, after a successful career at HSBC spanning 28 years. His career at HSBC included assignments in Group offices in Hong Kong and Philippines. He served as the Deputy CEO and Head of Personal Financial Services at HSBC Colombo from 2000 until his retirement in 2006. Mr. Piyaratna holds a Bachelors Degree and a Masters Degree in Economics. He is a member of the Board Credit Committee of the Bank. He has previously served as the Chairman of the Board Supervisory Committee of the Bank which he continues to serve as a member.

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's of Ceylon Cold Stores PLC and Walkers Sons & Co. Limited, MTD Walkers PLC and EB Creasy Group of Companies. He is also a Management Consultant to Ceylon Pencil Company. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and a former visiting lecturer and examiner at The Institute of Chartered Accountants of Sri Lanka. He is currently a visiting lecturer for MBA students on Finance at Postgraduate Institute of Management (PIM). A keen social worker, he is a former President of the Benevolent Society of The Institute of Chartered Accountants of Sri Lanka and a Committee member of Sri Lanka Institute of Directors. Mr. Rasiah is also a sportsman of repute having represented Sri Lanka at Table Tennis. Mr. Rasiah was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. He serves as the Chairman of the Integrated Risk Management Committee of the Bank. He also serves as a member of the Human Resources and Remunerations Committee and the Board Audit Review Committee of the Bank. Mr. Rasiah has also served as the Chairman of the Board Audit Review Committee of the Bank.

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 1 March, 2007. She is a member of the Board Audit Review Committee and the Human Resources and Remuneration Committee of the Bank.

K. N. J. Balendra

Non Executive Director

Mr. Balendra was appointed to the Board of Nations Trust Bank PLC in December 2009. He is a President and member of the Group Executive Committee of John Keells Holdings PLC and has responsibility for the Retail sector and John Keells Stock Brokers. He is the Chairman of the Colombo Stock Exchange. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence & Co. PLC, Sri Lanka prior to joining JKH. Mr. Balendra holds a law degree (LLB) from the University of London and an MBA from INSEAD. He serves as a member of the Board Supervisory Committee, the Human Resources and Remuneration Committee, Nomination Committee and the Board Credit Committee of the Bank.

Murtaza Jafferjee

Independent Non Executive Director

Mr. Jafferjee holds a Masters in Financial Economics from the University of Colombo, Sri Lanka, Chartered Financial Analyst from CFA Institute, Charlottesville, Virginia, USA, Bachelors in Computer Science and Bachelors in Engineering-Mechanical (Hons) from University of New South Wales, Australia. He was appointed to the Board of Nations Trust Bank PLC in December, 2010. He is currently a Director and the Chief Executive Officer of JB Securities (Pvt) Limited, Immediate Past President of CFA Sri Lanka, the local member society representing CFA charter holders in Sri Lanka and also an Independent Non Executive Director of Serendib Hotel PLC. He is also a Director of several other companies including Star Packaging (Pvt) Limited and Serendib Hotels PLC. He was a Director of Colombo Stock Exchange from April, 2007 to August, 2009. He possesses experience and skills in the fields of management, corporate finance, financial statement analysis and industry analysis. He is a member of the Nomination Committee and the Board Supervisory Committee of the Bank.

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 21 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 and was recently appointed as a member of the Human Resources and Remuneration Committee of the Bank.

N. Shalini Panditaratne

Independent Non Executive Director

Ms. Shalini Panditaratne is a Chartered Accountant, Sri Lanka and, is a Fellow of the Chartered Institute of Management Accountants, UK. She has international experience in Corporate and Investment Banking at senior management level, primarily in Credit Risk Management and Analysis. She initially worked as an accountant in Sri Lanka and Zambia and commenced her career in corporate banking in Bahrain. After moving to Australia, she worked for seventeen years with JP Morgan Chase Bank Sydney (formerly The Chase Manhattan Bank) in various roles including as Vice President, Head of Country Credit in Singapore and later in Thailand. She also held the position of Head of Asia Credit and Capital Management, S.E Asia.

Ms. Panditaratne has provided credit training for Sydney-based financial institutions in corporate credit risk analysis and credit risk management. She was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. She was recently appointed as a member of the Board Audit Review Committee and Board Credit Committee of the Bank. She has served as a member of the Integrated Risk Management Committee of the Bank, until recently.

D. Prasanna De Silva

Non Executive Director

Mr. De Silva who is a Director of Central Finance Company PLC, possesses 22 years of experience in banking and finance of which 15 years have been in senior management. He was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. He has had extensive exposure to credit appraisals, recovery, operating systems, tax, regulatory framework and legal aspects at operational and managerial levels during his tenure at Central Finance Company PLC. Mr. De Silva is an Associate Member of the Chartered Financial Analyst Institute (CFA) USA and an Associate Member of Chartered Institute of Management Accountants (CIMA) UK. He is also a past Chairman of the Leasing Association of Sri Lanka. Mr. De Silva serves as a member of the Board Audit Review Committee and Integrated Risk Management Committee of the Bank. Until recently, he served as a member of the Nomination Committee of the Bank.

K. O. V. S. M. S. Wijesinghe

Non Executive Director

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

What's
next?

Corporate **Management**



Indrajith Boyagoda
DGM Treasury

Arthur Fernandez
Head of Internal Audit

Ajith Akmeemana
Chief Financial Officer

Renuka Fernando
CEO/Director

Priyantha Talwatte
DGM Cards & Strategic Marketing

Priyantha Wijesekera
Head of Leasing



Rohitha Ganegoda
Chief Operating Officer

Anura Yapa
Chief Risk Officer

Mevan Balalle
Head of Human Resources

Theja Silva
Company Secretary
DGM - Legal & Compliance

Keshini Jayawardena
DGM - Retail & SME Banking

Ramanika Unamboowe
DGM - Commercial Banking

Senior **Management**



Damith Pellewatte - Deputy Head of Integrated Risk Management / Bandara Jayathilake - Deputy Head of Corporate Banking /
Sanjaya Perera - Head of Branches



From Left to Right

Rasanja De Silva - Senior Manager – Branches / Chamila Sumathiratne - Senior Manager – Finance / Dinesh Thomas - Chief Manager - Business Solutions /
 Lalaka Siriwardena - Chief Manager – Corporate & Margin Trading Risk / Kapila Nanayakkara - Chief Manager – Forex & Money Markets /
 Nisala Kodippili - Chief Manager - Technology & Infrastructure / Karthigesu Balachandrarajan - Chief Manager – Central operations /
 Jerome Ratnarajah - Chief Manager – Market Risk Management

Seated : Priyantha Samaradiwakara -Senior Manager Leasing – Zone 1 / Nilanthis De Meral - Senior Manager – Corporate Banking

Senior Management



From Left to Right

Renuka Senadheera - Senior Manager Payments & Treasury Settlements / Lewie Diasz - Chief Manager – Consumer Finance /
Anushan Fernando - Chief Manager - Operational Risk / Hirantha Tennakoon - Senior Manager – Factoring / Gavin Perera - Chief Manager – Consumer Credit Risk /
Kishani Tennakoon - Senior Manager Recoveries – Leasing / Randil Boteju - Senior Manager – Card Sales

Seated : Sharmila Arasaratnam - Senior Manager – Cards Marketing



From Left to Right

Lasith Ranatunga - Senior Manager – Loan Review Mechanism / **Niluka Gunatilaka** - Senior Manager – Cards Business Operations / **Chandima Samarasinghe** - Senior Manager – Internal Audit / **Charitha Jayawickrama** - Senior Manager Internal Audit – Treasury & Corp.Support / **Priyashantha Fernando** - Senior Manager Leasing – Zone 2 / **Kushlani Allis** - Chief Manager – Management Reporting & Planning / **Damitha Silva** - Senior Manager – Remittances / Alternate Channels / **Thushara Asuramanna** - Senior Manager Credit Risk Management – SME & Retail Credit / **Prabath Perera** - Senior Manager – Branches

Senior Management



From Left to Right

Nisaja Aryasinghe - Senior Manager – Consumer Collections / **Chamath Munasinghe** - Chief Manager – Credit Operations / **Nilmini Gunaratne** - Senior Manager – Retail & SME Marketing / **Thilak Wijesinghe** - Senior Manager Internal Audit – IT & Operations / **S. Vimalanathan** - Zone Manager North & East Branches / **Wasantha Senanayake** - Senior Manager – Infrastructure and Administration / **Laksara Marapana** - Senior Manager – Legal / **Sheahan Daniel** - Chief Manager – Leasing Sales / **Indrajith Gunasekera** - Senior Manager – Retail & SME Credit



From Left to Right

Reynold Abeykoon - Chief Manager - Corporate Support Service / **Rishini Manatunga** - Senior Manager – Taxation and Payments /
Tharusha Ekanayake - Chief Manager – Fixed Income Securities & Debt Sales / **Deepa Wickramasinghe** - Senior Manager – Credit Risk – Leasing and Factoring /
Dimuth Sigera - Senior Manager – SME Banking / **Samantha Herath** - Senior Manager – Branches / **Ursula Wijeyasuriya** - Senior Manager – Nations Insurance Brokers /
Chaminda Dheerasinghe - Senior Manager – Litigation

Seated - **Gehan Biyanwila** - Senior Manager ALM / **Amanthi Motha** - Senior Manager – Human Resources

Service Network

Nations Trust Bank PLC, No. 242, Union Place, Colombo 2, Sri Lanka
Telephone : 011 4711411 Fax: 2307854
E-mail: customerservice@nationstrust.com
Website: www.nationstrust.com



BRANCHES

Akkaraipattu

No.210, Main Street,
Akkaraipattu

Aluthgama

No.156, Galle Road,
Aluthgama

Ambalangoda

No.20, 5th Cross Street,
Ambalangoda

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

Cinnamon Gardens

No. 4A, Independence
Avenue, Colombo 7

City

No. 76, York Street,
Colombo 1

Corporate

No. 242, Union Place,
Colombo 2

Chilaw

No. 43, Kurunegala Road,
Chilaw

Crescat

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

Dehiwala

No. 163, Galle Road,
Dehiwala

Galle

No. 16, Matara Road, Galle

Gampaha

No. 112, Baudhaloka
Mawatha, Gampaha

Hambantota

No. 39, Main Street,
Hambantota

Havelock Town

No. 100, Havelock Road,
Colombo 5

Homagama

No. 113/A, High Level
Road, Homagama

Horana

No.192B, Ratnapura Road,
Horana

Jaffna

No. 35, Stanley Road, Jaffna

Kadawatha

No. 25, Kandy Road,
Kadawatha

Kaduruwela

No. 292, Saw Mill Junction,
Kaduruwela, Polonnaruwa

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. 314, R.A. De Mel
Mawatha, Colombo 3

Kotahena

No. 258,
George R. De Silva
Mawatha, Colombo 13

Kuliypitiya

No. 72A, Hettipola Road,
Kuliypitiya

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 Chilaw Road,
Negombo

Nelliady

No. 171/1, Jaffna – Point
Pedro Road, Nelliady

Nugegoda

No. 128, High Level Road,
Nugegoda

Nuwara Eliya

No. 86, Kandy Road,
Nuwara Eliya

Panadura

No. 229, Galle Road,
Panadura

Peradeniya

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

Pettah 1

No. 244, Main Street,
Pettah

Pettah 2

No. 54 A , Bankshall Street,
Colombo 11

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

Trincomalee

No. 96, Main Street,
Trincomalee

Vavuniya

No. 222, Kandy Road,
Vavuniya

Ward Place (ODEL)

ODEL, No. 10, Ward Place,
Colombo 7

Wattala

No. 492, Negombo Road,
Wattala

Wellawatte

No. 292, Galle Road,
Wellawatte

Wennappuwa

No. 289, Chilaw Road,
Wennappuwa



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,
Galle Road, Mount Lavinia

Negombo

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

Peliyagoda

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

Rajagiriya

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

Wattala

Keells Super, No. 385,
Negombo Road, Wattala

OFF SITE ATMS

Asiri Hospital Ltd Complex, No. 181, Kirula Road, Narehenpita
Asiri Surgical Hospital, No. 21, Kirimandala Mawatha, Narehenpita
John Keells Holdings Ltd, No. 130, Glennie Street, Colombo 2
National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 8

Report of the Board Supervisory Committee

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors. The Committee comprised of Mr. A. K. Gunaratne (Chairman) and Mr. C. H. S. K. Piyaratna (Executive Director) at the beginning of the year. Mr. K. N. J. Balendra and Mr. M. Jafferjee were appointed as members of the Committee with effect from 26 January 2012.

The Committee was reconstituted with effect from 1 December, 2012 and currently comprise of the following Directors;

Mr. A. K. Gunaratne (Chairman)
Mr. K. N. J. Balendra
Mr. Murtaza Jafferjee
Mr. C. H. S. K. Piyaratna
Mr. K. O. V. S. M. S. Wijesinghe

The Committee meets monthly in advance of 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.

The Committee held twelve meetings during the year under review and the Directors' attendance at such meetings were as follows;

Name	Eligibility	Attendance	Excused
Mr. A. K. Gunaratne	12	12	Nil
Mr. K. N. J. Balendra	11	10	1
Mr. K. O. V. S. M. S. Wijesinghe	1	1	Nil
Mr. Murtaza Jafferjee	11	11	Nil
Mr. C H S K Piyaratna	12	11	1

Terms of Reference

The mandate of the Board Supervisory Committee includes the following;

1. Review of performance of the Bank and its business units to ensure that the Management is focused towards achievement of plans approved and objectives set by the Board. The review shall cover support functions of the Bank also and ensure that cost efficiencies and productivity is achieved across the Bank.
2. Approving expenditure within limits delegated by the Board of Directors.
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 make recommendations on policy papers, business plans and other proposals impacting the operations of the Bank prior to such papers, plans and proposals are presented to the Board of Directors for approval.
5. Review the process in operation at the Bank that would ensure adequate policies, procedures and rules are in place to carry out the operations of the Bank and these are reviewed periodically.



A. K. Gunaratne

Chairman
Board Supervisory Committee

Colombo
22 February 2013

Report of the Board Audit Review Committee

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 (where applicable) of the Bank have attended 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. As and when required, it requests additional information from management in order to satisfy itself of the adequacy of the controls in place. The functions are in accordance with the Banking Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks in Sri Lanka.

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 programs 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 fourteen times in the discharge of its functions and

- Reviewed 56 internal audit reports relating to branches, personal banking centres and the Leasing Branches.
- Reviewed 44 departmental, process audit and investigations.

Report of the Board Audit Review Committee

- 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 minimize possible losses;
- Reviewed the control processes pertaining to the Central Operations, Credit Cards, Loan Processing and IT area and proposed modifications to be made in order to ensure that industry best practices were adopted;
- 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 relevant SLFRS/LKAS and their impact on the operations of the Bank;
- Reviewed on a quarterly basis the adherence to the 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

- Ensured 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.
- Encouraged the involvement of Head and Senior Staff of Internal Audit to involve themselves in the initial and ongoing training carried out by the Bank for its employees to proactively instill in the employees a culture of compliance with internal controls, to prevent possible areas of non-compliance, to mitigate risk and to familiarize the employees with the policy of the Bank that enables them to raise concerns in confidence.

Attendance at BARC meeting

Name	Eligibility	Attendance	Excused
Mr. Maithri Wickremesinghe - Chairman	14	13	01
Mr. A R Rasiah	14	14	Nil
Dr. Dushni Weerakoon	14	13	01
Mr. Prasanna De Silva	12	10	02
Mr. Arjuna Gunaratne	02	01	01
Ms. Shalini Panditaratne	01	01	Nil
Mr. Suran Wijesinghe	01	01	Nil

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 31 December 2013 at the next Annual General Meeting.



M. E. Wickremesinghe

Chairman
Board Audit Review Committee

22 February 2013

Human Resources and Remuneration Committee Report

The Human Resources and Remuneration Committee (HRRC) comprised of Mr. Ronnie Peiris, Chairman, Mr. A. K. Gunaratne, Independent Directors Mr. A. R. Rasaih and Dr (Mrs) D. Weerakoon. Consequent to the stepping down of Mr. Ronnie Peiris from the Board, Mr. Arjuna Gunaratne, was appointed as the Chairman of the Committee with effect from 1 November 2012 and Mr. K. N. J. Balendra and Dr Kemal De Soysa were appointed members of this committee with effect from 1 December 2012. During the year under review the HRRC met four times. The Chief Executive Officer and the Executive Director were present at the meetings as invitees except on matters relating to the CEO and Executive Director.

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 2012, 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 June 2012 at the HRRC meeting, a comprehensive review of the Bank's appraisal process, compensation policy and its comparisons to industry practise was

presented to the Committee. Recommendations for changes to policies were adopted and implemented during the year. In November 2012 in the light of the CBSL Direction No. 1 of 2012 of the Bank's Treasury compensation and benefits policy was also reviewed and changed accordingly to be in line with the subject Direction.

In creating a performance driven culture, the Bank's variable bonus payment is based on the performance for the year compared to the annually agreed budgets and the peer performance. Individuals are rewarded based on their individual performance and responsibility levels.

During the year, the Bank participated in two remuneration surveys carried out by external consulting firms. One survey was a specific survey conducted for Nations Trust Bank where the Bank will have access to more specific market data in relation to salaries and other benefits. The findings of the survey will be used as a basis for formulating the remuneration levels for the year 2013.

During 2012, 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.

Directors' attendance at the Human Resources and Remuneration Committee meetings during the year were as follows;

Name	Eligibility	Attendance	Excused
Mr. J. R. F. Peiris	3	3	Nil
Mr. A. K. Gunaratne	4	4	Nil
Mr. A. R. Rasiah	4	4	Nil
Dr. (Ms) D. Weerakoon	4	4	Nil
Mr. K. N. J. Balendra	Nil	Nil	Nil
Dr. Kemal De Soysa	Nil	Nil	Nil


A.K. Gunaratne
Chairman

Human Resources and Remuneration Committee

22 February 2013

Board Nomination Committee Report

The members of the Nomination Committee are appointed by the Board and comprised of the following Directors at the end of 2011.

Mr. M. E. Wickremesinghe (Chairman)
Mr. A. D. Gunewardene
Mr. E. H. Wijenaike
Mr. Murtaza Jafferjee

The Composition of the Committee was changed consequent to the stepping down of the then Chairman of the Board and with effect from 26 January, 2012 comprised of the following Directors;

Mr. M. E. Wickremesinghe – Chairman
Mr. J. R. F. Peiris
Mr. Murtaza Jafferjee
Mr. D. Prasanna De Silva

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

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

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

The Committee held three meetings during the year under review. The proceedings of the meetings were reported to the Board.

Directors' attendance at the Nomination Committee meetings during the year were as follows;

Name	Eligibility	Attendance	Excused
Mr. M. E. Wickramasinghe	3	3	Nil
Mr. D. P. De Silva	3	2	1
Mr. J. R. F. Peiris	3	3	Nil
Mr. Murtaze Jafferjee	3	3	Nil
Mr. K. N. Balendra	Nil	Nil	Nil

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 in the exercise of its obligations implemented the procedure to select a new Chief Executive Officer during the course of the year. The Committee recommended to the Board that Ms. R. N. K. Fernando the Deputy Chief Executive Officer of the Bank be appointed the Chief Executive Officer of the Bank.

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 considers 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 Ms. R. N. K. Fernando and Mr. K. O. V. S. M. S. Wijesinghe 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 the 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. Committee also considered and determined that the Directors and the Key Management Personnel are fit and proper persons to hold their respective offices.



M. E. Wickremesinghe

Chairman-Nomination Committee

Colombo
22 February 2013

Board Integrated Risk Management **Committee Report**

Composition

The Integrated Risk Management Committee (IRMC) comprised of the following Directors at the beginning of the year.

Mr. J. R. F. Peiris (Chairman)
Mr. A. K. Gunaratne
Mr. M. E. Wickremesinghe
Dr. Kemal De Soysa

The Composition of the Board Integrated Risk Management Committee was changed with effect from 26 January, 2012 and comprised 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

The Committee was reconstituted with effect from 1 December, 2012 and currently comprise of the following Directors;

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

Chief Executive Officer, Ms. R. N. K. Fernando and the following Key Management Personnel attended meetings of the Integrated Risk Management Committee as required under Rule No. 3(6)(v)(a) on Rules of Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Mr. Ajith Akmeemana	– Chief Financial Officer
Mr. Rohitha Ganegoda	– Chief Operating Officer
Mr. Anura Yapa	– Chief Risk Officer
Mr. Indrajith Boyagoda	– DGM - Treasury

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

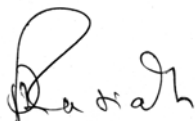
The process through which the IRMC discharges its responsibilities is detailed in the Risk Management section of this annual report. During the year, the IRMC placed special emphasis in ensuring that a risk awareness culture is created in the Bank through the development of divisional risk grids and the monthly divisional meetings which discuss and update the risk grid of the division. 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 seven meetings during the year under review and the Directors' attendance at such meetings were as follows;

Name	Eligibility	Attendance	Excused
Mr. J. R. F. Peiris	1	1	Nil
Mr. A. R. Rasiah	6	4	2
Mr. A. K. Gunaratne	7	7	Nil
Mr. D. P. De Silva	6	5	1
Ms. N. S. Panditaratne	6	5	1
Dr. Kemal De Soysa	7	6	1
Mr. K. O. V. S M. S. Wijesinghe	Nil	Nil	Nil

The minutes of the IRMC Meetings were regularly forwarded to the Board. 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. Committee also caused a monthly risk assessment report to be submitted to the Board within a week after its meeting.



A. R. Rasiah

Chairman
Integrated Risk Management Committee

Colombo
22 February 2013

Board Credit Committee Report

The composition of the Board Credit Committee with effect from 26 January 2012 was 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. Piyyaratna

The Board Credit Committee was reconstituted on 01 December 2012 as follows;

Mr. A. K. Gunaratne (Chairman)
(Alternate : Mr. D.P. de Silva)
Mr. K. Balendra
(Alternate : Mr. S. Wijesinghe)
Mr. C. H. S. K. Piyyaratna
Ms. N. S. Panditaratne

The Board Credit Committee's mandate includes the following:

- (a) Approved/decline all credit facilities above the level of authority granted to Head Office Credit Committee by the Board of Directors. BCC will constitute the final credit approval authority of the bank having been vested with the full powers to approve /decline credit by the Board of Directors.
- (b) Approved/decline interest waivers and principal write-offs in order to facilitate a settlement of a bad debt or to rehabilitate/restructure a bad debt.
- (c) Review the quality of the credit portfolio of the bank including top 20 exposures, watch-listed customers etc.
- (d) Review, provide input and make recommendations on credit origination, appraisal, approval and administration processes/procedures.
- (e) Any other matter referred to it by the Board of Directors.

The Committee held 12 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.

Directors' attendance at the Board Credit Committee meetings during the year were as follows;

Name	Eligibility	Attendance	Excused
Mr. J. R. F. Peiris	10	9	1
Mr. A. K. Gunaratne	12	12	Nil
Mr. C. H. S. K. Piyyaratna	12	12	Nil
Mr. K. N. J. Balendra	1	1	Nil
Ms N. S. Panditaratne	1	1	Nil



A. K. Gunaratne
Chairman
Board Credit Committee

Colombo
22 February 2013

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

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 31 December, 2012 of Nations Trust Bank PLC., a public limited liability company incorporated in Sri Lanka on 21 January 1999 under the Companies Act No. 17 of 1982, quoted on 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 14 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 22 February 2013 .

STATEMENT OF COMPLIANCE ON THE CONTENTS OF THE ANNUAL REPORT

The Annual Report including the Audited Financial Statements 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 180 to 251 of this Annual Report.

AUDITORS' REPORT

Auditors' Report on the Financial Statements is given on Page 179.

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 185 to 193. The Accounting Policies have been amended in line with the new Sri Lanka Accounting Standards.

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 102 and 103 of this Report.

The Following entry was made in the Interests Register during the year under review:

1. Approval of remuneration to Executive Directors by the Board – 30 March, 2012.

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

DIRECTORS' SHAREHOLDINGS

Directors' shareholding as at 31 December, 2012 and 2011 are given below.

Name of the Director	No. of Shares	
	2012	2011
Mr. J. R. F. Peiris	N/A	-
Mr. A. K. Gunaratne	19,432	19,432
Mr. A. R. Rasiah	16,304	16,304
Dr.(Ms.) D. Weerakoon	-	-
Mr. M. E. Wickremesinghe	-	-
Mr. K. N. J. Balendra	107,700	107,700
Mr. C. H. S. K. Piyaaratna	100,400	100,400
Mr. M. Jafferjee	-	-
Dr. Kemal de Soysa	-	-
Mr. D. P. De Silva	-	-
Ms. N. S. Panditaratne	-	-
Mr. K. O. V. S. M. S. Wijesinghe	39,650	N/A
Ms. R. N. K. Fernando	68,700	N/A
Mr. S. G. Rajakaruna	N/A	-

DIRECTORS' REMUNERATION

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

	Bank (Rs. Mn)	Group (Rs. Mn)
Executive Directors' emoluments	41.009	41.009
Non Executive Directors' fees	10.545	10.545

CORPORATE DONATIONS

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

DIRECTORATE

The names of the Directors of the Bank during the year under review and their attendance at the board meetings during the year were as follows;

Name	Eligibility	Attendance	Excused
Non Executive Directors			
Mr. J. R. F. Peiris	9	8	1
Mr. A. K. Gunaratne	13	13	Nil
Mr. K. N. J. Balendra	13	13	Nil
Mr. A. R. Rasiah	13	12	1
Mr. D. P. De Silva	13	12	1
Mr. K. O. V. S. M. S. Wijesinghe	3	3	Nil
Independent Non Executive Directors			
Mr. M. E. Wickremesinghe	13	13	Nil
Dr. (Ms.) D. Weerakoon	13	13	Nil
Mr. Murtaza Jafferjee	13	12	1
Dr. Kemal de Soysa	13	13	Nil
Ms. N. S. Panditaratne	13	12	1
Executive Directors			
Mr. S. G. Rajakaruna	8	8	Nil
Mr. C. H. S. K. Piyaaratna	13	13	Nil
Ms. R. N. K. Fernando	5	5	Nil

Mr. S. G. Rajakaruna and Mr. J. R. F. Peiris resigned from the Board on 14 September, 2012 and 31 October, 2012, respectively. Ms. R. N. K. Fernando and Mr. K. O. V. S. M. S. Wijesinghe were appointed to the Board with effect from 15 September, 2012 and 1 November, 2012 as an Executive Director/CEO and as a Non Executive Director, respectively.

Mr. A. K. Gunaratne was appointed as the Chairman of the Board with effect from 1 November, 2012.

Mr. K. N. J. Balendra, Mr. A. R. Rasiah and Mr. M. E. Wickremesinghe 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. Board recommends the re-election of the said Directors.

Ms. R. N. K. Fernando and Mr. K. O. V. S. M. S. Wijesinghe 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	6,167	8,168
Fees for Other Services	2,841	3,389

Other services consisted of tax related work and fees for SLFRS implementation 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 181 Statements of Financial Position of the Bank and the Group are given on page 180.

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 28 March 2013.

INFORMATION ON SHARES AND DEBENTURES

Information relating to holdings of shares and debentures is given in pages 124 to 125 and 216 of this Report.

EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date that would require adjustment or disclosure other than those disclosed in Note 44 to the Financial Statements contained on page 251.

CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31 December 2012 were 13.82% for Tier I and 18.18% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of a minimum 5% and a minimum 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.

The two promoter shareholders of the Bank, namely John Keells Holdings PLC and Central Finance PLC had informed the Bank that they have sought and extension of time from the Central Bank of Sri Lanka in order to comply with the directive on shareholding limits. The Central Bank has informed the Bank that this request is under consideration.

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

TRANSACTIONS WITH RELATED PARTIES

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

Category of Related Party	Subsidiary Companies *		Directors of the Bank (KMP) of the Bank		Key Management Personnel Directors and KMP	
	2012 Rs. ' 000	2011 Rs. ' 000	2012 Rs. ' 000	2011 Rs. ' 000	2012 Rs. ' 000	2011 Rs. ' 000
Items in the Statement of Financial Position						
Assets						
Accommodation						
Loans and Advances	738,757	908,850	-	891	69,144	38,616
Credit Cards	-	-	115	986	7,087	2,108
Reverse Repurchase agreements	575,347	648,721	-	-	-	200
Derivative Financial Assets	-	-	-	-	-	-
Other Assets	39,167	12,246	-	-	-	-
Total accommodation	1,353,271	1,569,817	115	1,877	76,231	40,924
Less: Cash Collaterals against Total Accommodations	700,000	714,780	-	4,135	35,017	28,116
Inv. made in the Bank's Equity and Debt instruments	-	-	13,992	131,083	1,127	2,371
Total Net Accommodation	653,271	855,037	Nil	Nil	40,087	10,437
Total Net Accommodation % of Total Regulatory Capital	5.29%	8.27%	-	-	0.32%	0.10%
Liabilities						
Due to Customers	407,518	58,683	65,910	124,497	123,443	75,891
Borrowings	-	280,511	-	-	900	16,215
Other Liabilities/Financial Guarantees	-	-	-	-	-	-
Equity						
Dividends Paid (Gross)	-	-	276	10,867	376	69
Commitments						
Undrawn Facilities	1,061,243	491,150	3,593	4,964	24,107	20,291
Items in the Income Statement						
Interest Income Earned	182,539	217,710	106	132	4,896	2,299
Interest Expenses Paid	37,304	17,543	11,840	10,518	10,512	4,872
Other Income Earned	2,089	-	52	303	72	409
Dividends Received (Gross)	18,495	13,250	-	-	-	-
Expenses Paid	37,750	30,793	-	-	-	-
Compensation paid :						
Short Term Employee Benefits	-	-	47,942	50,209	135,351	131,369
Post Employment Benefits	-	-	3,811	4,022	15,263	13,477
No. of Shares of the Bank bought	-	-	-	1,176,889	-	2,166
No. of Shares of the Bank sold	-	-	-	-	8,000	-

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

** Shareholders owning a material interest in the Bank - Since John Keells Holdings PLC together with Mackinnon & Keells Financial Services Limited and 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.

Close Relations of a material interest		Shareholders owning Close Relations of Directors in the Bank **		Concerns in which Directors, or material shareholders have a substantial interest	
2012 Rs. ' 000	2011 Rs. ' 000	2012 Rs. ' 000	2011 Rs. ' 000	2012 Rs. ' 000	2011 Rs. ' 000
11,659	1	192,961	208,461	390,757	34,365
139	-	1,635	359	377	217
-	-	-	-	-	1,715
-	-	-	-	1,718	4,784
-	-	-	-	-	-
11,798	1	194,596	208,820	392,852	41,081
9,683	100	-	-	-	-
134	2,117	4,571,905	3,921,137	-	-
1,981	Nil	Nil	Nil	392,852	41,081
0.02%	-	-	-	3.18%	0.40%
23,739	4,050	1,459,981	2,300,223	1,861,990	1,366,628
-	-	846,229	931,187	712,867	959,284
-	-	38	28	449	121
3	172	218,941	211,349	-	-
4,343	(1)	529,506	50,356	385,245	638,406
1,731	1	43,342	3,843	43,257	6,045
1,632	171	316,785	176,098	283,089	89,688
13	5	1,667	2,866	6,425	10,126
-	-	-	-	-	-
-	-	31,178	24,185	33,749	27,680
-	-	-	-	-	-
-	-	-	-	-	-
3,368	8,698	-	-	-	-
-	-	-	-	-	-

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

DIRECTORS OF SUBSIDIARY COMPANIES

Waldock Mackenzie Limited

Mr. A. K. Gunaratne –Chairman

(Appointed with effect from 24 January, 2012)

Mr. K. N. J. Balendra

(Appointed with effect from 24 January, 2012)

Mr. C. H. S. K. Piyaratna

Ms. R. N. K. Fernando

(Appointed with effect from 15 September, 2012)

Resignations

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

Mr. S. G. Rajakaruna –on 14 September, 2012

Nations Insurance Brokers Limited

Mr. C. H. S. K. Piyaratna

Ms. R. N. K. Fernando

Resignation

Mr. S. G. Rajakaruna –on 14 September, 2012

Allied Properties Limited

Mr. A. K. Gunaratne –Chairman

(Appointed with effect from 24 January, 2012)

Mr. K. N. J. Balendra

(Appointed with effect from 24 January, 2012)

Ms. R. N. K. Fernando

(Appointed with effect from 24 January, 2012)

Resignations

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

Mr. S. G. Rajakaruna –on 14 September, 2012

Mercantile Leasing (Financial Services) Limited

Mr. C. H. S. K. Piyaratna

(Appointed with effect from 24 January, 2012)

Ms. R. N. K. Fernando

(Appointed with effect from 24 January, 2012)

Resignations

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

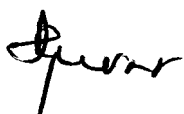
Mr. S. G. Rajakaruna –on 14 September, 2012

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 28 March 2013 at 10.00 a.m.



A. K. Gunaratne
Chairman



R. N. K. Fernando
Director/Chief Executive Officer



Theja Silva
Company Secretary

Colombo
22 February, 2013

Directors Statement on Internal Control **over Financial Reporting**

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 over Financial Reporting.

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 misstatement 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 control over financial reporting 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 over financial reporting 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 over financial reporting 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 IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

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

over Financial Reporting

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 page 85.

- In assessing the internal control system over financial reporting, 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. As the current year was the first year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure are being introduced, and as at reporting date were not fully completed. The assessment did not include subsidiaries of the Bank.

CONFIRMATION

Based on the above processes, the Board confirms that 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 auditors have reviewed the above Directors Statement on Internal Control over Financial Reporting included in the annual report of the Bank for the year ended 31 December 2012 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 over financial reporting of the Bank.

By order of the Board

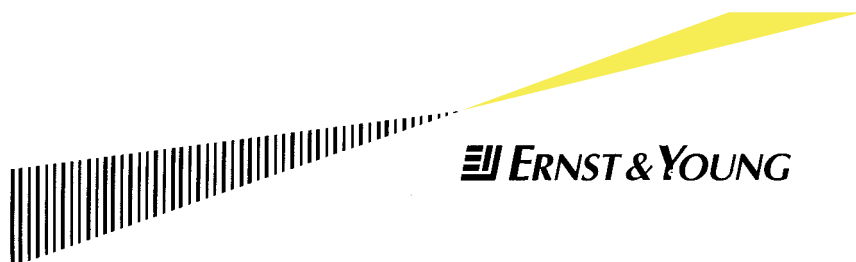

A. K. Gunaratne
Chairman


M. E. Wickremesinghe
Chairman-BARC


R. N. K. Fernando
Director/CEO

Colombo
22 February, 2013

Auditors' Report on Internal Control **over Financial Reporting**



ERNST & YOUNG

Chartered Accountants

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P.O. Box 101
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Sri Lanka

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eysl@lk.ey.com

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

Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of Nations Trust Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2012.

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 supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supported 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 over financial reporting of the Bank.

22 February 2013

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 FCA W R H Fernando FCA FCMA W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

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 the transactions carried out with Director-related entities during the year 2012.

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2012 (Rs.)
Central Finance Company PLC	A K Gunaratne D Prasanna De Silva	Director Director	A sum of Rs 44,903,308 was received as Interest & Other Income A sum of Rs.67,022,138 was paid as interest expense A sum of Rs. 28,881,308 was paid as vehicle rental	Nil
Waldock Mackenzie Ltd.	K N J Balendra A K Gunaratne Renuka Fernando C H S K Piyaratna	Director Director Director Director	A sum of Rs.1,350,000 was paid as Debenture placement fee A sum of Rs.2,089,133 was received as commission on processing A sum of Rs.182,539,386 was received as interest income A sum of Rs.13,050,000 was received as dividends	Nil
Central Industries PLC	A K Gunaratne	Director	A sum of Rs 7,573,111 was received as Interest & Other Income A sum of Rs.1,298,452 was paid as interest expense	Nil
Jaykay Marketing Services (Pvt) Ltd.	K N J Balendra	Director	A sum of Rs 64,371 was received as Interest & Other Income A sum of Rs.2,342,212 was paid as interest expense A sum of Rs. 6,322,346 was paid as rent & promotional expense	Nil
Nexus Networks (Pvt) Ltd Operations	K N J Balendra	Director	A sum of Rs 63,759 was received as Interest & Other Income A sum of Rs.3,292,256 was paid as interest expense A sum of Rs. 1,205,507 was paid as promotional expense	Nil
CF Insurance Brokers (Pvt) Ltd.	A K Gunaratne D Prasanna De Silva	Director Director	A sum of Rs 9,350 was received as Interest & Other Income	Nil
Capital Suisse Asia Ltd.	A K Gunaratne	Director	A sum of Rs.27,754 was paid as interest expense	Nil
Serendib Hotels Ltd.	Murtaza Jafferjee	Director	A sum of Rs 950 was received as Interest & Other Income	Nil
Hemas Holdings PLC	M E Wickremesinghe	Director	A sum of Rs.2,571 was paid as interest expense	Nil
Swiss Biogenics Ltd.	C H S K Piyaratna	Director	A sum of Rs 3,705,779 was received as Interest & Other Income	Nil
Mercantile Leasing (Financial Services)	C H S K Piyaratna Renuka Fernando	Director Director	A sum of Rs. 91,840 was paid as other expense	Nil
Nations Insurance Brokers Ltd.	Renuka Fernando C H S K Piyaratna	Director Director	A sum of Rs.9,661,532 was paid as interest expense A sum of Rs.2,925,000 was received as dividends	Nil
Allied Properties Ltd.	A K Gunaratne K N J Balendra Renuka Fernando	Director Director Director	A sum of Rs.36,308,643 was paid as rent A sum of Rs.27,642,561 was paid as interest expense A sum of Rs.2,520,000 was received as dividends	Nil
Ceylon Cold Stores PLC	A R Rasiah	Director	A sum of Rs 137,703 was received as Interest & Other Income A sum of Rs.3,055,488 was paid as interest expense	Nil

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2012 (Rs.)
Johnkeells Stock Brokers (Pvt) Ltd.	K N J Balendra	Director	A sum of Rs 206,641 was received as Interest & Other Income A sum of Rs.17,950,808 was paid as interest expense	Nil
Premium Brands (Pvt) Ltd.	M E Wickremesinghe	Director	A sum of Rs 21,823 was received as Interest & Other Income A sum of Rs.13,725,524 was paid as interest expense	Nil
CFA Sri Lanka	Murtaza Jafferjee	Director	A sum of Rs 500 was received as Interest & Other Income A sum of Rs.285,143 was paid as interest expense A sum of Rs.6,000 was paid as expense for research report	Nil
South Asia Gateway Terminals (Pvt) Ltd.	K N J Balendra	Director	A sum of Rs.12,738,586 was paid as interest expense	Nil
Central Hospital (Pvt) Ltd.	K N J Balendra	Director	A sum of Rs.147,675 was paid as medical expense	Nil
Colombo Stock Exchange	K N J Balendra	Director	A sum of Rs.560,142 was paid as Listing Fees	Nil
Leasing Association of Sri Lanka	D Prasanna De Silva	Director	A sum of Rs.394,000 was paid as expense	Nil

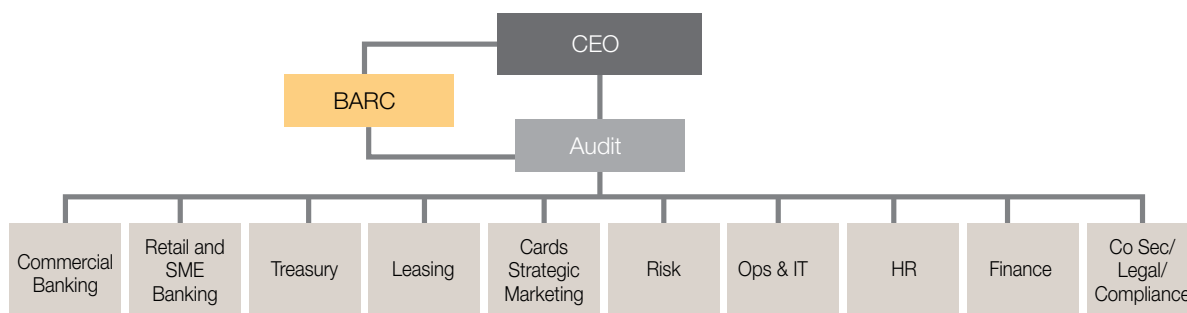
Details of Accommodation granted and balances outstanding as at 31 December 2012.

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit (Rs.)	Amount outstanding as at 31.12.2012 (Rs.)
Central Finance Company PLC	A K Gunaratne D Prasanna De Silva	Director	Working Capital Financing	700,000,000	192,961,165
		Director	Corporate Credit Card	10,000,000	Nil
Waldock Mackenzie Ltd.	K N J Balendra	Director	Reverse Repo		575,346,532
	A K Gunaratne	Director	Trade Finance Facility	1,800,000,000	738,756,674
	Renuka Fernando	Director			
	C H S K Piyaratna	Director			
Central Industries PLC	A K Gunaratne	Director	Trade Finance Facility	120,000,000	66,271,994
			Corporate Credit Card	5,000,000	Nil
			Working Capital Financing	15,000,000	Nil
Jaykay Marketing Services (Pvt) Ltd.	K N J Balendra	Director	Factoring Facility	20,000,000	21,983,937
Hemas Holdings PLC	M E Wickremesinghe	Director	Corporate Credit Card	20,000,000	1,187,562
Swiss Biogenics Ltd.	C H S K Piyaratna	Director	Working Capital Financing	25,000,000	185,452
			Leasing Facility	9,810,000	6,336,110
E.B.Creasy And Company PLC	A R Rasiah	Director	Leasing Facility	6,000,000	4,536,760
Darley Butler And Company Ltd.	A R Rasiah	Director	Leasing Facility	6,000,000	4,380,320
Creasy Foods Ltd.	A R Rasiah	Director	Leasing Facility	11,800,000	9,687,458

What's
next?

Sustainability Report

Name of the company:	Nations Trust bank
Primary brands, products, services:	Inner Circle, Private Banking, , 365 Day Banking, Extended hours, American Express Cards, Nations Leasing, Nations Factoring, Loans, Margin Trading, Fixed Income Securities
Operational structure of the company	Our key areas of operation include: Commercial Banking / Retail & SME Banking / Treasury / Leasing / Cards Strategic Marketing /Investment Banking / Audit /Risk / Operations & Information Technology / Human Resources / Finance / Legal & Compliance.



Location of the company headquarters	No 242 Union Place Colombo 02
Overseas operations	Remittance offices in Bahrain and Qatar. Representatives in UAE, Italy Australia ,France and tie ups in USA and Cyprus to facilitate Remittances
Nature of ownership and legal form	Public limited Liability company (Quoted) and owned by shareholders.
Markets served	<p>The Bank operates in all nine provinces of Sri Lanka, with the largest concentration of branches being in the Western and Central provinces</p> <p>Key lending segments include; Corporate (31%), Leasing (26%), Retail/ SME (20%), Personal Loans and Cards (23%).</p> <p>The Bank's deposit base comprises; Individuals (68%), Institutional (23%) and SME (9%).</p> <p>The Bank serves all key sectors within the economy: Food and Beverages, Textile & Wearing Apparel, Rubber and Leather Products, Metals, Chemicals & Engineering, Services, Tourism, Agro Business & Fisheries, Industrial, Housing, Commercial Trading, Power & Energy and Consumption.</p>
Service delivery options	<ul style="list-style-type: none"> • 56 Branches • 71 ATMs • Over 1,200 POS Machines • Internet Banking • SMS Banking • e-remittance • Mobile Banking • Bank at Your Doorstep • Fleet at Your Doorstep
Significant changes during the reporting period	<p>The Bank set up 8 new branches during the year increasing its total branch network to 56. 650 staff were recruited during the year to fill internal vacancies and to staff the expanded network.</p> <p>Changes in assets and equity:</p> <ul style="list-style-type: none"> • PAT 21% • Total deposits 27% • Equity 17% • Total assets 20% • Total loans 20% • Subordinate Debt 38%
Awards received	<ul style="list-style-type: none"> • Best Private Bank in Sri Lanka, adjudged at the World Finance 2012 Awards • Silver awards for annual report at the LACP

Beyond business-as-usual...

Yes, as a Bank we do make business decisions that enhance our bottom-line. And then there are those decisions that go beyond. Decisions that create change. Within society and in our own outlook. Help us re-think. Compel us to change the way we do what we do. And go beyond business-as-usual.

GOVERNANCE

Organizational oversight and Sustainability Governance

Organizational oversight

Oversight of the Bank's overall performance is held by the Board of Directors headed by a non-executive Director. The Board comprises five independent non-executive Directors and five non-executive Directors. The Board has mandated specific committees with direct responsibilities for the Bank's economic, social and environmental performance.

The Bank complies with the Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka Codes and confirms that it has complied with the directions issued by the Central Bank of Sri Lanka (CBSL), on Corporate Governance for Licensed Commercial Banks, Section 3(8)(ii)(g) of the Banking Act direction No. 11 of 2007.

Board mandated Committees comprises of the following and the detail Board reports are given in pages 84 to 92 of the Annual Report.



Sustainability Report

Mechanisms for shareholders and employees to provide recommendations or direction to the Board:

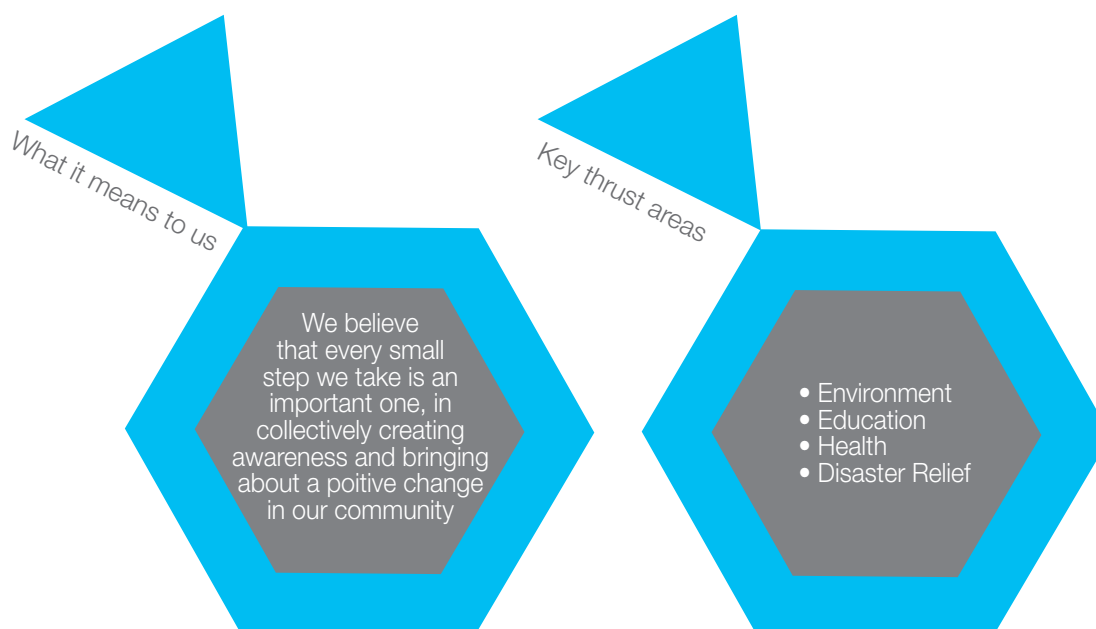
The Bank maintains effective channels of communication between the Board and its shareholders primarily through the Annual General Meeting and Extraordinary General Meetings, as required, where shareholders engage directly with the Board by submitting questions and through exercise of their voting rights on directors' appointments, removals, their remuneration and annual performance etc.

The Bank also posts relevant financial and operational updates on its website and in market disclosures released in accordance with continuous disclosure requirements; all of which are accessible to shareholders for perusal, comments, and to make recommendations to the Board.

Provisions contained in the Companies Act No. 7 of 2007 relating to convening of an Extraordinary General meeting on requisition, prevention of oppression and mismanagement enables minority shareholders to express their opinion to the Board.

Communication between the Board of Directors and employees are channeled through the CEO of the Bank and the Corporate Managers

Sustainability Governance



Environment

Education



Health

Disaster Relief

01 Sri Lanka is one of 34 biodiversity hotspots in the whole world. We aim to preserve it for our future generations

02 Rural communities must be mainstreamed for a nation to prosper. And it starts with rural children. We aim to increase their literacy through better educational resources.

03 Strong public-private partnerships are vital to improve the health of a nation. We give hope to those who need more care.

04 We believe that the ability to respond immediately and effectively to ad-hoc needs to bring relief to those affected by major disasters, is as equally important as long-term sustainable projects.

Corporate Responsibility Committee

Our corporate responsibility efforts are designed to conform to our key thrust areas with projects approved by a Committee that reviews all Community Investment efforts quarterly. The Committee comprises;

- CEO
- Deputy General Manager (DGM) Cards and Strategic Marketing
- DGM Legal and Compliance
- DGM Commercial Banking

Stakeholder Engagement

In the competitive industry in which we operate, relationship-building is vital to ensure the long-term sustainability of the Bank. In fact, acceptance of our strategic decisions by stakeholders across the board is essential to the success of our innovative banking efforts.

We engage with our diverse stakeholders to ensure that the decisions we make add value to them: to gain greater acceptance of the Bank in the minds of our stakeholders; to ensure that the strategies we adopt with our suppliers and partners create synergies that improve our performance; and that the special focus we give to create a more conducive work place for our employees gives greater job satisfaction and motivates them to achieve higher – mirroring their success with that of the Bank.

Engaging with our stakeholders

The stakeholders that we consider as vital to the future of the Bank

Employees
Existing and potential Customers
The Central Bank of Sri Lanka (CBSL)
Government of Sri Lanka (GOSL)
Other Regulatory authorities
Shareholders and Investors
Local and Overseas Banking Partners
Industry Analysts
Environmentalists and other special interest groups including media
Prospective employees
Training institutions
Outsourced Agencies
Suppliers, Merchants and other services providers
General public

“Making a positive impact is important to us. It makes us who we are. Not just as a Bank, but also as men and women, who deeply care about our individual role in society and towards our fragile environment.” - Sustainability@Nations Trust

Stakeholder engagement mechanisms

- Through media publications and special updates published, on the Bank's performance, innovations and achievements
- Investor forums – conducted for investors, analysts and research companies apprising them of the Bank's performance
- Periodic meetings, visits and dialogue with selected stakeholders
- Special stakeholder gatherings, including cocktails for each stakeholder category
- Corporate Quiz events for corporate clients
- Employee engagement mechanisms

a. Training and recognition with awards

- Star Awards - For staff who go beyond the call of duty and get work done
- CEO's Club - For high performing sales staff who over achieve consistently
- Nations Magnus Awards - 10 awards are given for outstanding persons/teams in the bank
- Sales Awards - For excellent sales performance
- Annual General Meeting

b. A culture of open-door communication

c. Mechanisms for feedback

- Employee Attitude Survey - Employees complete a survey providing their feedback on working environment and policies
- Joint Consultative Committee headed by the CEO - the committee meets with staff once in two months. Details regarding working environment and any improvements required as a whole for each department are discussed through this committee
- Internal Customer survey – Where departments are internally rated regarding their service delivery and processes

d. Special events such as Avurudu celebrations, sports day, annual dances, an annual drama competition and a Christmas party for children of employees; which foster unity among employees and across grades

e. Competitions such as the Motor Rally, Quizzes, Debates, Amazing Race, and others

f. An employee engagement/ attitude survey undertaken once in two years to assess engagement levels. Concerns raised are addressed through a special task force team

- Kumar Sangakkara, our Brand Ambassador, represents the Bank and interacts with both internal and external stakeholders. He is present at internal events such as the Annual Sports Day and at internal staff training and motivational programs. He is also present at external events such as cocktails for shareholders and other external parties, where he portrays the Nations Trust brand.

Special stakeholder engagement initiatives in 2012

- Investor Forum, September 2012
The forum aimed to update the investor community and other market participants on key economic trends during 2012 and explore future scenarios and investment climate that may prevail for investors.
- Cocktail for key stakeholders, November 2012
A special event was organized at Cinnamon Lakeside Colombo to entertain key stakeholders of the Bank including;
 - Corporate Banking Clients - The top 15 corporate Clients
 - Top Depositors - High net-worth customers holding over Rs. 50 Mn and private banking customers
 - Regulators –Representatives from the Securities and Exchange Commission (SEC), The Central Bank of Sri Lanka and the Ombudsman's Office
 - Heads of Multilateral Agencies
 - CEOs of Advertising Agencies, Marketing Consultants, Research Agencies and IT Partners

- Rating Agency
- Large margin trading customers with a net-worth of over Rs. 100mn
- Key contact of the Employees Trust Fund Board
- Lawyers and Senior Partners
- CEO/MD of top 10 Merchants

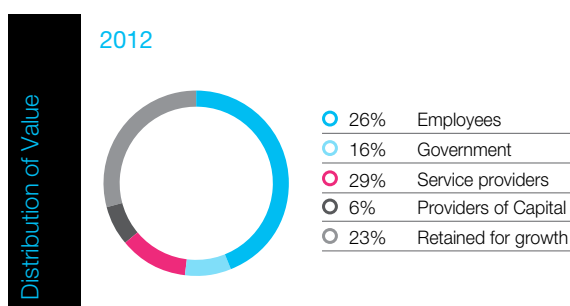
- Seminars
A Seminar was conducted in association with Colombo Law Society to apprise over 200 members of the public and lawyers on the finer points of Title Registration, including the process, the documents required and the gaps in Title Registration. The seminar was conducted by two speakers from the Registrar General's office.



Cocktail held for key stakeholders

SUSTAINABILITY PERFORMANCE

Economic contribution



Defined benefit plan obligations

The Bank confirms with the laws and regulations stipulated by the Central Bank pertaining to the Defined Benefit Plan, Defined Contribution Plan and other retirement benefit obligations which are set out in the significant accounting policies to the Annual Report. In summary, the Bank contributes the following on behalf of its employees;

- Contribution to EPF – 12% of each employee's base pay
- Contribution to ETF – 3% of each employee's base pay
- Gratuity – Half a month's current salary of each employee multiplied by the completed number of years of service at the time of resignation/retirement. (eligibility is only on completion of 5 years)

Contributing to local economies in which the Bank operates

A vast majority of Branch Managers within our network of branches have been recruited from the locality of each branch, while preference is always given to candidates who apply from each locality to be appointed to senior positions in each branch. In recruiting to vacant positions, it is the aim of the Bank to source internally first, wherever possible. However, in the event a position cannot be filled internally an advertisement of the vacancy is placed in the papers or through electronic media.

Investments and services for public benefit

The Bank has initiated a range of projects under its four key thrust areas of Environment, Education, Health and Disaster Relief since 2009. The progress of each project or new initiative undertaken during 2012, are set out under 'Environmental Contribution' and 'Social Contribution' respectively.

Environmental contribution

Resource utilization and conservation

The Bank makes every effort to minimise the use of scarce resources and to bring in operational efficiencies that would maximize resource utilization.



The Bank's primary source of energy continues to be from the National Grid while diesel generators are used as a standby source in the event of a power failure.

Electricity usage for the year:			
Main Locations –	Head office	526,440	Kwh
	Processing center	1,891,104	Kwh
	Millennium House	1,802,328	Kwh
	Sales center	214,848	Kwh
Branch network	58 locations	3,577,440	Kwh

- Specific measures of energy conservation
- Lighting at all branch premises were converted to energy saving CFL lighting systems during the year
- A 'Lights out' policy was imposed at 5.30 pm in the main buildings of Head Office, Kotahena Processing Center and Nawam Mawatha with effect from 15 March 2012. All staff are required to leave the buildings in order to switch-off lights and air-conditioning at 5.30 pm.
- The lights out policy was applied across all departments within these buildings except for identified divisions which were compelled to attend to customers and transactions after 5.30pm (e.g. contact center), and during a 10 day period each month to facilitate month end volumes /reporting etc.
- Presently working with Acstra solutions Pvt Ltd to install LED lighting systems in key locations across the network
- A process to obtain ISO 50000 certification has been initiated with the Sustainable Energy Authority.



The Bank uses purified water for drinking purposes and obtains water from municipality connections of the National Water Supply and Drainage Board (NWSDB) for other utility services..

Water usage for the year (only utility services):			
Main Locations –	Head office	5,352	M ³
	Processing center	12,252	M ³
	Millennium House	18,072	M ³
	Sales center	3,240	M ³
Branch network	58 locations	20,880	M ³

- Specific measures of energy conservation
- Posters and periodic notices displayed on water saving measures
- Supply of a regulated flow through taps to minimize water consumption at three main points of use (Eg. Push type wash basin taps - at our 3 main locations at Kotehena, Nawam Mawatha and Union Place)
- Introduction of a push button urinal basin flushing mechanism at the Head Office to control the continuous flow of water



- Types of waste generated by the Bank
- Paper waste from all branches and departments
- E waste such as unusable office equipment and computer items
- Food waste from restaurants at key bank locations and from lunch rooms at branches
- Specific measures to reduce waste
- Education of staff on reusing all types of stationary, where possible

- Technology solutions being developed by the IT division to introduce e-systems for purchase ordering and the entire gamut of approval processes to reduce the usage and cost of paper
- Reusable envelopes were introduced for all internal mail delivery

- Waste recycling

The Bank undertakes the following recycling measures;

- Paper waste is recycled through Neptune Waste Management (Pvt) Ltd.
- Food waste is disposed through the municipality garbage collecting system
- E waste is disposed through public auctioneers



Nations Green Lease

The leasing division of the Bank, Nations Leasing, launched the Nations Green Lease designed especially for hybrid vehicles, aimed at changing the mind-set of motorists to become more environmentally conscious and create greater demand for the popular Hybrid vehicles which use both fossil fuel and electric power stored in the vehicle batteries.

With a rental structure that enables a residual value payable at the last rental, the Bank has innovated an affordable option for potential vehicle owners. The Bank also tied up with a well-recognized vehicle dealer to offer an exclusive two year warranty 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 also donates 100 trees for every hybrid lease granted, thereby making a positive contribution to the environment, directly.

e-Statements

All Bank statements and Amex (card) statements were converted to e-statements. The Bank currently provides PDF e-Statements via email to account holders who have registered for the e-option.

e-Clauses in lending products

The Bank stipulates the following clause into all lending agreements it enters into;

'The Facilities are subjected to applicable laws and regulations issued by the Central bank of Sri Lanka or any other Government Authority from time to time. The company shall comply with all applicable environment, labour and social welfare laws and regulations of the Government of Sri Lanka or of any local or Governmental authority. If the company and the Bank agrees on an Environment and Social action plan for projects financed by the Bank, the company shall ensure that such plan is strictly implemented. The company shall ensure that it obtains and keeps valid all licenses registration and other permits for the effective carrying out of its business.'

Conservation efforts

Environment

Sri Lanka is one of 34 biodiversity hotspots in the whole world.

We aim to preserve it for our future generations

Publication on the endangered Southern Purple Faced Leaf Monkey

The study on the Southern Purple faced Leaf Monkey conducted by the Wildlife Conservation Society Galle (WCSG) which was supported by the Bank through seed money funding in 2011 eventually morphed into a study of other primates in Sri Lanka.

The conservation effort of the WCSG aimed to determine the intra-specific variations of Purple faced Leaf Langurs of Sri Lanka (especially the newly discovered Erythristic 'colour morph' in the Galle area); create awareness in the community area which the Langurs inhabit, through workshops and awareness programmes for school children, undergraduates, and stakeholders, especially around the Sinharaja World Heritage Site; and publish an updated photographic guide.

The study which tracked 26 troops unearthed a new species not previously identified anywhere in the world, with an unusual white color now known as the white colour morph of the Southern Purple Leaf Monkey. A detailed study is also currently underway on yet another colour morph that may have been identified among the Southern Purple faced Leaf Langur.



White colour morph of southern purple faced leaf monkey

The photographic guide to the 'Sri Lankan Primates' was compiled by Madhura De Silva and Nadika Hapuarachchi into an invaluable and insightful publication and an enthusiasts' Guide, with funding from Nations Trust Bank. The vivid account regarding the diverse primate species in Sri Lanka and identification guide, history of the natural environment, ecological notes, behavior and distribution of the primates, was launched in Colombo in September 2012 in the presence of a distinguished gathering of university lecturers, researchers and wildlife enthusiasts. It is envisaged that the publication would prove to be a valued source of information for future wildlife enthusiasts and help preserve the natural habitat of the Hiyare residents.



Wild animal rescue program

This collaborative project of the Wildlife Conservation Society-Galle (WCSG) and the Department of Wildlife Conservation with financial assistance from Nations Trust Bank which commenced in 2008 has rescued and treated over 120 animals during 2012. The project rescues and releases wild animals which have become trapped or injured due to habitat alteration by human activities or direct human intervention. WCSG aims to develop this program into a replicable model for future conservation efforts. The Bank has also provided the WCSG with the basic infrastructure required for rescue efforts including temporary shelter, food, medical attention and comfort to the animals until their release to the original or similar natural habitat such as the Hiyare forest.

The WCSG has been successful in its aim to maintain close contact with the local community to ensure the speedy treatment and release of rescued animals. A few of the most touching rescue efforts include; the baby Civet cats that were separated from their mother who were found by community members in a home garden and were released to the Hiyare forest; a juvenile Collared Scops Owl brought by a neighboring resident to the WCSG with injuries after falling from a tree, that was treated and released; and a host of other civet cats, porcupines, birds and many reptiles rescued and released in collaboration with assistance from local communities.

Biodiversity conservation educational program and workshops

The Bank funded a series of education programs designed by the WCSG, especially designed for school children, university students and the general public on biodiversity. Programs consist of lectures, workshops, fieldwork experience, captive breeding programs (of selected animal groups) and have been lauded by both the Department of Education and the Ministry of Environment of Sri Lanka.



During 2012, the society conducted around 29 programs on conservation and about Sri Lankan fauna and flora aimed at increasing environmental awareness among the local and international community.



Bio diversity conservation educational workshops

Details of the programs and workshops conducted in 2012 are given in Table 1 below.

School name	Location	Program title
PanakaduwaMahaVidyayalaya	Panakaduwa	Biodiversity and Snakes of Sri Lanka
PanakaduwaMahaVidyayalaya	Panakaduwa	Primates of Sri Lanka
Southland College	Galle, Fort.	Snakes of Sri Lanka
C/MahindaRajapaksaVidyayalaya	Homagama.	Butterflies of Sri Lanka, Biodiversity of Sri Lanka.
Prince of Wales College	Moratuwa.	Freshwater fishes of Sri Lanka.
C/ DarmapalaVidyayalaya.	Arawwala, Colombo	Freshwater Fishes of Sri Lanka.
SripaliVidyayalaya.	Horana.	Freshwater Fishes of Sri Lanka.
HiyareMahaVidyayalaya	Hiyare	Freshwater Fishes of Sri Lanka
Mt. Lavinia school	Mt. Lavinia	Butterflies of Sri Lanka
Martin WickramasingheVidyayalaya	Koggala	Biodiversity of Sri Lanka
Hapugala Elders Society.	Hapugala, Galle.	Biodiversity of Sri Lanka.
C/Musaeus College	Colombo	Biodiversity of Sri Lanka & Freshwater fishes of Sri Lanka.
M/DediyagalaMahaVidyayalaya	Dediyagala	Biodiversity of Sri Lanka & Biodiversity of the Dediyagala rain forest.
G/PitaeniyaMahaVidyayalaya	Hiyare	Biodiversity of Sri Lanka.
Agriculture Students	Four schools	Biodiversity of Sri Lanka
Agriculture Students	Four schools	Snake of Sri Lanka
Richard PathiranaVidyayalaya	Uluvitike, Galle.	Snake of Sri Lanka
Zonal Education office	Galle	General Biodiversity of Sri Lanka and how to do research.
BeruwalaMahaVidyayalaya.	Beruwala	Biodiversity of Sri Lanka and Butterflies of Sri Lanka.
National Institute of Higher Education	Labuduwa, Galle.	Biodiversity of Sri Lanka.
Richmond College	Richmond Hill, Galle	Snake of Sri Lanka.
PitadeniyaMahaVidyayalaya	Pitadeniya, Hiyare	Butterflies of Sri Lanka and their conservation.
Labuduwa IT Center	Labuduwa	General Biodiversity of Sri Lanka and how to do research.
Kurunagala Madhya Mahavidyalaya	Hiyare	General Biodiversity
BGS Higher Education School	Nugegoda	Biodiversity of Sri Lanka and Butterflies of Sri Lanka.
Foreign Students	Switzerland	About Hiyare Center
MASHoldings	Thulhiriya.	Butterflies of Sri-Lanka and conservation.
MalharasulhiyaVidyayalaya.	Galle	Biodiversity of Hiyare.
KaduruwalaMahaVidyayalaya	Baduruliya	Biodiversity of Sri Lanka.
Horana Gallena Raja maha Viharaya	Horana	Biodiversity of Sri Lanka.
Selected A/L students of Galle District	Hiyare	Biodiversity of Sri Lanka.

Research Project – Survey on National Freshwater Fishes

This on-going Survey that commenced in 2009 was initiated by the WCSG with the Biodiversity Secretariat of the Ministry of Environment. Four potentially new freshwater fish species have been identified by the project that was funded by the Bank. The project aims to assess the freshwater fish species diversity of all the river basins of Sri Lanka, assess the population status of each species in each river basin and systematically map all 84 species using Garmin GPS Locations system.

Highlights of the project- 2012

1. The validation of Puntius thimbiriis on-going with the collaboration of Dr. Rohan Pethiyagoda (Australian Museum, Sydney) and Mr. Kelum Manamendra-Arachchi (Wildlife Heritage Trust of Sri Lanka).
2. Hitherto we have photographed 80 of the 86 species of freshwater fish recorded from Sri Lanka, and their locations were mapped using Garmin GPS Mapping System.

All GPS data related to fish species has been provided to the Biodiversity Secretariat for the National Red Listing.

3. Revisions of the genera Devario, Oryzias, and Aplocheilichthys are ongoing
4. Preparation of the Fish Guide Book is underway including several fish species belonging to the saltwater dispersant families (e.g. Lutjanidae, Carangidae etc.) and estuarine species (many gobies (Gobiidae), sleepers (Eleotrididae), and glass fishes (Ambassidae)) ensuring the Guide will be comprehensive and up to date.



Health

Strong public-private partnerships are vital to improve the health of a nation.

We give hope to those who need more care

Social contribution

Labour Practices and Decent Work

The Bank conforms to all regulations and decent practices of work as stipulated by regulatory authorities and which go beyond legislation. The Bank does not condone any form of discrimination or harassment by way of race, gender, ethnicity or religion. We do not employ any person below 18 years of age nor advocate any form of child labour. Our employee health, safety and welfare receive constant attention in our decision making, our policies and in the general practices adopted by us.

The Team at Nations Trust Bank

Gender-wise distribution of employees

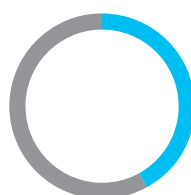
2012



42% Female
58% Male

Staff Cadre

2012



88% Permanent
12% Fixed Term Contract /
Trainee Fixed Term Contract

Staff Grade-wise Distribution

2012



1% Corporate Management
1% Chief Managers
2% Senior Managers
10% Managers
18% AM
47% SG1, SG2, SG3, SG4
10% Trainees (BT/TA)
12% FTC/ TFTC

Employment procedures

Recruitment activities of the Bank are undertaken with due regard to employment legislations and in a manner that will ensure the sustainability and integrity of the new recruits and the transparency of the employment process.

Employee turnover for 2012

The Bank operates in a competitive environment in which trained staff is in demand across the industry. It has been assessed that the employee turnover is caused mainly by; better prospects, head hunting from competing banks locally, inadequacy of career progression and a heavy workload.

The turnover ratio has decreased for the permanent staff from 2011 to 2012 (from 12.9% to 9.22%) and can in part be attributed to the following:

1. Regular Branch visits by HR to identify staff concerns and address same
2. Implementation of Talent Management Programs
3. Implementation of Full Flexi hours
4. Carried-out the following staff engagement activities which enjoyed a positive response:
 - o Nations Motor Rally
 - o Nations Masterminds
 - o Nations Wellness Program (Lose to win)
 - o The Amazing Race
 - o Nations Debates
 - o Nations e-Quiz

However, the FTC turnover ratio has increased from 52.77% to 69.3% from 2011 to 2012, despite the following efforts taken.

- o Ongoing focused training for sales/collections staff
- o Ongoing coaching and counseling programs for sales/collections staff
- o Career development opportunities in mainstream banking for high performers
- o A three-tiered Sales Training Certification Program (spread over one year) for Amex Sales Staff



"Get down ... Get dirt"
Nations Amazing Race 2012 :
Galle Edition



The greater the challenge, greater
the glory "Nation Motor Rally 2012"

Workplace Health and safety

There have been no workplace related injuries during 2012. Measures are in place to ensure adequate safety within the workplace and include; periodic training for Fire Wardens from each department, fire alarm checks and Dengue Prevention Campaigns educating employees through emails

Other Employee health benefits

- Surgical and Hospitalization Insurance Cover and Personal Accident Cover
- Awareness campaigns conducted by the Sports Club through medical officers to educate staff on various health related topics including a three-month long weight reduction competition titled "Lose to Win" aimed at creating awareness on the importance of a healthy lifestyle

Training and Capacity building

We allocate substantial resources to maintain a well-trained and competent workforce that is geared to deliver our innovative banking products in a manner that suits the diverse needs of our urban and rural customer base. During 2012, the Bank provided 5,119 hours of training to our staff, through 518 capacity building programs.

Participants chosen for specific training programs are selected based on a formal Training Needs Analysis which arises through the Year End Appraisals, the Balanced Score Card and in communication with Corporate Managers.

Performance management and Career development process

The Bank has a very robust performance management system where each staff member is evaluated on predefined objectives and competencies. The Bank carries out an annual Performance Review on all permanent employees who have been in service over 6 months and for other staff at the end of the probation period. The Balanced Score Card is used to assess the performance of management staff. A rating is assigned based on their performance during the period under review which is linked to the increment and the variable bonus.

A 360 degree feedback is given to all senior management staff in order to identify their strengths and areas for improvement in order to groom them for higher responsibilities within the Bank. We have introduced developmental roles for certain key positions in the Bank and periodic feedback on their performance is monitored and discussed. Further, Development Centers are

carried out for staff in various grades in order to identify their potential and to address capacity building needs.

The appraisal process also plays a key role in providing career development feedback to staff. A well-structured Training Plan is implemented each year, in order to address individual and organizational level development requirements.

Employee Sports and Welfare

The Sports and Welfare Club of Nations Trust Bank works on the philosophy that the objectives and the end-use of its resources are broad based. This is in order to ensure that the maximum number of our members, reap the benefits. It is within this broad policy that the Club has been organizing key events described as follows.

The calendar of events of the Sports and Welfare Club kicked off with the traditional 'Nations Avurudu Ulela' in April. Around 900 staff members participated in the all-day activities and games. Many novel value additions were introduced to the festival this year. New traditional games, an increased number of Tamil cultural items and a folk musical show performed by the staff were some of those attractions.

The first ever inter-branch/department drama competition was held in May. The competition was well received and a total of 234 staff members participated in the twenty performances staged during the competition. The Sports and Welfare Club enlisted the services of a team of professionals in the field to provide the necessary training to the actors and to judge the competition. The competition finals were held in June at the Sri Sambuddhathwa Jayanthi Auditorium, Colombo 5 in front of a full house.



Sustainability Report

The Annual Sports Day was held in August with our brand ambassador Kumar Sangakkara as the Chief Guest. New events such as swimming, football and go-kart racing were introduced this year, to broaden the staff participation. Over 1000 staff members attended the Sports Day together with their families.

The Bank's Annual Social was held in November at the Water's Edge. More than 1,100 staff members and their spouses attended the highly anticipated dance.

The Kiddies Christmas Party for children of Bank staff was conducted in early December at Excel World. Around 1000 staff members, their spouses, and kids, enjoyed the fun-filled evening.

The Sports and Welfare Club of Nations Trust Bank also engaged in a blood donation campaign in March as well as made a donation to the Cancer Hospital in December.

The greater participation of staff in these events throughout the year gave an immense opportunity for them to enhance networking within the organization and harness solidarity.



"Santa is in the town"
Kiddies Christmas party 2012

Human Rights

Non-discrimination and equal opportunities

All vacancies arising in the Bank are advertised internally first and equal opportunity is given to all employees to apply for these positions provided they meet with the minimum requirement. We ensure that our staff and applicants will not receive any less favourable treatment on the grounds of gender, race, religion, nationality, disability, ethnic origin or status. As per the Shop & Office Act we only recruit candidates who are above 18 years of age.

Contribution to Society

The Bank has not faced any fines or non-monetary sanctions for non-compliance with any laws or regulations in 2012.

The Bank's Credit Policies refer to minimum environment and social standards that borrowers must comply with, when utilizing funds obtained from the Bank. The Bank does not lend in an ad-hoc manner and ensures that the following minimum conditions are fulfilled by borrowers;

'Unsecured loan products that primarily cater to salaried employees between the age group of 18 – 55 years who are in employment in recognized institutes and identified professional segments such as doctors, accountants, architects, should have a minimum monthly gross fixed income of Rs. 20,000/- and a minimum take home pay of Rs. 10,000/- to be eligible for a loan facility. The approval is subjected to the Bank satisfying itself with CRIB (Credit Information Bureau) records.'

Social contribution through Key Thrust Areas of Education and Health

Partnership with the National Blood Transfusion Service of Sri Lanka (NBTS)

Our efforts: The Blood Donor card launched in June 2011 in partnership with the National Blood Transfusion Service of Sri Lanka (NBTS) has enabled the state service to transit from a conventional manual Donor Booklet to a card-based technology. The technological innovation pioneered by Nations Trust Bank enabled NBTS to maintain systematic records of blood group, National Identity Card number and previous donations of all walk-in donors and donors from mobile blood donation campaigns across the island. The Bank also funded the celebration of Donors Day 2012.

Impact: Nations Trust Bank has streamlined an essential national service and improved the efficiency of the country's focal point for collection and distribution of blood and blood products for a variety of medical emergencies. It has also enabled the NBTS to attract new donors – especially through the newly introduced 'loyalty scheme' for donor categories; reduced transaction time; and increased the security of the data stored.

- Cards issued in 2012: 240,000

Refurbishment of the National Cancer Hospital

The Bank has maintained ward 19 of the cancer hospital in Maharagama since 2010 with several infrastructure development initiatives. In 2012, the Bank continued with this initiative by colour washing the building, replacing fans, building a pathway for patients and through the donation of a wheelchair, mattresses, bed sheets, refrigerator, iron cupboards, trolleys and clothing for patients.



"Saving Lives"
Donation to the Cancer Hospital

Education

Rural communities must be mainstreamed for a nation to prosper. And it starts with rural children

We aim to increase their literacy

Development programs for disadvantaged schools

Our efforts: Development programs have been initiated over the last 3 years to improve educational resources among disadvantaged schools in remote corners of the island which cater to children from challenged, low income communities. The Bank has funded libraries, sports units, playgrounds, sanitary facilities, books and bags and improvements to the school infrastructure at Seewali Kanishta Vidyalaya, Kandy, Amunutenna Kanishta Dwthika Vidyalaya – Gallalla, Ratnapura and Manampita Ratnasara Vidyalaya - Mattaka, Galle. In 2012, the Bank monitored progress and completed refurbishment of the two schools in Kandy and Galle while refurbishment of the school in Ratnapura is scheduled

to be completed in early 2013. Over the years, the Bank has funded 11 libraries in several rural schools across the island.

Impact: Vast opportunities have been created for students and their teachers and increased enrollments at the 3 schools thus scaling up primary education levels in each locality.

Building Skills in Mathematics

Our efforts: In partnership with CandleAid (formerly AFLAC) the Bank sets up 'Math Labs' in the locality of each new branch, which provide much needed space and opportunity for students to explore various mathematical concepts and verify mathematical facts and theorems through a variety of activities using different materials.

Impact: The lab creates an environment conducive for teachers and students to engage in stimulating mathematical education. The Bank also enables the training of teachers through specialists in order to maximize the use of resources in the lab.



"Brighter Future"
Establishment of the "Math
Labs" in rural schools

Math Labs were set up in the following schools, in 2012:

- Kaduruwela Nagara MV Kaduruwela, Polonnaruwa – March 2012
- Kalawila KV, Aluthgama – April 2012
- Karavatti Saraswathie Balika Vidiyalai, Nelliady – April 2012
- St Martin De Pores School Wennappuwa – June 2012

Sustainability Report

- Sri Sumedhankara Vidiyalaya, China Bay, Trincomalee – August 2012
- Assaduma Subarathi Kanishta Vidiyalaya, Kuliyaipitiya – September 2012
- Sripathi MV, Watugedera , Ambalangoda – Oct 2012
- Al-Arham Vidiyalayam, Rahmaniabath, Addalaichchenai – December 2012

Through these outreach initiatives Nations Trust Bank seeks to assist young people across the island in achieving their basic educational goals. It also enables the Bank to build partnerships with the communities the Bank serves.

Other social contributions

In addition to the Community Investment efforts initiated by the Bank under the four key thrust areas, it has also undertaken the following;

- Sponsorship of the National Cricket Championship for the Sri Lanka Association of Parents of Deaf Children
- Donation of an incinerator to the Cancer hospital in Maharagama
- Improving the Army Library, Panagoda

The project initiated in 2012 by the Bank to support the construction of a new library at the Panagoda Army Engineering Corp Division has facilitated the rehabilitation process of 535 disabled soldiers. The new building which was constructed during 2012 is more easily accessible to the soldiers and is stocked with a wide range of reading material donated by the Bank.



Better Tomorrows
Opening of the Army Library

What's
next?

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 31 December 2012, and the Statement of Financial Position as at that date will be submitted to the Colombo Stock Exchange within two months of the reporting date.

DISTRIBUTION OF ORDINARY SHAREHOLDERS

As at 31 December 2012

Shareholders	Resident No. of Shareholders	No. of Shares	%	Non - Resident No. of Shareholders	No. of Shares	%	Total No. of Shareholders	No. of Shares	%
1 - 1,000	4,973	2,149,786	0.93	46	26,801	0.01	5,019	2,176,587	0.94
1,001 - 10,000	2,828	9,316,633	4.04	65	281,033	0.12	2,893	9,597,666	4.16
10,001 - 100,000	541	15,286,432	6.63	23	859,765	0.37	564	16,146,197	7.00
100,001 - 1,000,000	78	19,147,557	8.30	6	2,719,304	1.18	84	21,866,861	9.48
Over 1,000,000	17	159,597,248	69.21	3	21,222,724	9.21	20	180,819,972	78.41
	8,437	205,497,656	89.11	143	25,109,627	10.89	8,580	230,607,283	100.00

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

ANALYSIS OF SHAREHOLDERS

	31.12.2012			31.12.2011		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	8,121	46,506,278	20.17	8,847	48,860,350	21.19
Institutional	459	184,101,005	79.83	518	181,746,933	78.81
	8,580	230,607,283	100.00	9,365	230,607,283	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31st December 2012 was 79.85% (77.39 % as at 31st December 2011).

MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	2012	2011
Market Value		
Highest Value (Rs.)	64.60	89.80
Lowest Value (Rs.)	43.50	54.00
Value at end of year (Rs.)	56.00	57.00
Trading Statistics		
No. of Transactions	15,929	15,929
No. of Shares Traded (mn)	44.98	44.98
Value of Shares Traded (Rs. mn)	2,896.36	2,896.36
Market Capitalization		
Market Capitalisation (Rs. mn)	12,914.01	13,144.62

TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER

Name of the Shareholder	2012		2011	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC.	46,121,536	20.00	46,121,536	20.00
DFCC Bank A/C No 01	22,865,356	9.92	22,865,356	9.92
Mackinnons & Keells Financial Services Limited	22,830,159	9.90	22,830,159	9.90
Central Finance Company PLC A/C No 03	20,715,400	8.98	20,715,400	8.98
HSBC International Nominees Limited - Credit Suisse AG Zurich - Uma Kumar Sharma	18,923,104	8.21	18,156,100	7.87
CF Growth Fund Limited A/C No 01	14,813,273	6.42	14,813,273	6.42
CF Insurance Brokers (Pvt) Limited.	10,592,857	4.59	10,592,857	4.59
Mr. A.D. Gunewardene	5,671,164	2.46	5,671,164	2.46
Mr.M.F. Hashim	2,583,150	1.12	2,460,237	1.07
Employees Trust Fund Board	2,557,553	1.11	1,366,900	0.59
Renuka City Hotels PLC	1,858,775	0.81	1,858,775	0.81
Sri Lanka Insurance Corporation Limited-General Fund	1,658,529	0.72	1,658,529	0.72
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/C No 01	1,589,000	0.69	1,600,000	0.69
Bank of Ceylon - A/C No 02	1,546,100	0.67	1,546,100	0.67
Mr. S.K. Sharma	1,364,148	0.59	2,022,100	0.88
Mr. N.R. Somaiya	1,320,624	0.57	1,320,624	0.57
Timex (Garments) Limited	1,238,465	0.54	1,238,465	0.54
Sri Lanka Insurance Corporation Ltd-Life Fund	1,096,200	0.48	1,122,100	0.49
Malship Ceylon Limited	1,063,857	0.46	1,033,857	0.45
Mr. M.M Udeshi	1,020,726	0.43	1,392,034	0.60
	181,429,976	78.67	180,385,566	78.22
Others	49,177,307	21.33	50,221,717	21.78
Total	230,607,283	100.00	230,607,283	100.00

* Comparative shareholdings as at 31st December 2011 of the twenty largest shareholders as at 31st December 2012.

Ten Year Summary

Group

Year Ended December 31st

Rs. Mn	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
OPERATING RESULTS										
Gross Income	2,115	2,241	3,085	5,922	9,342	13,877	14,037	12,215	11,885	17,751
Interest Income	1,574	1,708	2,448	4,991	8,011	12,094	12,049	10,090	9,795	15,113
Interest Expense	(1,102)	(1,118)	(1,504)	(3,280)	(5,900)	(9,185)	(8,329)	(5,525)	(5,391)	(9,358)
Net Interest Income	472	590	944	1,711	2,111	2,909	3,720	4,565	4,404	5,755
Fees & Other Income	541	533	637	931	1,331	1,783	1,988	2,125	2,090	2,637
Net Income	1,013	1,123	1,581	2,642	3,442	4,692	5,708	6,690	6,494	8,392
Operating Expenses										
(inc. Imp. Charge/Reversal & VAT)	(736)	(1,009)	(1,383)	(2,104)	(2,594)	(3,664)	(4,327)	(4,662)	(4,158)	(5,626)
Profit Before Taxation	277	114	198	538	848	1,028	1,381	2,029	2,336	2,766
Provision for Taxation	(25)	(69)	(73)	(215)	(343)	(435)	(695)	(944)	(729)	(815)
Profit After Taxation	252	45	125	323	505	593	686	1,084	1,607	1,951
As at December 31st,										
ASSETS										
Cash & Short-Term Funds	1,606	1,977	1,633	4,780	3,147	4,065	1,431	1,531	3,694	2,534
Statutory Deposits										
with Central Bank	347	609	955	1,315	1,964	1,717	2,044	2,416	4,284	5,089
Government Treasury										
Bills & Bonds	7,489	5,771	5,341	10,323	11,331	15,688	23,894	26,876	24,982	34,038
Other Investments	50	632	621	1,629	2,392	3,781	4,239	4,020	3,153	2,221
Loans & Advances	8,362	11,717	15,604	26,993	34,500	38,585	35,335	44,571	61,188	73,424
Other Assets	519	558	785	998	1,209	1,914	1,210	1,287	2,280	2,591
Property Plant & Equipment	323	381	414	1,133	1,065	2,035	1,919	1,788	1,891	1,908
Intangible Assets	77	68	59	451	79	79	432	758	600	642
Total Assets	18,773	21,713	25,412	47,622	55,687	67,864	70,504	83,248	102,073	122,447
LIABILITIES										
Deposits	6,571	10,460	14,314	20,670	28,666	34,146	44,222	48,315	67,633	86,190
Due to Banks	507	457	199	1,077	1,394	1,039	391	500	1,277	2,796
Deferred Tax Liabilities	101	97	100	193	201	436	437	456	236	280
Other Borrowings	9,583	8,456	7,948	20,607	19,250	24,628	16,631	21,980	19,888	18,167
Other Liabilities	676	940	1,388	2,213	3,307	3,273	4,046	5,193	4,410	4,919
Total Liabilities	17,438	20,374	23,949	44,760	52,818	63,522	65,727	76,443	93,444	112,352

Group

Year Ended December 31st

Rs. Mn	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	850	850	850	2,062	2,062	3,110	3,110	4,368	5,101	5,101
Reserve Fund	11	13	16	29	57	80	106	156	224	314
Reserves	474	476	597	771	750	1,152	1,561	2,281	3,303	4,680
Total Shareholders' Funds	1,335	1,339	1,463	2,862	2,869	4,342	4,777	6,804	8,628	10,095
Total Liabilities & Shareholders' Funds										
Shareholders' Funds	18,773	21,713	25,412	47,622	55,687	67,864	70,504	83,248	102,073	122,447
Commitments and Contingencies	3,972	4,886	3,832	13,276	18,138	53,617	51,591	60,844	72,792	86,239

RATIOS (Group)

Return on Average

Shareholders' Funds (%)	18.88	3.36	8.54	11.30	17.62	16.45	15.05	18.72	20.83	20.84
Income Growth (%)	82.17	5.96	37.66	91.97	57.74	48.55	1.15	(12.98)	(2.68)	49.35
Return On Average Assets (%)	1.45	0.22	0.53	0.88	0.98	0.96	0.99	1.41	1.73	1.74
Property Plant & Equipment to Shareholders' Funds (%)	24.19	28.45	28.30	39.58	37.12	46.86	40.16	26.28	21.92	18.90
Total Assets to Shareholders' Funds (Times)	14.10	16.20	17.40	16.60	19.40	15.60	14.80	12.23	11.83	12.13
Cost/Income Ratio (%)	63.46	76.17	72.48	68.56	65.38	65.42	57.68	58.78	61.85	56.71
Capital Adequacy Ratio Tier I (%)	14.07	10.44	8.74	7.86	7.20	10.31	11.79	13.43	13.42	13.82
Capital Adequacy Ratio Tier II (%)	15.24	13.91	13.92	11.86	10.44	15.70	16.11	15.74	17.44	18.18

SHARE INFORMATION(Bank)

Market Value per Share (Rs.)	28.25	18.25	23.50	28.25	29.75	22.25	36.75	83.40	57.00	56.00
Earnings Per Share (Rs.)	0.87	0.37	0.86	1.98	4.28	2.95	2.99	4.66	6.31	7.76
Price Earning Ratio (Times)	32.47	49.75	27.33	11.58	7.61	6.06	8.98	15.45	9.03	7.22
Net Asset Value per Share (Rs.)	13.23	13.10	13.96	20.06	20.50	23.47	24.96	29.25	34.08	39.73
Earnings Yield (%)	3.08	2.03	3.66	7.01	14.40	13.25	8.14	5.59	11.07	13.86
Dividend Per Share (Rs.)	0.85	-	-	1.00	1.33	1.50	1.50	2.00	2.10	2.10
Dividend Payout Ratio (%)	97.70	-	-	50.51	31.05	50.87	50.13	42.92	33.28	27.06
% of 20 Largest Shareholders	-	63.15	71.91	80.08	81.07	81.32	76.38	78.58	78.22	78.67

OTHER INFORMATION (Group)

Number of Employees	405	479	549	820	1,239	1,615	1,532	1,608	1,853	2,037
Number of Branches	20	26	28	30	31	36	38	40	48	57
Personal Banking Centres						6	6	6	7	7
No of ATMs	20	30	33	38	38	47	44	48	48	70

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

Risk Management

Integrated Risk Management Framework

Risk is inherent in the bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Banks are exposed to various risks during their business operations. The major categories of risks are credit, market, liquidity and operational risks. Banks also face other risks such as legal, regulatory and reputational risks.

The Bank has adopted an Integrated Risk Management (IRM) framework with a set of policies and procedures approved by the Board of Directors (BOD) in order to manage the risk and optimize the risk-reward trade-off. Through the IRM framework, the BOD assess the integrated risk profile of the Bank and its management at a minimum on a quarterly basis and oversight the implementation of the IRM framework.

The IRM framework covers key potential risks, possible sources of such risks, mechanism of management information and reporting to identify and monitor such risks. It also includes relevant officers and committees responsible for risk control and mitigation.

The risk management policies and procedures approved by the Board broadly covers:

- Measures for risk diversification with limits for various exposures based on risk appetite
- A system to aggregate overall risk exposures for monitoring and control
- Risk measurement approaches such as use of historical databases, stress testing and scenario analyses
- Provision estimates based on incurred loss models
- Capital maintenance considering expected losses and unexpected losses
- Capital allocation to businesses and products in order to optimize risk adjusted returns and economic value additions
- Methods to monitor compliance with internal controls and regulations
- Disaster recovery and contingency plans
- Risk transfer mechanisms like insurance

Risk management structure

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different Executive Risk Committees. It also monitors compliance with Bank's policies and regulations.

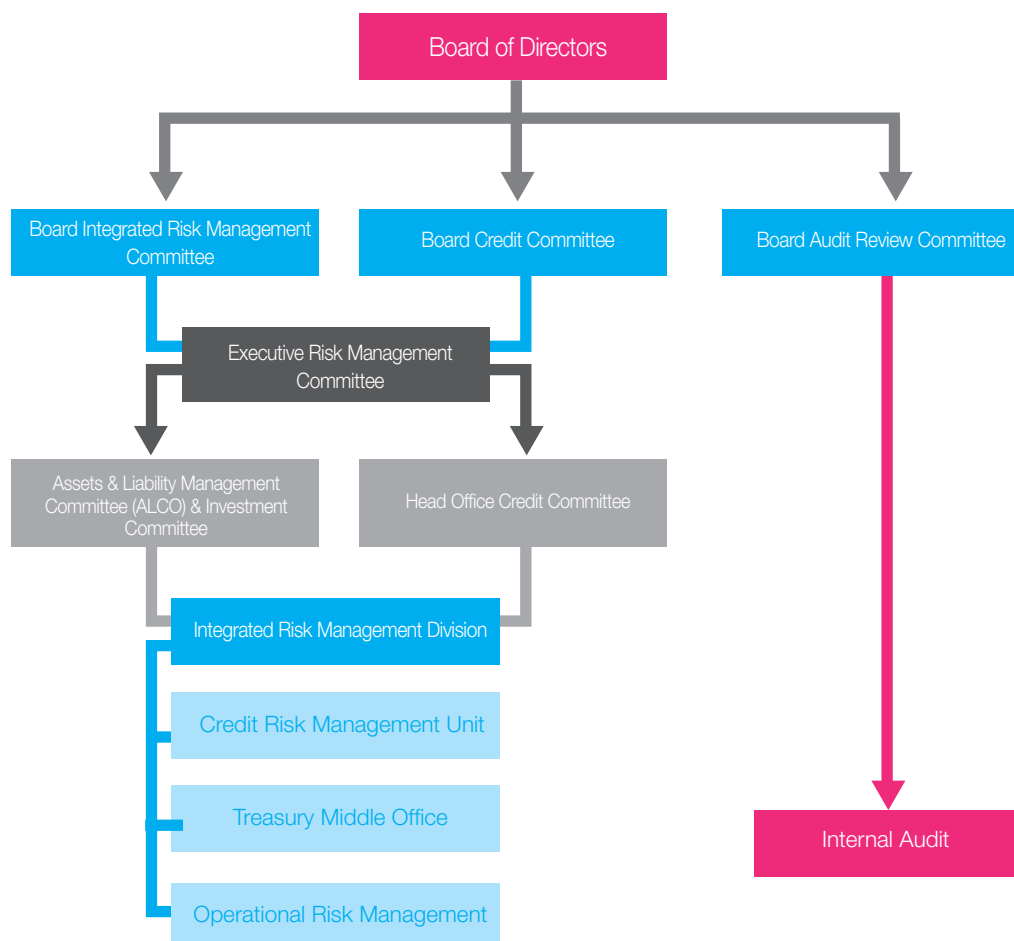
The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of framework, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on Market Risk management and Liquidity Risk management whilst Head Office Credit Committee focuses on the Credit Risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for capturing and monitoring the Bank's overall risk position against overall risk appetite and limits set by the Board, by integrating the various risk exposures across business units and products within the Bank. They monitor compliance with risk management policies and procedures to ensure an independent control process is maintained. Exceptions are reported on a daily basis, where necessary, to the Chief Executive Officer and various management levels. Relevant actions are taken to address exceptions and any areas of weakness. IRMD is also responsible for developing risk management tools in line with industry best practice.

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

The risk management processes through out the Bank are audited regularly by the Internal Audit Division (IAD), which examines both the adequacy of the procedures and the Bank's compliance with the procedures. IAD discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Review Committee (BARC).

Integrated Risk Management Framework



Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the bank. These limits reflect the business strategy and market environment of the bank as well as the level of risk that the bank is willing to accept.

Information compiled from all the businesses are examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, BIRMC and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The BIRMC receives a comprehensive risk assessment report once a quarter which is designed to provide a wide range of information to assess and conclude on the risks of the bank.

For all levels throughout the bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Chief Executive Officer and all other relevant members of the bank on the utilization of market limits, liquidity and any other risk developments.

CREDIT RISK MANAGEMENT

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

The Board of Directors has put in place the Credit risk strategy and policies of the Bank. The strategy includes identification of target markets and business sectors, level of diversification and cost of capital involved and bad debts. The credit risk policies and procedures of the Bank define target markets and lending criteria, credit approval discretion, credit origination and maintenance procedures and structured guidelines for portfolio management and management of special assets.

Structure

The Bank has a management level committee for credit risk management known as Head Office Credit Committee (HOCC). The committee is headed by the Chief Executive Officer and Chief Risk Officer is a mandated member. In addition to them respective business heads as appropriate will form the composition of the committee. Based on the need, other relevant senior officers will participate by invitation. The HOCC will formulate credit policies, standards on presentation of credit proposals, diversification and concentration of credit exposures, setting of prudential limits, risk monitoring and evaluation, portfolio management and establishment of a loan review mechanism.

Credit risk management function of the Bank directly reports to Chief Risk Officer and is structured along the similar lines of how the Bank's revenue generating business lines are structured. Accordingly, within the credit risk management function there are specialized pillars to manage credit risks arising from different segments of clients. Such specialized client segments include corporate banking, retail and SME Banking, consumer banking, and more product based leasing/factoring portfolios. Every credit extended by the Bank other than small value consumer/retail loans is subjected to an independent review from Credit Risk Management Department (CRMD) and all such loans are authorized/approved by two officers in the credit chain, one of whom invariably from CRMD. Furthermore, delegation of lending powers to individual credit officers is done on a strict and consistent set of standards which uses the experience of such officers', judgement and ability.

Risk Rating

The Bank has taken steps to improve on the existing Internal Credit Risk Rating mechanism during the year. As such, with the assistance of IFC, a robust Internal Credit Risk Rating system has been developed and implemented during the year 2012. The new Internal Risk Rating system runs on a sophisticated work flow based software and hosts five different rating models to suit the diverse client portfolios of the Bank. The Bank has deployed varying models to gauge the default risk associated with large Corporate, mid corporate, SME, financial institutions and retail/individual customers. All of these models are structured in a manner incorporating both quantitative and qualitative parameters which contributes and reflects realistic probabilities of default in respective models. Across the models, all these models are structured broadly to measure risks arising out of industries the obligors are engaged with, financial position of the obligor, management capacity and specific business related risks. These models are fine tuned to reflect the underlying credit risks of the loan book. The ratings derived from different models are then mapped in to a bank wide single point indicator rating scale based on the underlying probability of default and various other factors including risks inherent to specific model population. The risk rating model implemented facilitates both obligor and facility rating. Whilst obligor rating will indicate the expected probability of default (PD), the facility rating indicates the expected loss given default (LGD). Expected probability of default takes in to account the characteristics of the obligor assessed via industry, business, management and financial risk silos, whilst facility rating takes in to account the type of the facility, nature of the collateral and realisability as well. Using the expected probability of default and the loss given default calculated via obligor rating and facility rating models the system facilitates arriving at an expected loss for a specific credit. Bank intends using a ten-point scale based on expected loss ranges using various combinations of obligor and facility ratings in determining and structuring credit once the system is stabilised.

Risk Scoring

Bank deploys custom made Advanced Statistical Application scorecards to underwrite consumer assets. These scorecards were developed using Bank's own data and re-weighted to align them for more recent economic conditions. Such scorecards take in to account the customer demographics together with credit worthiness of individuals and disposable income in deciding the level of accommodation of credit. In addition to above, the Bank also carries out a pre-screening of employers of salaried employees who seek consumer credit from the Bank in order to ensure that their level of income generation will not get interrupted in the foreseeable future. In this way the Bank act more responsibly as such an approach would negate possibility of overspending by consumers based on uncertain future income. In the SME front the Bank has spend resources in developing an Expert Scorecard to cater to lower end of the SMEs which seeks simple facility packages to finance their non-complicated businesses. Bank is currently applying the scorecard on a pilot basis, and will be rolled out across the Bank during 2013 to identified market segments within SMEs.

A customer rating analysis is given in the note 42 to the financial statements.

Risk Pricing

The Bank also views pricing for risk as fundamental to credit risk management. Thus steps have been taken to price the credit risk using more scientific methods and blending it with prevailing market sentiments to contain off-market operations. The newly implemented Internal Risk Rating system facilitates calculation of Risk Adjusted Return on Capital (RAROC). This enables the Bank to link capital to expected losses. Once the system stabilises and enough data is populated in the system to establish benchmarks for RAROC, Bank will gradually move away from the Return on Risk Weighted Assets (RORWA) benchmark currently used to derive risk based pricing.

Portfolio Management

Credit portfolio management is an important function within the overall credit risk management function. Need for such critical and objective portfolio management emanates from the need to optimize the benefits associated with diversification. It also helps the Bank to identify and address potential adverse impact of concentration of exposures. The Bank has a well structured portfolio management mechanism which evaluates exposures on the basis of industry concentration, rating quality, internally established pre-specified early warning indicators apart from regulator imposed quantitative ceiling on single borrower and aggregate exposure. Based on the feedback from the credit portfolio management, the credit origination criteria is amended prudently to insulate portfolios from further deterioration. The portfolio management team also undertake, apart from regular portfolio reviews, stress tests and scenario analysis in consultation with the Market Risk Management Unit with regard to liquidity concerns when the external environment, both local and global, undergo swift changes.

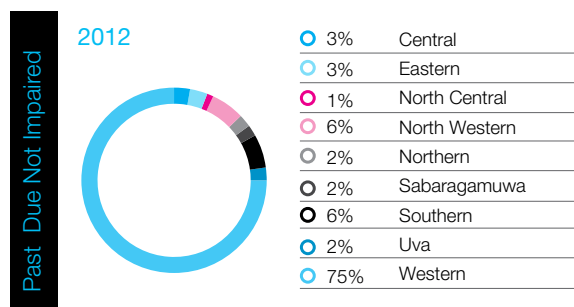
Credit portfolio management envisages mitigating credit risks to a great extent by stipulating prudential risk limits on various risk parameters. As such, the Bank has established single borrower limit, limits for related party borrowings and aggregate limit for large exposures as prescribed by the regulators. Moreover the Bank has also established maximum exposure limits to different industry segments. Such limits are clearly spelt out in the credit policy and the authority for permitting any deviations on an exceptional basis is also clearly documented. The Bank adopts a similar mechanism to assess the risks associated with off balance sheet exposures. As part of the credit portfolio management and monitoring procedures, the exposures in off balance sheet products such as FX Forwards and Letter of Credits are treated with utmost care.

Risk Management

Geographic Distribution of Exposure

Province	Overall
Western	83.1%
Central	2.8%
Eastern	2.1%
North Central	0.8%
North Western	4.6%
Northern	1.2%
Sabaragamuwa	0.8%
Southern	3.5%
Uva	1.1%

Although majority of the lending is concentrated in the Western province, some portion of the corporate lending is utilized for their island wide operations.



Credit Risk Mitigation

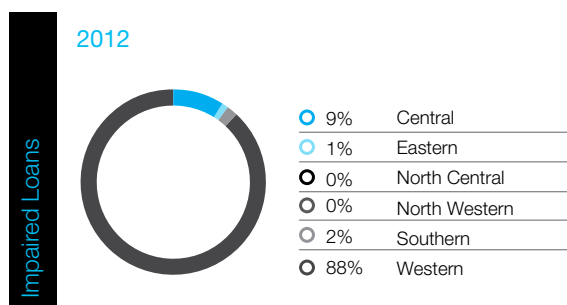
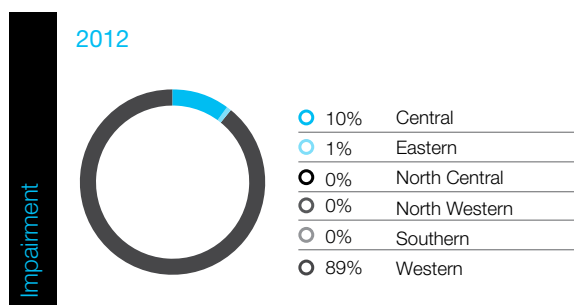
The Bank uses and accept various types of collateral as a credit risk mitigant. However the Bank is more conservative and assigns a fair value only to following types of collateral.

1. Cash and Cash equivalent
2. Bank Guarantee
3. Immovable Property
4. Quoted Shares in CSE

As stipulates in its policies the Bank considers 90% of the face value of cash held as the fair value of cash collateral. In case of guarantees issued by other Banks fair value is decided based on the current external credit rating provided to the bank issuing the guarantee by a reputed rating agency. In case of immovable property, assessment of a fair value will be based on the professional valuation report subject to an independent internal verification from Special Asset Management Unit. Amount considered as a mitigant varies between 50% – 70% based on the type of the immovable property. Shares quoted in the CSE are accepted as a mitigant and such shares are categorized in to two categories; shares that are classified in to Milanka Index (now known as S&P SL 20 Index) considered up to 50% whilst any other shares acceptable to the Bank considered up to 40%.

Maturity of Loans Exposure by Type

	15 Days	16 Days - 1 Months	2 Months	3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
Corporate	8,269	1,305	2,511	2,013	2,735	919	2,246	19,998
Retail, SME & Consumer	19,599	237	391	376	3,363	7,847	1,671	33,484
Housing Loans	559	3	7	6	54	293	486	1,408
Leasing	669	535	533	556	4,699	12,367	2	19,362
Staff Loans	49	16	16	17	148	690	925	1,862



The Credit Operation Department monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Credit Review

The Bank has a robust credit review mechanism which engages discriminatory time schedules for review of different borrower exposures. Lower rated borrowers or borrowers typically categorized in to watch list, whose financials and other contributory parameters show signs of weaknesses are subject to review at least twice a year. In addition to that all clean exposures above a pre - defined threshold are subject to an interim review six months after the regular annual review irrespective of the rating of the borrower. Credit impairment assessment and provisioning methodology is explained in Note 42.2 to the Financial Statements.

MARKET RISK MANAGEMENT

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

The BOD clearly articulate market risk management policies, procedures, prudential risk limits, review mechanisms and reporting systems in the market risk management policies. The policies address the assessment of bank's exposure on a consolidated basis, considering exposures related to interest rate, currency and liquidity risks. The risk measurement systems capture all material sources of market risk and assess the effects on bank's capital.

Structure

The Asset and Liability Management Committee (ALCO), consisting of the relevant Corporate Management, including the CEO function as the top-end operational unit for managing the balance sheet within the performance/risk parameters laid down by the BOD. The ALCO also articulates the Bank's view on various market variables and base its decisions for future

business strategy. The Middle Office (TMO) independent from Treasury Department, track the magnitude of market risk on a daily basis. IRMD is responsible for the implementation of market risk management policies and measurement techniques. Treasury Middle Office (TMO) is responsible for market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by the Board, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Key currency trading positions as at 31.12.2012 is as follows

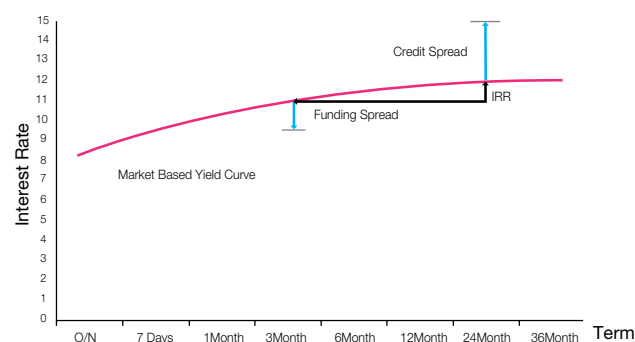
Currency Exposures	
Currency	Rs. 000
USD	18,390
GBP	5,407
EUR	-3,318
AUD	-3,667
JPY	-714
Other	2,126

Further details on management of Interest Rate Risk exposure and Foreign Exchange Risk exposures are explained in the Note 42 to the Financial Statements.

The Currency risk exposure is also monitored with the preparation of Maturity gap analysis of Assets and Liabilities and Interest Rate Sensitivity of Assets and Liabilities for currencies having major exposures as explained under Liquidity Risk Management and Interest Rate Risk Management.

Fund Transfer Pricing

The Bank manages each business on a Fund Transfer Pricing (FTP) model which accounts for the interest



Unmatched Funding Gap

Risk Management

rate risk of each business and products and manage it centrally at Treasury under the oversight of ALCO.

It is a dynamic tool which is used to guide the deposit mobilising and the lending units to derive customer/product profitability based on maturities and tenors of portfolios.

The objectives of the transfer pricing mechanism are:

- Decompose Net Interest Margin (NIM) in to credit spread, funding spread and interest rate risk spread. FTP allows to understand these three elements hence the ability drive and control the overall NIM
- Allocate interest margins to assets and liabilities, in order to reflect cost of funding.
- Determine profitability of products and customers in order to boost changes in assets and liabilities structure that lead to increased total profits. Transfer prices set a minimum required level of profitability for products, indicating which of them bring more gains to the bank.
- Evaluate business decisions in organization based on the contribution of branches and business lines to overall profits. To fulfill this goal, it is necessary that decision makers are held responsible for the results that they are able to control.

Implementation of a new Treasury Solution

The Treasury portfolio of the Bank was earlier managed with a combination of spreadsheets and work around solutions from the core banking system. With the expansion of the Treasury Business and the Central Bank's directives, a decision was made to implement a new Treasury System that could cater to the Fixed Income Securities, Foreign Exchange and Money Market portfolios across the front, middle and back offices to manage the business, service the client, process efficiently and monitor risk matrixes on a real time basis. Further, with this implementation, several new features were also adapted as best practices in all the areas of the process, streamlining the management of the Treasury Operations.

With growing volumes as well as expectations on the business, the system implementation has effectively

resulted in time management, eradicated the risk element in manual work and has paved the way to a well integrated business unit with room to grow in both the product aspect as well as on the analytical aspect.

The IRMD initiated developments of the Value at Risk (VaR) model for market risk monitoring. Assessment of business requirements together with sharing of industry expertise is currently in progress.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due.

Liquidity risk management policy at the Bank addresses the risk management structure, liquidity management and funding strategy, limits set for liquidity risk exposures and procedures set for liquidity management under alternative scenarios, including stress situations.

Key objective of the policy is to ensure that;

- The Bank shall fulfill its contractual financial obligations on a timely basis.
- The Bank shall at any time and under any market condition ensure an adequate liquidity profile and compliance with regulatory requirements.
- The Bank shall fund itself at any time and under any market condition at fair market price.
- The returns are optimised within the appropriate risk profile

Structure

The ALCO is responsible for implementation of liquidity management policies, procedures and practices approved by the BOD. ALCO meets every month or more frequent if required and review the liquidity position of the Bank through the ALCO reports submitted by Finance Department and Treasury Middle Office (TMO). ALCO also review the cash flow projections, pricing of products, changes to Asset / Liability profile if warranted by stress testing results, and the funding capabilities.

Implementation and execution of ALCO decisions and managing the overall liquidity position of the Group according to approved parameters on a day to day basis is the responsibility of the Treasury Department. Treasury monitors the market developments and keeps the ALCO informed with recommendations on a timely basis.

Stock Approach

The Treasury maintains a stock of liquid assets on a daily basis, largely made up of cash, government securities and balances with financial institutions to ensure that sufficient liquidity is maintained within the Bank as a whole.

Liquidity Risk Measurement

Liquidity risk is primarily measured and managed through stock and flow approach.

Bank monitors the following ratios under the stock approach

		Mar-12	Jun-12	Sep-12	Dec-12
1	Net loans to total assets	61.4%	60.1%	58.6%	60.4%
2	Loans to customer deposits				
	(i) Loans : Deposit Ratio(%)	88.9%	86.6%	85.6%	87.3%
	(ii) Loans : Deposit Ratio - with Specified Borrowings (%)	82.8%	81.7%	80.7%	81.2%
3	Liquid assets to short-term liabilities - 30 days	152.4%	143.3%	128.4%	182.0%
	- 60 days	140.4%	123.6%	112.3%	135.1%
4	Large liabilities (minus) temporary investments to earning assets (minus) temporary investments, where large liabilities represent wholesale deposits which are market sensitive and temporary investments which are those maturing within one year and those investments which are held in the trading book and are readily sold in the market.	2.8%	-3.3%	-3.7%	-1.4%
5	Purchased funds to total assets, where purchased funds include the entire inter-bank and other money market borrowings, including certificates of deposits and institutional deposits.	31.7%	34.3%	34.7%	30.6%
6	Commitments to total loans, where the commitment in the nature of Letter of Credits (LCs), guarantees and acceptances	18.1%	15.3%	14.6%	12.1%

Flow approach

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 based on the behavioural maturity profile of assets and liabilities.

Some of the assets and liability items like overdrafts, savings and current accounts lack any definite contractual maturity. Similarly, a part of time deposits are rolled over on maturity while some loans are topped-

up at frequent intervals. The Bank benchmarks the guideline issued by CBSL under its Directive No.5 labeled Integrated Risk Management Framework, for this purpose.

The Bank closely monitors the mismatches in the first 12 month time bands while internal limits have been placed for earlier buckets. Forecasting possible future events is an essential part of liquidity planning based on inputs from the business units.

Bank Consolidated	15 Days	16 Days - 1	2	3	4 to 12	1 to 5	Over 5	Total
	Months	Months	Months	Months	Months	Years	Years	
Liabilities								
Long Term Borrowings	-	-	-	-	1,741	2,060	1,863	5,664
Short Term Borrowings	1,878	170	1,407	636	338	-	-	4,430
Repos	6,049	902	294	62	3,484	2	0	10,792
Deposits	6,119	9,277	9,442	8,008	26,054	2,114	23,680	84,694
Other Payables & Provisions	1,998	-	-	-	-	-	-	1,998
Interest Payable & Others	3,606	-	-	1,080	-	-	1,224	5,911
Off B/S Items*	11,969	5,407	4,282	11,278	9,868	4	-	42,808
Assets								
Cash & cash equivalents	3,562	452	559	710	1,669	70	1,550	8,572
Investments	226	200	-	-	-	1,921	3	2,350
Reverse Repo	2,030	20	1	200	1,029	-	-	3,279
T Bill & bonds	20,253	-	692	2,423	2,423	4,699	-	30,491
Advances	5,637	2,641	3,936	5,306	13,915	24,507	16,677	72,619
Interest Receivable & others	1,504	365	-	61	272	-	3,092	5,294
Off B/S Items	8,816	5,281	4,156	6,186	8,858	-	-	33,297
Total Liabilities	31,619	15,756	15,426	21,064	41,484	4,180	35,884	165,413
Total Assets	42,029	8,959	9,345	14,886	28,166	31,196	21,321	155,902
GAP	10,410	(6,797)	(6,081)	(6,718)	(13,319)	27,016	(14,563)	(9,511)
Cumulative Gap	10,410	3,613	(2,568)	(8,746)	(22,065)	4,951	(9,611)	
Cumulative Liabilities	33,239	47,375	62,801	83,866	125,350	129,530	165,413	
Cumulative gap as a % cumulative liabilities	33%	8%	-4%	-10%	-18%	4%	-6%	

Diversified Funding base

The diversified liabilities and funding sources of the Bank 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 pursues a rewards and retention programmes for identified deposit products and customer segments. As a strategy, the Bank normally expects to derive liquidity from both sides of the financial position and maintain an active presence in interbank and other wholesale markets when necessary.

The Bank also monitors deposits by remaining period to contractual maturity, currency and concentration towards the large deposits in ALCO meetings.

Stress tests for alternative scenarios

The bank's liquidity risk management also involves stress tests for two pre-defined scenarios. The first scenario relates to an assumed liquidity stress situation specific to the Bank where a significant part of its liabilities cannot be rolled over or replaced while considerable portion of its commitments are drawn down. The second scenario assumes a general market crisis, wherein a liquidity crunch is affecting the entire banking system, or at least a significant part of it.

Contingency Plan

Temporary or longer term disruption in the access to funding could lead to a contingency situation and potentially would result in a liquidity stress. The cause for this could either be an event specific to the Bank or a market driven event. A contingency plan is put in place in order to fund cash outflows in such a scenario on a timely manner and at a lowest cost.

The Contingency plan articulates a normal scenario and two contingency levels with defined Liquidity Risk triggers for internal events and external events. Results of above liquidity stress tests are an integral part of these triggers. The Finance Department and Treasury Middle Office watch these parameters and report to ALCO.

The action plan for each contingency level is entrusted to a Crisis Management Team which includes the key members of the Corporate and Senior Management headed by the CEO.

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk arises from the inadequate or lack of control over critical activities or the failure of systems and procedures of the Bank. These risks are likely to occur in all activities of our business and may lead to both financial and reputational losses.

The Bank has recognized Operational Risk as a distinct and a controllable risk and taken steps to manage it in a structured manner. A separate Operational Risk Management Unit was established and a project was floated with the assistance of IFC in order to bring in the techniques and methodologies associated in managing Operational Risk and improving knowledge levels. Resulting from that a comprehensive Operational Risk Management Policy has been formulated and approval has been obtained from Board of Directors.

Structure

The Operational Risk Management Unit directly reports to Chief Risk Officer and mandated to develop, maintain and improve Operational Risk Management methodologies and tools from time to time. It is also entrusted to develop policies and procedures relevant to Operational Risk.

Management of operational risks

Over the period Operational Risk Management tools have evolved within the Bank and now the usage of techniques such as Risk and control self assessment (RCSA) and key risk indicators (KRI) have become part and parcel of normal course of business. The Bank has a robust process to capture operational loss events which are centrally fed in to an operational loss data base to be used for modeling when the Bank moves towards the Advanced Approach under BASEL Guidelines. In addition to above Operational Risk Management Unit oversee the appropriateness and implementation of Business Continuity Plan (BCP) across the Bank. It closely co-ordinate with all relevant units with special emphasis on Mission Critical Business/Support Units (MCUs) in order to carry out a Business Impact Analysis (BIA) with Recovery Time Objectives (RTO) and assessing their disaster recovery plans.

The unit also co-ordinates with MIS in mapping revenue lines to estimate capital requirements under the Standardized Approach (TSA). Operational Risk Management Unit oversees the internal control systems of the Bank which include assessment of operating procedures to mitigate Operational Risks. The Operational Risk Management Unit works closely with other business/support units in confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with relevant accounting principles and regulatory requirements. Further in line with the CBSL Customer Charter directive, OpRisk unit has established a management information system regarding complaints and process of resolution as part of it's functions.

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

Risk Management

Policy Name	Coverage
Bankers' Indemnity	<ul style="list-style-type: none"> • Cash and pawning articles • Actions related to employees
Electronic and Property- All Risk Policy	Losses incurred on computer and electronic equipment, buildings, furniture and fixtures from fire, lighting, explosion, aircraft damage, impact damage, natural disasters, riot & strikes, terrorism and accidental damages.
Business Interruption	Additional expenditure that may have to be incurred due to interruption or interference of business operation.
Public Liability	Third party and related properties
Electronic and Computer Crime Policy	Electronic and computer systems
Group Personal Accident Insurance	For Bank employees covering accidental death, permanent total and partial disablement and temporary total and partial disablement
Group Surgical & Hospitalization Cover	Hospitalization for all the employees of the Bank their close family members (i.e. spouses and children under the age 18).
Goods in Transit	Movable properties

Bank has also established policies for managing risks associated with outsourcing activities. The details of activities that have been outsourced together with parties and the basis for payment for such services are detailed below.

Activity/Function/Process	Name of the Service Provider
Investigations & Debt Collection	Central Recoveries
	3Fa Management
	K & D Management
	Sena Holdings
	S.T.B. Recoveries
	Sir Security Services (Pvt) Ltd
	Central Management Services (PVT) Ltd
	Total Credit Management Services (Pvt) Ltd
	Tecshan Security Services
Network Managed Services	Millennium Information Technologies
Providing Data Entry / Clerical staff to the Bank	Ranvil BPO Pvt Ltd
	Direct Mailing Services (Private) Limited
Providing Night Tracers to the Bank	Management & Link Placement Services (Pvt) Ltd
Outbound Calling for merchant helpdesk	Ranvil BPO PVT LTD
Calling customers based on fraud guard case generations	Management Link and Placement Services
Scanning of Card applications and related Documents	Transnational BPM Lanka (Pvt) Limited
Canvassing of cards	J.M Management Task Management

Note: Apart from the service providers listed above, bank also has entered into a few outsourced contracts with individuals which are not indicated above.

During the year Bank also invested information technology and risk mitigation tools to contain the severity of operational risk events.

Implementation of ezyNsure (Insurance Broker Solution)

The system was implemented in the 1st quarter of 2012 to streamline the operations of Nations Insurance Brokers. The scope of the system covered underwriting, claims, billing, payments, renewal processing and Insurance Broker related finance operations. It also includes maintenance of master information and regulatory and operational reports for convenient reporting.

Development of EQAD (Margin Trading System)

Margin Trading is an active business line that provides margin facilities to customers in order to engage in stock market activities. With the growing business in Margin Trading & the requirement for efficient processes to handle large volumes, an in house system was developed to handle the overall operations. An initial requirement gathering was done & the system was developed including the best practices in the market.

During the reporting period there had been no material financial losses incurred by the Bank arising from system or human failures.

CAPITAL MANAGEMENT

NTB has established a capital maintenance strategy which forms an integral part of its strategic planning exercise. The capital augmentation plan of the Bank for the medium term is formulated with following key objectives in mind:

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

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

Rs. Mn	2012	2011
Tier I Capital	10,086	8,522
Tier II Capital	3,179	2,556
Total Capital	13,265	11,078
Risk - Weighted Amount for Credit Risk	62,176	54,966
Risk - Weighted Amount for Market Risk	1,772	568
Risk - Weighted Amount for Operational Risk	9,030	7,978
Total Risk - Weighted Amount	72,978	63,512
Risk - Adjusted Capital Ratio against Tier I Capital* (Tier I Capital/Total Risk Weighted Amount)	13.82%	13.42%
Risk - Adjusted Capital Ratio against Total Capital** (Total Capital/Total Risk Weighted Amount)	18.18%	17.44%

*Statutory minimum 5%

**Statutory minimum 10%

Risk Management

The constituents of Group capital and the Capital ratios based on above approaches as at 31.12.2012 are given below.

Source			Utilisation					
	Rs.'000	%		Balance Rs.'000	Risk Weight %	Risk Weighted Value Rs.'000	Capital Charge (10%) Rs.'000	%
Tier - I			RWA for Credit Risk					
Stated Capital	5,101,369	6.99	Due from CBSL	5,089,342	-	-	-	-
Profit & Loss A/C	1,951,116	2.67	Govt. Securities	11,004,703	-	-	-	-
Equity Reserves	3,033,274	4.16	Cash in Hand	1,836,576	-	-	-	-
			Cash in collection	1,179,892	20	235,978	23,598	0.03
Total Tier I	10,085,759	13.82		476,740	20	95,348	9,535	0.01
			Advances (Direct and indirect)	3,030,053	50	1,515,026	151,503	0.21
				31,828,159	75	23,871,119	2,387,112	3.27
				31,268,491	100	31,268,491	3,126,849	4.28
Tier - II				850,223	150	1,275,335	127,534	0.17
Revaluation Reserves			Placements with Banks	1,610,529	20	322,106	32,211	0.04
Subordinated Term Debt	3,178,824	4.36		9,585	50	4,793	479	0.00
Total Tier II	3,178,824	4.36	Fixed Assets	2,297,379	100	2,297,379	229,738	0.31
			Other Assets	1,290,738	100	1,290,738	129,074	0.18
				91,772,410		62,176,314	6,217,631	8.52
			RWA for Market Risk	177,176		1,771,757	177,176	0.24
			RWA for Operational Risk	903,015		9,030,148	903,015	1.24
			Required Regulatory Capital			72,978,218	7,297,822	10.00
			Additional Capital Buffer				5,966,761	8.18
Total Regulatory Capital	13,264,583	18.18	Total Regulatory Capital				13,264,583	18.18

The Bank is currently in the process of calibrating advanced models and techniques as explained under risk management sections for credit, market and operations risks in order to assess the capital requirement under advanced approaches of Basel 2.

In arriving at the optimal capital structure both Tier 1 and Tier 2 capital levels have been evaluated considering internal profit generation and retention whilst maximizing leeway available to raise Tier 2 capital.

During the year under review the bank increased Tier 2 capital by the issue of 1.7Bn worth of subordinated debt despite the healthy profit after tax in excess of 1.9Bn which had contributed to Tier 1 capital. The bank keeps both options open to improve the capital adequacy by altering either the total capital base or the total risk weighted assets.

What's
next?

What's
our standard?

We shall guarantee the highest standards of governance
and regulation.

Corporate Governance

GOVERNANCE REPORT

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. The Board of Directors has also ensured that the financial reporting system of the Bank is designed to provide 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 policies. Board is assisted in this effort by 6 Board Sub Committees. Responsibilities, functions and activities during the financial year of these committees are presented separately.

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. In compliance with Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, The 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 (CEO) 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 70 to 72 Chairman of the Bank is a Non Executive Director. The Bank currently has five 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 CEO and the Executive Director based on the recommendation of the Human Resources and Remuneration Committee. Performance of the CEO and 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 ensures that the Directors are persons of repute who would be able to contribute significantly towards the benefit of the Bank to achieve its strategies, objectives and goals. Nomination Committee also assist 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.

Further, the Bank considers social and environmental responsibilities as an integral part of its governance strategy and is prominently placed in the Bank's corporate priorities.

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 throughout the Bank.	<p>Complied</p> <p>The Strategic Plan covering the period 2013 has been approved by the Board Such approved Strategic Plan includes strategic objectives and corporate values.</p> <p>Vision, mission and corporate values and strategic objectives have been communicated to the staff via Intranet and regular training.</p>
3 (1) (i) (b)	Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	<p>Complied</p> <p>Refer comments on 3 (1) (i) (a)</p> <p>Board has reviewed and approved the revised Risk Policy in November, 2012.</p> <p>Risk management procedures and mechanisms with measurable goals have been addressed in the Risk Policy.</p> <p>5 year Strategic Plan for the period commencing January 2013 was approved by the board at the meeting held on 19 December 2012.</p>
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	<p>Complied</p> <p>The implementation of the Risk Policy is being monitored by the IRMC and the Board through a well structured Risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of Integrated Risk Management Committee.</p>
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers.	<p>A Board approved communication policy is in place. The Policy was reviewed and revised in May, 2012. The policy addresses the requirements of the Rule.</p> <p>Board approved communication policy has been communicated to the staff via intranet of the Bank. Further, Communication Policy will be further strengthened to cover all stakeholders.</p>

Rule Number	Rule	Status of Compliance
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	<p>Complied</p> <p>Such review is being carried out routinely by the Board. Internal controls are being looked at by individual departments at predetermined intervals being either monthly or quarterly. Implementation of internal controls is also looked into by the Internal Audit Department. Board monitors these through the Integrated Risk Management Committee and the Board Audit Review Committee (BARC).</p>
3 (1) (i) (f)	<p>Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to</p> <p>(i) significantly influence policy;</p> <p>(ii) direct activities; and</p> <p>(iii) exercise control over business activities, operations and risk management</p>	<p>Complied</p> <p>The Board has identified KMP, as defined in the Sri Lanka Accounting Standards, who direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMP are recommended by the Nomination Committee and approved by the Board.</p>
3 (1) (i) (g)	Define the areas of authority and key responsibilities for the board directors themselves and for Key Management Personnel.	<p>Complied</p> <p>Matters reserved for the Board are specifically identified and approved by the Board.</p> <p>Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions.</p>

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 KMP 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.</p> <p>KMP also communicate to the Board via the monthly management report submitted to the Board of Directors.</p> <p>KMP responsible for internal controls and compliance attend every IRMC meeting.</p> <p>Board has delegated the function of overseeing Internal Audit Department (IAD) to a board sub-committee namely, BARC.</p> <p>Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the BSC, IRMC, BARC, Assets Liabilities Management Committee (ALCO) and Investment Committee 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 interests 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 the Board meetings.</p> <p>(ii) Approved Board procedure includes provisions to manage conflicts of interests of Directors.</p> <p>(iii) The Board appraises its performance by using the Board evaluation form which is filled by each Director in relation to business strategy and contributions of Board members based on their field of expertise. The responses are collated by the Senior Director and synopsis of the same was submitted to the Board.</p>

Rule Number	Rule	Status of Compliance
3 (1) (i) (j)	Ensure that the bank has an appropriate succession plan for Key Management Personnel.	Complied The new structure has been designed to develop key talent to succeed KMP. The Plan however will be continuously improved as a dynamic document. Human Resources Department is vested with the responsibility of revising and keeping the process up to date.
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 3 (1) (i) (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 communications with the Registrar of Companies. This is included in the JD of the Company Secretary. Maintaining an effective relationship with the regulators is carried out through diligent compliance with applicable rules and regulations. This is included in the JD of Compliance Officer. Compliance with statutory regulations is monitored regularly by the Board. A dedicated Compliance Officer at a senior level has been employed by the Bank who submits a monthly compliance report to the Board through the CEO. A monthly report is submitted to the IRMC by the Compliance Officer capturing interactions with the Regulators and actions to be taken on new regulations.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of external auditors.	Complied Board has delegated this function to the BARC. 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.

Rule Number	Rule	Status of Compliance
	Board procedure	
3 (1)(iii)	<p>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.</p> <p>Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.</p>	<p>Complied</p> <p>Board has met 13 times during the year, at approximately monthly intervals. All directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted.</p> <p>Complied</p> <p>Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary.</p>
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.	<p>Complied</p> <p>Approved Board procedure includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board Meetings.</p>
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.	<p>Complied</p> <p>In terms of Clause 1.2 of the Board Procedure, the schedule of dates of meetings for the entire year of 2012 is approved by the Board at the last Board meeting of the previous year and such approved schedule is notified to every Director thereby giving more than 7 days notice. Clause 2.3 provides that any change of the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting.</p>
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.	<p>Complied</p> <p>Clause 6 of the approved Board procedure contains a similar provision.</p> <p>No director has violated this requirement during the financial year 2012.</p>
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 secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p>Complied</p> <p>The Company Secretary who is an Attorney-at-Law satisfies the provisions contained in Section 43 of the Banking Act.</p> <p>JD of the Company Secretary includes the responsibilities to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.</p>

Rule Number	Rule	Status of Compliance
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 All Directors have access to the advice and services of the Company Secretary. Clause 8.3 of the Board Procedure provides for same.
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 Board minutes are maintained by the Company Secretary. Clause 9.1 of the Board Procedure also provides for same.
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 it's 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. Therefore 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 prudence. d) The testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies 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. 	<p>Complied</p> <p>Minutes of board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>Every paper submitted to the Board seeking approval of the Board, contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.</p> <p>Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute.</p> <p>Clause 9.4 of the Board Procedure also provides for the contents of the Board minutes.</p>

Rule Number	Rule	Status of Compliance
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>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p>
3(1) (xii)	<p>Directors shall avoid conflicts of interests, or the appearance of conflicts of interests, 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>Further, a 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</p> <p>Clause 10 of the Board procedure specifically addresses avoidance of conflicts of interest.</p> <p>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)	<p>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.</p>	<p>Complied</p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p>
3 (1) (xiv)	<p>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.</p>	<p>Complied</p> <p>Such a situation has not arisen. Board is furnished with sufficient information on a regular basis to enable the Board to act in the required manner if such a situation arises. Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control.</p> <p>IRMC discusses in detail the key risk goals at each IRMC meeting and the minutes of the IRMC and a Risk Assessment report are submitted to the Board accordingly</p>

Rule Number	Rule	Status of Compliance
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.	Complied The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy. Capital Adequacy Ratios are submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.
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 Report is published in page 144 of the Annual Report of 2012.
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 Self Assessment for the year 2011 were collated by the Senior Director and synopsis of same was submitted to the Board in March, 2012. The Board appraises its performance by using the Board evaluation form which is filled by each Director in relation to business strategy and contributions of Board members based on their field of expertise. The responses are collated by the Senior Director and synopsis of the same was submitted to the Board.
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	Complied The Board consists of 12 directors.
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 in office shall be inclusive of the total period of service served by such director up to 1 January 2008.	Complied Mr. Ronnie Peiris resigned from the Board on 31 October, 2012 in compliance with the Rule.

Rule Number	Rule	Status of Compliance
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 January 2008 or who completes such term at any time prior to 31 December 2008, may continue for a further maximum period of 3 years commencing 1 January 2009.	Not applicable for the current year 2012.
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 The Board consists of twelve directors. Two of them are executive directors. CEO is one of the executive directors.

Rule Number	Rule	Status of Compliance
3(2)(iv)	<p>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 be applicable from January 1, 2010 onwards.</p> <p>A non executive director shall not be considered independent if he/she;</p> <ul style="list-style-type: none"> a) has direct and indirect shareholding of more than 1% of the bank; b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the bank; c) has been employed by the bank during the two year period immediately preceding the appointment as director; d) has a close relation who is a director or Chief Executive Officer or a member of key management Personnel or a material shareholder of the bank or another bank. For this purpose close a 'close relation' shall mean the spouse or a financially dependent child; e) represents a specific stakeholder of the bank; f) is an employee or a director or a material shareholder in a company or business organization; <ul style="list-style-type: none"> 1. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10% of the regulatory capital of the bank, or 11. in which any of the other directors of the bank are employed or are directors or are material shareholders; or 111. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital of the bank. 	<p>Complied</p> <p>The Bank has five Independent Non Executive Directors out of a total of twelve Directors, which represents more than one third of the total number of Directors.</p>

Rule Number	Rule	Status of Compliance
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 applies to the independent director.	Not Applicable 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 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.
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 January 1, 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 Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive Directors are disclosed in page 70 to 72 of the Annual Report
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 A Board composition and succession plan is in place. All appointments are considered and approved by the Nomination Committee and by the full Board thereafter in addition to obtaining approval from the Central Bank of Sri Lanka. The Board composition and succession plan will be reviewed and further strengthened.
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 Notice and agenda of the AGM for 2012 included in the Annual Report includes a proposal to seek shareholders' approval for directors appointed to fill casual vacancies.

Rule Number	Rule	Status of Compliance
3(2)(xi)	<p>If a director resigns or if removed from office, the board shall :</p> <p>(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</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p>Complied</p> <p>There have been no removals during the year.</p> <p>Two directors resigned from the Board during the year.</p> <p>Necessary formalities as required by the Rule have been complied as evidenced by the Board minutes dated 30th August and 31 October, 2012 and the letters to the CSE on 17th September 2012 and 1 November by DGM-Legal & Compliance /Company Secretary.</p>
3(2)(xii)	<p>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.</p>	<p>Complied</p> <p>Based on the quarterly declarations submitted by individual directors in the year 2012, no director is a Director of another Bank.</p> <p>Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution.</p>
3(3)	<p>Criteria to assess the fitness and propriety of directors.</p> <p>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.</p>	<p>Complied</p>
<p>3(3) (i) (A)</p> <p>[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]</p>	<p>A director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.</p>	<p>Not Applicable for the year 2012</p> <p>No director has reached the age of 70 at or prior to the dates specified in the rule.</p>

Rule Number	Rule	Status of Compliance
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 and not more than 10 companies that are classified as Specific Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
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 posts in excess of the limitation as above, such person shall within a maximum period of three years from 1 January, 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.	Not applicable for the current year.
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 Clause 7 of the 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 based on the recommendations made by the management.
3 (5)	The Chairman and the Chief Executive Officer	
3 (5) (i)	The roles of the Chairman and the Chief Executive Officer shall be separate 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.

Rule Number	Rule	Status of Compliance
3 (5) (ii)	<p>The Chairman shall be a Non Executive Director and preferably an independent director as well.</p> <p>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.</p> <p>The designation of Senior Director shall be disclosed in the bank's Annual Report.</p>	<p>Complied</p> <p>Mr. Ronnie Peiris, a Non Executive Director functioned as the Chairman from 1 January 2012 to 31 October 2012. From 1 November 2012 Mr. Arjuna Gunaratne, a Non Executive Director was appointed as the Chairman.</p> <p>An Independent Non Executive Director Mr. Maithri Wickremesinghe functions as the Senior Director (SD). TOR of the SD is approved by the Board.</p> <p>The designation of the Senior Director has been disclosed in the Annual Report 2012.</p>
3 (5) (iii)	<p>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.</p>	<p>Complied</p> <p>Directors interests in contracts with the Bank have been disclosed under "Directors' Interests in Contracts with the Bank" in the Annual Report, 2012.</p> <p>The identity of the Chairman and the Chief Executive Officer and the absence of a relationship between the two persons are disclosed in the Annual Report 2012. A process will be developed to identify and disclose any relationship including financial, business, family or other material / relevant relationship(s), if any, between the Chairman and the CEO and the Board members.</p>
3 (5) (iv)	<p>The Chairman shall;</p> <p>a) provide leadership to the board</p> <p>b) ensure that the board works effectively and discharges its responsibilities; and</p> <p>c) ensure all key and appropriate issues are discussed by the board in a timely manner.</p>	<p>Complied</p> <p>These are considered as the three key responsibilities of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board.</p> <p>The requirement is further covered by the self evaluation process of the Board.</p>
3 (5) (v)	<p>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.</p>	<p>Complied</p> <p>According to Clause 3 of the approved Board Procedure, drawing up of the agenda has been delegated to the Company Secretary with strict adherence to the guidelines given in the said Procedure.</p>

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.	<p>Complied</p> <p>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.</p> <p>Provision contained in Clause 2.2 of the approved Board Procedure strengthens this requirement.</p>
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.	<p>Complied</p> <p>There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes.</p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each Director in relation to business strategy and contributions of Board members based on their field of expertise. The responses are collated by the Senior Director and synopsis of the same was submitted to the Board.</p>
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	<p>Complied</p> <p>Refer comment under 3 (5) (vii).</p>
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	<p>Complied</p> <p>Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.</p>
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.	<p>Complied</p> <p>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.</p> <p>A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders.</p>
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.	<p>Complied</p> <p>The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.</p>

Rule Number	Rule	Status of Compliance
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 The Bank has established all four Board sub committees as required by the Rule.
	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 of 2012.
3 (6) (ii)	Audit 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 Mr. Maithri Wickremesinghe an Independent Non Executive Director and a fellow of the Chartered Institute of Management Accountants (UK) is the Chairman of the Audit Committee.
3 (6) (ii) (b)	All members of the committee shall be Non-Executive Directors	Complied The Committee consists only of Non Executive Directors.

Rule Number	Rule	Status of Compliance
3 (6) (ii) (c)	<p>The committee shall make recommendations on matters in connection with;</p> <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) 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 reengaged for the audit before the expiry of three years from the date of the completion of the previous item. 	<p>Complied</p> <p>The matters referred to in the Rule are reviewed and appropriate recommendations made by the 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 is engaged in the Bank's audit from the current financial year.</p> <p>Refer the Report of the Board Audit Review Committee given on page 85.</p>
3 (6) (ii) (d)	<p>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.</p>	<p>Complied</p> <p>These are reviewed and monitored as detailed above. Further, the Board obtains a declaration from External Auditors on independence.</p>

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 status, 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>1. whenever the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>11. 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>111. whether the nature of the non-audit services, the related fee levels and the 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 on 31 October, 2011. 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. A quarterly statement is provided to the BARC by Head of Internal Audit Department (HIAD) to confirm compliance with the guidelines.</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>

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 adjustments 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>Regular discussions with the External Auditors, (independent of the management as well as with the CEO and the CFO present), discussions with the Head of 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 are held by BARC. Separate BARC meetings were held in 2012 to review / discuss and finalize the Quarterly / Annual Financial Statements.</p>
3 (6) (ii) (h)	<p>The committee shall discuss issues, problems and reservations arising from the interim and final 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> <p>(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;</p> <p>(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;</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff member of the internal audit department.</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p>	<p>This is handled in the following manner;</p> <p>(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.</p> <p>(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 units 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 every quarter. 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. Further all High and Medium risk findings are sent to the Chief Risk Officer for inclusion in the Risk Grid.</p> <p>(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. Performance appraisal of senior staff are reviewed by the HIA and presented to the BARC for their concurrence.</p> <p>(iv). All senior appointments to the audit team are approved by the BARC.</p>

Rule Number	Rule	Status of Compliance
	<p>(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.</p> <p>(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>	<p>(v) A process is in place to ensure that resignations of senior staff members of the internal audit department including the Head of Internal Audit 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 and when required, the scope of the assignment is designed / agreed upon by BARC and the same is then open for tender.</p> <p>(vi) Regular discussions are held with the HIAD independent of the management.</p>
3 (6) (ii) (k)	The committee shall consider the major findings of internal investigations and management's responses thereto	<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. Where required, the Corporate Head of the Unit audited is required to attend the BARC to provide clarifications.</p>
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 met External Auditors 11 times during the year 2012. The CEO attends 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> <p>(i) explicit authority to investigate into any matter within its terms of reference</p> <p>(ii) the resources which it needs to do so</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience and attend, if necessary</p>	<p>Complied</p> <p>This has been covered in detail in the terms of reference of the BARC.</p>
3 (6) (ii) (n)	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>Complied</p> <p>The committee has met 14 times during the year, 2012.</p>

Rule Number	Rule	Status of Compliance
3 (6) (ii) (o)	The Board shall disclose in an informative way, (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 meetings	Complied Please refer the Board Audit Review Committee Report on page 85 of the Annual Report.
3 (6) (ii) (p)	The secretary of the Committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied Detailed minutes are maintained by the Head of Internal Audit who is the secretary to the BARC.
3 (6) (ii) (q)	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.	Complied The audit charter provides for the confidentiality of potential whistle blowers. The Whistle Blowing Policy was approved by the Board of Directors on 31 October, 2011. The CEO and the Head of Human Resources will be mandated to advise all staff of this policy. The Training Unit of the Bank will ensure that all new recruits to the Bank are made aware of this policy. 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.
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
3 (6) (iii) (a)	The Committee shall determine (Salaries. Allowances and other financial payments) the remuneration policy relating to directors, CEO and Key Management Personnel of the bank.	Complied Approved TOR of HRRC includes the provision stipulated. Accordingly, the committee determines the salaries, allowances and other financial payments relating to CEO and Key Management Personnel of the Bank. Further, the documentation of such policy will be implemented.
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 Score Card 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 Minutes of the meeting of the HRRC indicate that such an evaluation has been performed for the CEO and other KMP and a policy has been approved for performance based incentives.

Rule Number	Rule	Status of Compliance
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 Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to him/her were discussed.
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/appoint new directors, CEO and Key Management Personnel.	Complied Approved TOR of the Nomination Committee includes the provisions stipulated. However, the documentation of the process will be further improved.
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 the director concerned towards the overall discharge of the board's responsibilities.	Complied The committee has complied with these as evidenced by the Minutes.
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 KMP 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 Directors were submitted to the Committee during 2012 in order for the Committee to determine the suitability of the Directors. Having considered the Affidavits & Declarations the Committee decided that the Directors are fit and proper persons to hold office. CBSL confirmation also received in relation to the existing Directors and the Directors appointed during the year.
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. Board appointed a special Sub Committee to oversee succession arrangements in 2011 which sub committee submitted its recommendations to the Nomination Committee which in turn evaluated and made recommendations to the Board resulting in a new organizational structure for the Bank and smooth succession to the position of the CEO in September 2012.

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 present at the meetings by invitation.</p>	<p>Complied</p> <p>Chairman-Mr. M. E. Wickremesinghe is an Independent Non Executive Director and out of the four members, two including the Chairman are independent.</p> <p>Complied</p> <p>CEO was invited to attend when his/her presence was deemed required by the Committee.</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 Four 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>KMPs 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 namely Credit Committee, Investment Committee and ALCO are submitted to the Committee to review the adequacy and effectiveness of such committees and the requirements of the rule are met with as evidenced by the minutes.</p>

Rule Number	Rule	Status of Compliance
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.	Complied Risks are monitored through monthly submission of Key Risk Goals report. Where necessary corrective action has been taken as reflected in the minutes.
3 (6) (v) (e)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied The IRMC has held meetings monthly during the 1st quarter and once in two months thereafter.
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 Reports are submitted to the Board as required by the Rule.
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. The Bank has established a separate Compliance Division to assess the Bank's compliance. The Compliance Officer designated is the Company Secretary who carries out the compliance function and report to the committee periodically on Bank's compliance with laws, regulations and approved policies on all areas of business operations.

Rule Number	Rule	Status of Compliance
3 (7)	Related Party Transactions	
3 (7) (i)	<p>The Board shall take the 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 owning 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 was approved at the Board Meeting held on 25th January 2012.</p>
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, borrowings 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 proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. 	<p>The Board approved related party policy contains provisions for the same.</p>

Rule Number	Rule	Status of Compliance
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> <p>a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub- direction;</p> <p>1. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum amount of accommodation.</p> <p>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.</p> <p>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;</p> <p>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 unrelated parties;</p> <p>d) Providing services to or receiving services from a related- party without an evaluation procedure;</p> <p>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.</p>	<p>Complied</p> <p>Refer comment in 3 (7) (i) above</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p> <p>The Bank will take steps to identify, monitor and report the transactions to ensure that there is no favourable treatments offered to related parties.</p>

Rule Number	Rule	Status of Compliance
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 All accommodations to directors and/or their close relatives have been granted with the approval of the Board.
3(7) (v)	<p>(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 taken 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.</p> <p>(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 with 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.</p> <p>(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> <p>(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.</p>	Complied

Rule Number	Rule	Status of Compliance
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 Board approved Related Party Transactions policy contains provisions to ensure compliance.
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 there on 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
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 Included in page 178 of the Annual Report of 2012. Complied Included in page 99 and 100 of the Annual Report of 2012.

Rule Number	Rule	Status of Compliance
	<p>(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 December 31, 2008. This requirement was further amended by a CBSL letter dated 29 March 2012 (Ref. 02/17/550/002/003) under the subject "Disclosures in Annual Reports-Banking Act Directions on Corporate Governance".</p> <p>(d) Details of Directors, including names, fitness and proprietary and transactions with the Bank the total of fees/remuneration paid by the Bank.</p> <p>(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties.</p> <p>The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</p> <p>(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.</p> <p>(g) The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010. This requirement was further amended by a CBSL letter dated 29 March 2012 (Ref. 02/17/550/002/003) under the subject "Disclosures in Annual Reports-Banking Act Directions on Corporate Governance".</p>	<p>Complied</p> <p>Assurance Report issued by auditors under "Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control" has been obtained and included in page 101 of the Annual Report of 2012.</p> <p>Complied</p> <p>Included in pages 93 to 98 of the Annual Report of 2012.</p> <p>Complied</p> <p>Disclosed under Report of Board of Directors on the Affairs of the Bank included in page 96 and 97 the Annual Report of 2012.</p> <p>Complied</p> <p>Included in page 96 and 97 of the Annual Report of 2012.</p> <p>Complied</p> <p>All the findings of the "Factual Finding Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.</p>

Rule Number	Rule	Status of Compliance
	<p>(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify and material non-compliances.</p> <p>(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.</p>	<p>Complied Included in the Annual Report, 2012</p> <p>Complied No such matter has been specified by the Monetary Board of CBSL.</p>

*What's
been achieved.*

The numbers speak for themselves.

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 179 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 except for Mercantile Leasing (Financial Services) Limited which continued to scale down its operating leases business with no new business being sourced since the year 2009.

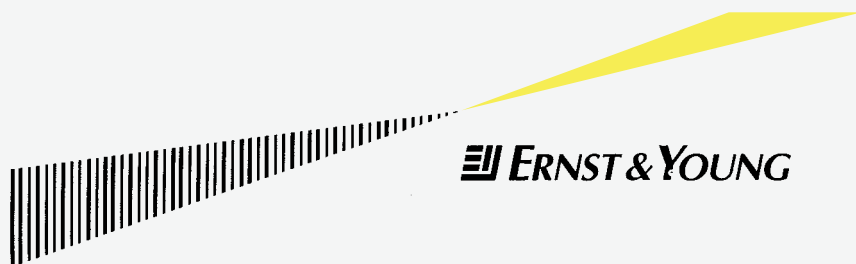
The Directors are responsible for ensuring that the Bank and its subsidiaries maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the entities and to be able to ensure that the Financial Statements of the Bank and its subsidiaries meet with 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.

Independent **Auditors' Report**



ERNST & YOUNG

Chartered Accountants

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P.O. Box 101
Colombo 10
Sri Lanka

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Fax Gen : +94 11 2697369
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eysl@lk.ey.com

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

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

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

Report on Other Legal and Regulatory Requirements

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

22 February 2013
Colombo

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

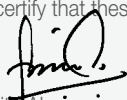
Statement of Financial Position

As at 31 December

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

Certification

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

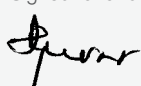


Ajith Akmeemana
Chief Financial Officer

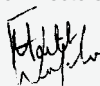
The Notes to the Financial Statements from pages 185 to 251 form an integral part of these Financial Statements.

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

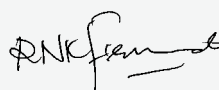
Signed for and on behalf of the Board of Directors by:



A.K. Gunaratne
Chairman



M.E. Wickremesinghe
Director



Renuka Fernando
Director/ CEO



Theja Silva
Company Secretary

Colombo
22 February 2013

Income Statement

For the Year Ended 31 December

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

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

Statement of **Comprehensive Income**

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

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

Statement of Changes in Equity

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

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

Cash Flow Statement

For the Year Ended 31 December

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

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

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

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

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

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

1.2 Principal Activities and Nature of Operations

Bank

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

Subsidiaries

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

For all periods up to and including year ended 31 December 2011, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards applicable as at 31 December 2011 ("SLAS"). These Financial Statements for the year ended 31 December 2012 are the first the Group has prepared in accordance with Sri Lanka Accounting Standards

effective 01 January 2012 comprising SLFRS and LKAS ("SLFRS"). (Refer Note 3 for explanation of the transition).

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

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

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

Statement of Compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards ("SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka.

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

Presentation of Financial Statements

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

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

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

Basis of Consolidation

The consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December each year. The Financial Statements of the Bank's

Notes to the Financial Statements

subsidiaries are prepared for the same reporting year.

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

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

2.2 Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

Taxation

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

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

Estimates and Assumptions

Going Concern

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

Fair Value of Financial Instruments

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

Impairment Losses on Loans and Advances

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

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

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

Employee Benefit Liability – Gratuity

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

2.3 Summary of Significant Accounting Policies

(1) Foreign Currency Translation

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

(i) Transactions and Balances

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

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

(2) Financial Instruments – Initial Recognition and Subsequent measurement

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

(i) Date of Recognition

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

(ii) Initial Measurement of Financial Instruments

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

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

• Derivatives Recorded at Fair Value Through Profit or Loss

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

• Financial Assets or Financial Liabilities Held for Trading

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

(iv) Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity.

After initial measurement, held to maturity financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement.

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

(v) Loans and Advances to Customers

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

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

(vi) Debt Issued and Other Borrowed Funds

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

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

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

(vii) 'Day 1' Profit or Loss

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

Notes to the Financial Statements

(3) Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

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

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

(ii) Financial Liabilities

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

(4) Repurchase and Reverse Repurchase Agreements

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

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

(5) Determination of Fair Value

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

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

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

(6) Impairment of Financial Assets

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

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

(i) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as, Loans and Advances to Customers as well as Held To Maturity Assets), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

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

(ii) **Rescheduled Loans**

Where possible, the Group seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated

before the modification of terms and the loan is no longer considered past due after receipt of payments continuously for a prescribed period. Management continuously reviews rescheduled loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(iii) **Collateral Valuation**

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

(iv) **Collateral Repossessed**

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

(7) **Offsetting Financial Instruments**

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

(8) **Leasing**

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

Group as a Lessee

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

Notes to the Financial Statements

Group as a Lessor

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

(9) Property, Plant and Equipment

Property, Plant and Equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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

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

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

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

(10) Business Combinations and Goodwill

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

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less

any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

(11) Other Intangible Assets

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

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

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

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

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

(12) Impairment of Non-Financial Assets

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

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

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

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

(13) Financial Guarantees

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

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

(14) Employee Benefit Liability

(i) Defined Benefit Plan - Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the projected unit credit actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2012, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

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

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

(15) Provisions

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

(16) Taxes

(i) Current Tax

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

Nations Trust Bank PLC

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

Subsidiary - Waddock Mackenzie Limited

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

Subsidiary - Allied Properties Limited

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

Subsidiary - Mercantile Leasing (Financial Services) Limited

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

Subsidiary - Nations Insurance Brokers Limited

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

Notes to the Financial Statements

(ii) Deferred Tax

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

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

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

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

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

(iii) Value Added Tax (VAT)

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

(iv) Economic Service Charge (ESC)

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

(17) Fiduciary Assets

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

(18) Dividends on Ordinary Shares

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

(19) Revenue Recognition

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

(i) Interest Income and Expense

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

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

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

(ii) **Fee and Commission Income**

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

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

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

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

Fee Income from Providing Transaction Services

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

(iii) **Dividend Income**

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

(iv) **Net Trading Income**

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

(v) **Rental Income**

Rental income is recognized on an accrual basis.

(vi) **Other Income**

Other income is recognized on an accrual basis.

(vii) **Other Expenses**

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

(20) **Cash Flow Statement**

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

(21) **Segment Reporting**

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

2.5 **Directors' Responsibility Statement**

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

2.6 **Standards Issued but not yet Effective**

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

(i) SLFRS 9 -Financial Instruments: Classification and Measurement
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

(ii) SLFRS 13 -Fair Value Measurement
SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

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

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

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

Notes to the Financial Statements

3 FIRST - TIME ADOPTION OF SLFRS

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

Notes	Bank			Group		
	SLAS*	Reclassifications	Remeasurements	SLAS*	Reclassifications	Remeasurements
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
						SLFRS as at** 01 January 2011
						Rs. '000
Assets						
Cash and Cash Equivalents	1,530,529	2,076	-	1,530,548	2,076	-
Balances with Central Bank of Sri Lanka	2,416,235	-	-	2,416,235	-	-
Reverse Repurchase Agreements	4,677,281	-	(15)	3,484,096	-	(15)
Derivative Financial Instruments	-	62,072	-	-	62,072	-
Financial Assets - Held for Trading	21,985,628	(6,789,837)	-	15,195,791	(7,358,909)	-
Financial Assets - Held to Maturity	-	7,674,123	(1,220)	7,672,903	8,243,195	(1,220)
Other Financial Assets	4,019,535	(879,125)	-	3,140,410	(879,125)	-
Loans and Advances to Customers	43,925,805	-	(688,168)	44,571,020	45,576	(678,454)
Investments in Subsidiaries	678,710	-	-	678,710	-	-
Other Assets	1,136,503	(17,056)	684,563	1,173,910	1,488	682,682
Property, Plant and Equipment	1,254,019	-	-	1,788,444	-	-
Other Intangible assets	679,057	-	-	758,318	(79,261)	-
Goodwill	-	372,053	(372,053)	-	79,261	(79,261)
Deferred Tax Assets	113,544	(113,544)	-	113,544	(113,544)	-
Total Assets	82,416,846	310,762	(376,893)	83,247,872	2,829	(76,268)

Liabilities						
Due to Banks	499,813	701,693	-	499,813	701,693	-
Repurchase Agreements	-	17,411,161	(20,250)	-	17,411,161	(20,250)
Derivative Financial Instruments	-	172,796	187,060	-	172,796	187,060
Due to Customers	48,353,755	792,518	(82,139)	48,314,555	792,518	(82,139)
Debt Issued and Other Borrowed Funds	21,596,959	(17,911,758)	(3,432)	21,980,160	(17,911,758)	(3,432)
Current Tax Liabilities	-	549,739	27,066	-	555,696	27,066
Other Liabilities	5,386,204	(1,488,830)	19,761	5,193,113	(1,423,464)	17,883
Employee Benefit Liability	175,066	(175,066)	-	182,270	(182,270)	-
Deferred Tax Liabilities	273,530	(113,543)	(146,750)	273,530	(113,543)	(146,750)
Total Liabilities	76,285,327	(61,291)	(18,684)	76,443,441	2,829	(20,562)

Equity Attributable to Equity Holders of the Parent

Stated Capital	4,367,631	-	-	4,367,631	-	-
Statutory Reserve Fund	-	155,696	-	-	155,696	-
Retained Earnings	1,608,192	372,053	(358,209)	2,281,104	-	(55,706)
Other Reserves	155,696	(155,696)	-	155,696	(155,696)	-
Total Equity	6,131,519	372,053	(358,209)	6,145,363	-	(55,706)
Total Liabilities and Equity	82,416,846	310,762	(376,893)	83,247,872	2,829	(76,268)

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

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

3 FIRST - TIME ADOPTION OF SLFRS (CONTD.)

3.2 Reconciliation of Equity as at 31 December 2011

	Notes	Bank			Group			SLFRS as at** 31 December 2011 Rs. '000
		SLAS*	Reclassifications	Remeasurements	SLAS*	Reclassifications	Remeasurements	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets								
Cash and Cash Equivalents		3,690,795	3,586	-	3,690,837	3,586	-	3,694,423
Balances with Central Bank of Sri Lanka		4,284,336	-	-	4,284,336	-	-	4,284,336
Reverse Repurchase Agreements	A	7,262,980	-	(31)	7,262,949	-	(31)	6,614,228
Derivative Financial Instruments	B	-	254,695	-	254,695	-	-	254,695
Financial Assets - Held for Trading		16,552,355	(10,281,652)	-	6,270,703	(10,901,512)	-	6,549,788
Financial Assets - Held to Maturity		-	11,197,758	-	11,197,758	11,817,619	-	11,817,619
Other Financial Assets		3,811,329	(913,197)	-	2,898,132	(913,197)	-	2,898,132
Loans and Advances to Customers	D	61,075,039	-	(836,684)	60,238,355	62,026,192	(833,678)	61,187,970
Investments in Subsidiaries		678,710	-	-	678,710	-	-	-
Other Assets	E	1,439,303	(31,608)	815,999	2,223,694	(32,668)	815,529	2,280,207
Property, Plant and Equipment	F	1,364,795	-	2,945	1,367,740	-	2,946	1,891,269
Other Intangible assets		599,568	-	-	599,568	(79,259)	-	599,941
Goodwill	G	-	372,053	(372,053)	-	79,261	(79,261)	-
Deferred Tax Assets		62,430	(62,430)	-	-	(62,430)	-	-
Total Assets		100,821,640	539,205	(389,824)	100,971,021	161,551	(94,495)	102,072,608
Liabilities								
Due to Banks		365,718	911,418	-	1,277,136	911,418	-	1,277,136
Repurchase Agreements	H	-	14,769,833	(9,814)	14,760,019	14,489,321	(9,813)	14,479,508
Derivative Financial Instruments	K	-	291,380	24,340	315,720	291,380	24,340	315,720
Due to Customers	I	66,497,627	1,297,634	(103,512)	67,691,749	1,297,634	(103,510)	67,633,066
Debt Issued and Other Borrowed Funds		20,273,161	(15,465,061)	-	4,808,100	(15,184,549)	-	5,408,963
Current Tax Liabilities		-	203,843	30,561	234,404	-	30,560	235,255
Other Liabilities	L	5,291,560	(1,556,499)	55,144	3,790,205	(1,555,082)	43,854	3,858,830
Employee Benefit Liability		222,966	(222,966)	-	-	(230,835)	-	-
Deferred Tax Liabilities		395,638	(62,430)	(97,497)	235,711	(62,430)	(97,496)	235,711
Total Liabilities		93,046,670	167,152	(100,778)	93,113,044	161,551	(112,065)	93,444,189
Equity Attributable to Equity Holders of the Parent								
Stated Capital		5,101,369	-	-	5,101,369	-	-	5,101,369
Statutory Reserve Fund		-	224,242	-	224,242	224,242	-	224,242
Retained Earnings	M	2,201,236	372,053	(289,046)	2,284,243	-	17,570	3,034,047
Other Reserves		472,365	(224,242)	-	248,123	(224,242)	-	268,761
Total Equity		7,774,970	372,053	(289,046)	7,857,977	-	17,570	8,628,419
Total Liabilities and Equity		100,821,640	539,205	(389,824)	100,971,021	161,551	(94,495)	102,072,608

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

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

3 FIRST - TIME ADOPTION OF SLFRS (CONTD.)

3.3 Reconciliation of Income for the year ended 31 December 2011

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

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

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

3.4 Notes to the reconciliation of equity as at 1 January 2011, 31 December 2011 and total comprehensive income for the year ended 31 December 2011

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

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

A Reverse Repurchase Agreements

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

B & K Derivative Financial Instruments

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

C Financial Assets-Held to Maturity

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

D Loans and Advances to Customers

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

Based on SLFRS, all loans granted to staff of the Group at concessionary rates are initially recognised at fair value. Subsequent interest thereon was recognised as per EIR. Day 1 difference is treated as pre-paid staff cost and amortised over the remaining tenor of the loan.

E Other Assets

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

F Property, Plant and Equipment

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

G Goodwill and Other Intangible Assets

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

H Repurchase Agreements

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

I Amounts Due to Customers

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

J Debt Issued and Other Borrowed Funds

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

L Other Liabilities

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

M Reserves

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

N Statement of cash flows

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

O Taxation

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

Notes to the Financial Statements

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

4.1 Bank

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

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

HFT - Held for Trading

HTM - Held-to-Maturity

L & R - Loans and Receivables

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

4.2 Group

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

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

HFT - Held for Trading

HTM - Held-to-Maturity

L & R - Loans and Receivables

Notes to the Financial Statements

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

4.3 Bank

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

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

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

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

4.4 Group

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

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

HFT -Held for Trading

HTM - Held-to-Maturity

L & R- Loans and Receivables

Notes to the Financial Statements

5 CASH AND CASH EQUIVALENTS

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

6 BALANCES WITH CENTRAL BANK OF SRI LANKA

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

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

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

7 TRANSFERRED FINANCIAL ASSETS

Reverse Repurchase /Repurchase Agreements

7.1 Reverse Repurchase Agreements

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

7.2 Repurchase Agreements

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

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

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

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

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

The carrying amount / fair value of securities sold under agreements to repurchase at 31 December 2012 was Rs 12,569 Mn (2011- Rs 14,064 Mn) of which securities with a fair value of Rs. 4,919 Mn (2011- Rs 4,740 Mn) were classified as held for trading and securities with a carrying value of Rs. 7,649 Mn (2011- Rs 9,324 Mn) were classified held to maturity. Those securities are presented in the Statement of Financial Position as 'Financial Assets Held for Trading and Held to Maturity pledged as Collateral', respectively.

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

8 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

8.1 Derivative Assets - Held for Trading At a Gain Position

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

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

Notes to the Financial Statements

8.2 Derivative Liabilities - Held for Trading At a Loss Position

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

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

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

9 FINANCIAL ASSETS HELD FOR TRADING

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

10 FINANCIAL ASSETS AT AMORTISED COST

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

11 OTHER FINANCIAL ASSETS

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

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

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

11.2 Unquoted Preference Shares

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

11.3 Unquoted Debentures

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

11.4 Unquoted Investments

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

Notes to the Financial Statements

12 LOANS AND ADVANCES TO CUSTOMERS

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

12.1 Gross Loans and Advances by Currency

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

12.1.1 Gross Loans and Advances by Product

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

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

12.2 Impairment allowance for Loans and Advances to customers

12.2.1 Bank

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

Notes to the Financial Statements

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

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

12.2.2 Group

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

12.2.3 Movement in Individual Impairment during the year

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

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

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

12.3.1 Bank

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

Notes to the Financial Statements

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

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

12.3.2 Group

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

12.3.3 Movement in Individual impairment during the year

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

13 INVESTMENTS IN SUBSIDIARIES
Unquoted

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

14 OTHER ASSETS

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

Notes to the Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT

15.1 Bank

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

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

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

15 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

15.2 Group

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

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

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

Notes to the Financial Statements

16 INTANGIBLE ASSETS

16.1 Bank

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

16.2 Group

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

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

17 DUE TO BANKS

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

18 DUE TO CUSTOMERS

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

19 DEBT ISSUED AND OTHER BORROWED FUNDS

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

Notes to the Financial Statements

19 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

19.4 Senior / Subordinated Debt

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

19.5 Senior Debentures

In 2009, the Bank issued Rs.500 Mn worth of unsecured redeemable debentures (Senior Debt) that will be matured in 2013.

The debentures were listed on the Colombo Stock Exchange and have not been traded from the date of listing up to 31 December 2012.

19.6 Subordinated Debentures

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

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

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

19.7 Details of Debentures Issued

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

19.8 Trust certificates

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

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

20 OTHER LIABILITIES

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

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

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

20.2 Employee Benefit Liability

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

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

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

The key assumptions used by the actuary include the following:

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

20.2.1 Net benefit expense catagarised under personal expenses.

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

Notes to the Financial Statements

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

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

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

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

21 DEFERRED TAXATION

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

21.1.1 Deferred Tax Liability

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

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

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

22 STATED CAPITAL

Ordinary Shares

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

23 STATUTORY RESERVE FUND

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

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

24 RETAINED EARNINGS

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

25 OTHER RESERVES

25.1 Investment Fund Account (IFA Reserve)

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

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

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

Notes to the Financial Statements

25.1.3 Utilization of Investment Fund Account (IFA Reserve)

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

25.1.4 Utilization of Investment Fund Account (IFA Reserve)

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

26 INTEREST INCOME

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

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

27 INTEREST EXPENSE

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

28 NET FEES AND COMMISSION INCOME

28.1 Fees and Commission Income

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

28.2 Fees and Commission Expenses

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

29 NET TRADING INCOME

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

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

Notes to the Financial Statements

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

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

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

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

Notes to the Financial Statements

35 EARNINGS PER SHARE

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

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

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

36 DIVIDENDS PAID AND PROPOSED

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

37 CASH FLOW INFORMATION

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

38 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

38.1 Segment Information

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

38.2 Segment Information (Cont'd)

Operating Segments	Corporate Banking 2011 Rs. '000	Retail, SME and Consumer Banking 2011 Rs. '000	Leasing 2011 Rs. '000	Treasury Functions 2011 Rs. '000	Investment Banking 2011 Rs. '000	Insurance Broking 2011 Rs. '000	Property Management 2011 Rs. '000	Unallocated/ Eliminations 2011 Rs. '000	Total Group 2011 Rs. '000
Operating Income	1,024,308	3,470,439	593,446	1,070,951	242,189	65,471	76,929	(50,005)	6,493,728
Credit Loss Expense	(195,056)	74,806	(121,217)	-	-	-	-	6,701	(234,765)
Net Operating Income	1,219,364	3,395,633	714,663	1,070,951	242,189	65,471	76,929	(56,706)	6,728,493
Extracts of results									
Interest Income	1,681,677	3,122,375	1,982,306	2,499,777	497,662	4,257	14,499	(7,094)	9,795,459
Inter Segment	(488,113)	1,497,036	(1,433,634)	424,711	-	-	-	-	-
Interest Expense	(503,351)	(2,696,311)	-	(1,954,768)	(243,336)	-	-	6,625	(5,391,142)
Net Interest Income	690,213	1,923,099	548,671	969,720	254,326	4,257	14,499	(469)	4,404,317
Fees and Commission Income	333,915	1,357,188	37,835	9,873	24,596	61,214	62,430	(37,122)	1,849,929
Fees and Commission Expense	-	(92,261)	(13,376)	(38,716)	(17)	-	-	-	(144,369)
Net Trading Income	-	-	-	108,804	(36,722)	-	-	(1)	72,082
Other Income	180	282,412	20,315	21,268	6	-	-	(12,413)	311,769
Depreciation of Property, Plant and Equipment	2,935	90,089	5,195	119,794	-	735	10,985	-	229,732
Amortization of Intangible Assets	79	25,150	1,323	68,447	-	121	-	-	95,121
Segment Profit / (Loss) before Tax	459,563	616,850	270,371	1,090,618	205,530	38,493	31,535	(377,031)	2,335,931
Income Tax Expense	-	-	-	-	(64,589)	(4,594)	(5,311)	(654,265)	(728,759)
Profit for the year	459,563	616,850	270,371	1,090,618	140,941	33,899	26,223	(1,031,296)	1,607,171
Capital Expenditures									
Property, Plant and Equipment	1,678	159,868	9,800	147,955	-	1,939	-	-	321,239
Other Intangible Assets	27	9,080	107	45,493	-	-	-	-	54,706
Total Assets	19,922,785	26,376,907	14,084,213	40,587,117	2,810,645	97,412	753,767	(2,560,239)	102,072,608
Total Liabilities	16,235,577	51,456,172	374,904	25,046,391	2,191,967	9,874	24,717	(1,895,412)	93,444,189

Notes to the Financial Statements

39 RELATED PARTY DISCLOSURES

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

39.1 Transactions with Key Management Personnel

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

(a) Compensation to Key Management Personnel

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

In addition to the salaries, the Group has also has arranged non cash benefits such as vehicle & insurance to Key Management Personnel in line with approved employment benefits plan of the Group.

(b) Transactions, Arrangements and Agreements involving Key Management Personnel;

	Key Management Personnel & their Close Family Members (CFM)				Entities in which KMP and CFM have control or joint control			
	Maximum Balances		Maximum Balances		Maximum Balances		Maximum Balances	
	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'
Items in the Statement of Financial Position								
Assets								
Loans & Advances	80,804	39,508	81,209	45,334	-	-	-	11
Credit Cards	7,341	3,094	7,341	3,625	-	-	-	-
Reverse Repurchase Agreements	-	200	1,850	1,090	-	-	-	-
Liabilities								
Due to Customers	213,093	204,438	243,660	453,260	2,239	100,314	9,407	100,357
Borrowings	900	16,215	60,884	38,762	-	-	-	-
Equity								
Dividends Paid (net)	655	11,108	-	-	-	-	-	-
Commitments								
Undrawn Facilities	32,044	25,254	-	-	-	-	-	-
Items in Income Statement								
Interest Income Earned	6,733	2,432	-	-	-	1	-	-
Interest Expenses Paid	23,985	15,561	-	-	707	58	-	-
Other Income Earned	137	717	-	-	1	2	-	-
Expenses Paid	-	-	-	-	-	2	-	-

39.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank for the year ended 31 December 2012 has contributed a sum of Rs. 139.30 Mn to the Fund. (2011 - Rs. 116.38 Mn)

As at 31 December 2012, the Fund has invested a sum of Rs. 567.01 Mn with the Bank. (2011- Rs. 711.09 Mn)

During the year the Bank has incurred a sum Rs. 104.27 Mn (2011 - Rs. 61.78 Mn) as Interest Expense to the Fund out of which a sum of Rs. 26.30 Mn (2011- Rs. 42.53 Mn) is payable as of 31 December 2012.

39.3 Transactions with Related Entities

Items in the Statement of Financial Position	Subsidiaries *			Significant Investors **			Significant Investor Related Entities ***		
	Maximum Balances			Maximum Balances			Maximum Balances		
	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'	2012 Rs.'000'	2012 Rs.'000'	2011 Rs.'000'	2011 Rs.'000'
Assets									
Loans & Advances	738,757	908,850	1,446,881	192,961	208,461	699,469	390,757	34,365	988,048
Corporate Credit Cards	-	-	-	1,635	349	1,897	377	217	532
Reverse Repurchase Agreements	575,347	648,721	682,076	-	-	-	-	1,715	12,182
Derivative Financial Assets	-	-	-	-	-	-	1,718	4,784	-
Other Assets	39,167	12,246	37,167	-	-	-	-	-	-
Liabilities									
Due to Customers	407,518	58,683	407,518	1,459,981	2,300,223	4,044,045	1,858,077	1,266,314	2,009,746
Borrowings	-	280,511	333,000	846,229	931,187	1,895,800	712,867	959,284	2,141,413
Other Liabilities/Financial Guarantees	-	-	-	38	28	-	449	121	-
Equity									
Dividends Paid (net)	-	-	-	218,941	211,349	-	-	-	-
Commitments									
Undrawn Facilities	1,061,243	491,150	-	529,506	50,356	-	385,245	638,406	-
Items in Income Statement									
Interest Income	182,539	217,710	-	43,342	3,843	-	43,187	6,045	-
Interest Paid	37,304	17,543	-	316,785	176,098	-	267,558	89,630	-
Other Income	2,089	-	-	1,667	2,866	-	6,423	10,124	-
Dividend Received (Gross)	18,495	13,250	-	-	-	-	-	-	-
Expenses Paid	37,750	30,793	-	31,178	24,185	-	33,749	27,678	-

* Subsidiaries of the Group includes Wadock Macenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing Financial Services Limited.

** Significant Investors include John Keells Holdings PLC, Mackinnon & Keells Financial Services Limited, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

*** Significant Investor Related Entities include entities controlled and/or jointly controlled by the Significant Investors of the Bank.

Notes to the Financial Statements

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2012

	Within 12 Months Rs. '000	Bank After 12 Months Rs. '000	Total Rs. '000	Within 12 Months Rs. '000	Group After 12 Months Rs. '000	Total Rs. '000
Assets						
Cash and Cash Equivalents	2,534,056	-	2,534,056	2,534,155	-	2,534,155
Balances with Central Bank of Sri Lanka	5,089,342	-	5,089,342	5,089,342	-	5,089,342
Reverse Repurchase Agreements	3,287,274	-	3,287,274	2,711,927	-	2,711,927
Derivative Financial Instruments	327,843	-	327,843	327,843	-	327,843
Financial Assets - Held for Trading	18,618,637	1,634,521	20,253,158	19,267,528	1,820,398	21,087,926
Financial Assets - Held to Maturity	5,816,584	4,421,320	10,237,904	5,816,584	4,421,320	10,237,904
Other Financial Assets	166,425	1,726,497	1,892,922	166,425	1,726,497	1,892,922
Loans and Advances to Customers	47,007,692	25,450,665	72,458,357	47,971,145	25,452,806	73,423,951
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Other Assets	1,707,669	862,947	2,570,616	1,727,643	862,947	2,590,590
Property, Plant and Equipment	-	1,395,882	1,395,882	-	1,907,999	1,907,999
Intangible Assets	-	625,186	625,186	-	642,457	642,457
Total Assets	84,555,522	36,795,728	121,351,250	85,612,592	36,834,424	122,447,016
Liabilities						
Due to Banks	2,796,350	-	2,796,350	2,796,350	-	2,796,350
Repurchase Agreements	11,829,973	2,719	11,832,692	11,829,973	2,719	11,832,692
Derivative Financial Instruments	528,472	-	528,472	528,472	-	528,472
Due to Customers	83,167,958	3,429,556	86,597,514	82,760,440	3,429,556	86,189,996
Debt Issued and Other Borrowed Funds	2,129,221	3,701,902	5,831,123	2,631,877	3,701,902	6,333,779
Current Tax Liabilities	510,155	-	510,155	544,253	-	544,253
Other Liabilities	3,559,343	252,600	3,811,943	3,586,809	259,250	3,846,059
Deferred Tax Liabilities	-	280,881	280,881	-	280,155	280,155
Total Liabilities	104,521,472	7,667,658	112,189,130	104,678,174	7,673,582	112,351,756
Net	(19,965,950)	29,128,070	9,162,120	(19,065,582)	29,160,842	10,095,260

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD)

As at 31 December 2011

	Within 12 Months Rs. '000	Bank After 12 Months Rs. '000	Total Rs. '000	Within 12 Months Rs. '000	Group After 12 Months Rs. '000	Total Rs. '000
Assets						
Cash and Cash Equivalents	3,694,381	-	3,694,381	3,694,423	-	3,694,423
Balances with Central Bank of Sri Lanka	4,284,336	-	4,284,336	4,284,336	-	4,284,336
Reverse Repurchase Agreements	7,242,056	20,893	7,262,949	6,593,335	20,893	6,614,228
Derivative Financial Instruments	254,695	-	254,695	254,695	-	254,695
Financial Assets - Held for Trading	6,070,282	200,421	6,270,703	6,349,367	200,421	6,549,788
Financial Assets - Held to Maturity	5,305,249	5,892,509	11,197,758	5,422,976	6,394,643	11,817,619
Other Financial Assets	1,755,592	1,142,540	2,898,132	1,758,226	1,139,906	2,898,132
Loans and Advances to Customers	37,740,823	22,497,532	60,238,355	38,682,389	22,505,581	61,187,970
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Other Assets	1,277,573	946,121	2,223,694	1,332,982	947,225	2,280,207
Property, Plant and Equipment	-	1,367,740	1,367,740	-	1,891,269	1,891,269
Intangible Assets	-	599,568	599,568	-	599,941	599,941
Total Assets	67,624,987	33,346,034	100,971,021	68,372,729	33,699,879	102,072,608
Liabilities						
Due to Banks	1,277,136	-	1,277,136	1,277,136	-	1,277,136
Repurchase Agreements	14,152,008	608,011	14,760,019	13,871,497	608,011	14,479,508
Derivative Financial Instruments	315,720	-	315,720	315,720	-	315,720
Due to Customers	61,272,899	6,418,850	67,691,749	59,490,705	8,142,361	67,633,066
Debt Issued and Other Borrowed Funds	630,289	4,177,811	4,808,100	1,231,737	4,177,226	5,408,963
Current Tax Liabilities	234,404	-	234,404	235,255	-	235,255
Other Liabilities	3,567,239	222,966	3,790,205	3,627,996	230,834	3,858,830
Deferred Tax Liabilities	-	235,711	235,711	-	235,711	235,711
Total Liabilities	81,449,695	11,663,349	93,113,044	80,050,046	13,394,143	93,444,189
Net	(13,824,708)	21,682,685	7,857,977	(11,677,317)	20,305,736	8,628,419

41 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products (Interest Rate Swaps, Foreign Currency Swaps and Forward Exchange Contracts) are valued using valuation techniques incorporating various inputs such as foreign exchange spot rates, foreign exchange forward rates and interest rate curves.

Financial Assets Held for Trading

Financial Assets Held for Trading are valued using a valuation technique and consists of certain debt securities and asset-backed securities. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data published by Central Bank of Sri Lanka.

41.1 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

41.1 Determination of Fair Value and Fair Value Hierarchy (contd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2012	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial Assets				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts	-	327,843	-	327,843
Financial Assets Held for Trading				
Government Treasury Bills & Bonds	20,253,158	-	-	20,253,158
Total Financial Assets	20,253,158	327,843	-	20,581,001
Financial Liabilities				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts	-	528,472	-	528,472
Total Financial Liabilities	-	528,472	-	528,472
At 31 December 2011	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial Assets				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts	-	254,695	-	254,695
Financial Assets Held for Trading				
Government Treasury Bills & Bonds	6,270,703	-	-	6,270,703
Total Financial Assets	6,270,703	254,965	-	6,525,398
Financial Liabilities				
Derivative Financial Instruments				
Interest Rate Swaps	-	56,721	-	56,721
Forward Foreign Exchange Contracts	-	258,999	-	258,999
Total Financial Liabilities	-	315,720	-	315,720

Notes to the Financial Statements

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

41.1 Determination of Fair Value and Fair Value Hierarchy (contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2012 Carrying Amount Rs. '000	2012 Fair Value Rs. '000	2011 Carrying Amount Rs. '000	2011 Fair Value Rs. '000
Financial Assets				
Cash and Cash Equivalents	2,534,056	2,534,056	3,694,381	3,694,381
Balances with Central Bank of Sri Lanka	5,089,342	5,089,342	4,284,336	4,284,336
Reverse Repurchase Agreements	3,287,274	3,287,274	7,262,949	7,262,898
Financial Assets - Held to Maturity	10,237,904	10,318,065	11,197,758	11,189,241
Other Financial Assets	1,892,922	1,892,922	2,898,132	2,898,132
Total	23,041,498	23,121,659	29,337,556	29,328,988
Loans and Advances to Customers				
Corporate Loans	20,695,425	20,686,504	21,074,102	20,868,287
Retail, SME and Consumer	31,823,128	31,583,112	24,483,941	24,354,289
Housing Loans	1,408,377	1,367,001	1,318,996	1,369,903
Leases	19,361,556	18,104,782	14,061,122	13,839,834
	73,288,486	71,741,399	60,938,161	60,432,313
Less :Allowance for Impairment Losses	(1,825,290)	(1,825,290)	(1,490,016)	(1,490,016)
	71,463,196	69,916,109	59,448,145	58,942,297
Staff Loans	995,161	1,078,978	790,210	998,896
Total Loans and Advances	72,458,357	70,995,087	60,238,355	59,941,193
Total Financial Assets	95,499,855	94,116,746	89,575,911	89,270,181
Financial Liabilities				
Due to Banks	2,796,350	2,796,350	1,277,136	1,277,136
Repurchase Agreements	11,832,692	11,830,999	14,760,019	14,407,209
Due to Customers	86,597,514	86,326,441	67,691,749	68,092,876
Debt Issued and Other Borrowed Funds	5,831,123	5,661,810	4,808,100	4,638,786
Total Financial Liabilities	107,057,679	106,615,600	88,537,004	88,416,007

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors have been used to arrive at the fair value of Debentures Issued.

42. RISK MANAGEMENT

42.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks. The goal of risk management is to optimize the risk-reward trade-off. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank monitors those business risks through the Bank's strategic planning process.

Risk Management Structure

The Board of Directors is responsible for establishing the overall risk management framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different Executive Risk Committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on Market Risk management and Liquidity Risk management whilst Head Office Credit Committee focuses on the Credit Risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for capturing and monitoring the Bank's overall risk position against overall risk appetite and limits set by the Board by integrating the various risk exposures across business units and products within the Bank. They monitor compliance with risk management policies and procedures to ensure an independent control process is maintained. Exceptions are reported on a daily basis, where necessary, to the Chief Executive Officer and various management levels. Relevant actions are taken to address exceptions and any areas of weakness. IRMD is also responsible for developing risk management tools in line with industry best practice.

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

Risk Measurement and Reporting Systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, BIRMC and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the regulatory allowance for credit losses on a monthly basis. The BIRMC receives a comprehensive risk assessment report once a quarter which is designed to provide a wide range of information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Chief Executive Officer and all other relevant members of the Bank on the utilization of market limits, liquidity and any other risk developments.

Risk Mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies. The Bank uses and accept various types of collateral as a credit risk mitigant.

Notes to the Financial Statements

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

42.2 Credit Risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. An appropriate risk rating mechanism is being implemented by the Bank and risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment for 3 consecutive months
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter Bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages, leases and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in Financial industry, revisions in the Interest rates, changes in Regulatory Environment and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, and expected receipts and recoveries once impaired) and economic data (such as current economic conditions and unemployment levels).

Description of approaches and statistical methods followed for impairment.

Business Line	Further Segmentation	Statistical Method Applied
Corporate Banking	Based on Internal Risk Rating	Rating Migration Matrix
Retail & SME	Based on Internal Risk Rating	Rating Migration Matrix
Housing Loans	DPD Buckets	Net Flow Rate Method
Consumer	DPD Buckets	Net Flow Rate Method
Leasing	DPD Buckets	Net Flow Rate Method

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions; cash
- For Corporate, Retail & SME lending, charges over Commercial/Residential properties; Cash or Cash Equivalents, Bank guarantees and Quoted Shares in the Colombo Stock Exchange that are acceptable to the bank

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings for Corporate, Retail and SME customers and a credit scoring system for Consumer Loans and Credit cards. Financial Assets are categorized in to four categories based on the Rating Scale as follows.

Rating Category	Definition	Description
High Grade	Very High Safety	The ability to honour the terms of trade is very high. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions.
Investment Grade	High Safety	The ability to honour the terms of trade is high. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be insignificant likelihood of default associated with adverse economic events of significant scale.
Intermediary Grade	Moderate Safety	The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default
Speculative Grade	Low Safety	The ability to honour the terms of trade is low. Any adverse changes in the business/economic conditions may impair the obligor's/counterparty's ability to honour its commitments.

Notes to the Financial Statements

Credit risk exposure for each internal credit risk rating

Bank's internal credit rating	Historical default rates	Total 2012
	%	Rs '000
Investment Grade		
A	Less than 1%	17,561,735
B	Less than 4%	6,617,734
Intermediary Grade		
C + and C	Less than 4%	2,442,125
Speculative Grade		
C-	Less than 5%	4,855,399
D	Minimum of 20%	4,092
Past Due		414,620
Individually Impaired		3,306,199

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of Obligor risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. Shown above is internal credit rating classification of the Corporate, Retail & SME portfolios of the Bank. The attributable risk ratings are assessed and updated regularly.

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk, based on above credit grading system. The amounts presented are gross of impairment allowances.

	Notes	Neither past due nor impaired				Past due but not	Individually impaired	Total 2012
		High Grades	Investment Grades	Intermediary Grades	Speculative Grades impaired			
Bank		Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Cash and Cash Equivalents	5	2,534,056	-	-	-	-	-	2,534,056
Balances with Central Bank of Sri Lanka	6	5,089,342	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	7.1	1,579,351	-	1,707,924	-	-	-	3,287,275
Derivative Financial Instruments								
Forward Foreign Exchange Contrats	8.1	303,378	24,067	-	398	-	-	327,843
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	9	20,253,158	-	-	-	-	-	20,253,158
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	10	10,237,904	-	-	-	-	-	10,237,904
Other Financial Assets								
Sri Lanka Development Bonds	11	1,549,834	-	-	-	-	-	1,549,834
Unquoted Debentures		-	337,691	-	-	-	-	337,691
Unquoted Equity Instruments		-	-	-	5,397	-	-	5,397
		1,549,834	337,691	-	5,397	-	-	1,892,922
Loans and Advances to Customers (Gross)								
Corporate Loans	12	-	14,011,640	677,055	237,956	3,080,311	2,688,463	20,695,425
Retail, SME and Consumer		-	4,291,026	13,776,197	4,463,479	8,665,012	627,414	31,823,128
Housing Loans		-	30,487	441,443	268,435	534,458	133,554	1,408,377
Leases		-	-	11,869,623	-	7,098,905	393,028	19,361,556
Staff Loans		-	64,515	207,458	1,526,265	63,308	-	1,861,546
		-	18,397,668	26,971,776	6,496,135	19,441,993	3,842,460	75,150,032
Total		41,547,022	18,759,427	28,679,699	6,501,931	19,441,993	3,842,460	118,772,531

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 19.4 Bn categorized under "past due but not impaired" category Rs. 12.9 Bn (68%) is in arrears for less than 30 days, Rs. 5.6 Bn (28%) is in arrears for more than 30 days but less than 90 days & 0.8Bn (4%) is in arrears for more than 90 Days.

Notes to the Financial Statements

Group	Notes	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total 2012
		High Grades	Investment Grades	Intermediary Grades	Speculative Grades				
		Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Cash and Cash Equivalents	5	2,534,155	-	-	-	-	-	-	2,534,155
Balances with Central Bank of Sri Lanka	6	5,089,342	-	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	7.1	1,004,004	-	1,707,924	-	-	-	-	2,711,928
Derivative Financial Instruments									
Forward Foreign Exchange Contracts	8.1	303,378	24,067	-	398	-	-	-	327,843
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	9	21,087,926	-	-	-	-	-	-	21,087,926
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	10	10,237,904	-	-	-	-	-	-	10,237,904
Other Financial Assets									
Sri Lanka Development Bonds	11	1,549,834	-	-	-	-	-	-	1,549,834
Unquoted Debentures		-	337,691	-	-	-	-	-	337,691
Unquoted Equity Instruments		-	-	-	5,397	-	-	-	5,397
		1,549,834	337,691	-	5,397	-	-	-	1,892,922
Loans and Advances to Customers (Gross)									
Corporate Loans	12	-	13,304,641	677,055	245,249	3,080,311	2,688,463	-	19,995,719
Retail, SME and Consumer		-	5,851,797	13,776,197	4,565,866	8,665,012	627,414	-	33,486,286
Housing Loans		-	30,487	441,443	268,435	534,458	133,554	-	1,408,377
Leases		-	-	11,869,623	-	7,098,905	393,028	-	19,361,556
Staff Loans		-	64,515	207,458	1,526,265	63,308	-	-	1,861,546
		-	19,251,440	26,971,776	6,605,815	19,441,993	3,842,460	-	76,113,484
Total		41,806,543	19,613,198	28,679,699	6,611,611	19,441,993	3,842,460	-	119,995,505

Note : Past Due loans include any loan that is in arrears for more than one day. Out of 19.4 Bn categorized under "past due but not impaired" category LKR 12.9 Bn (68%) is in arrears for less than 30 days, LKR 5.6 Bn (28%) is in arrears for more than 30 days but less than 90 days & 0.8 Bn (4%) is in arrears for more than 90 Days.

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the statement of financial position. Within the assets concentrated as "Other" include Consumer Loans and Leases. Major portion of the leases consist of leases granted to individuals for the purpose of facilitating their Small/Micro level business activities which cannot be directly attributable to a single identified sector, hence the classified under "other".

Bank - As at 31 December 2012	Agriculture & Fisheries Rs '000	Financial services Rs '000	Government Rs '000	Trading Rs '000	Construction and Housing Rs '000	Manufacturing Rs '000	Services Rs '000	Other Rs '000	Total Rs '000
Cash and Cash Equivalents	-	2,534,056	-	-	-	-	-	-	2,534,056
Balances with Central Bank of Sri Lanka	-	-	5,089,342	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	-	3,230,624	-	-	-	-	-	56,650	3,287,274
Derivative Financial Instruments									
Forward Foreign Exchange Contratos	-	326,126	-	1,320	-	-	398	-	327,843
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	20,253,158	-	-	-	-	-	20,253,158
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	10,237,904	-	-	-	-	-	10,237,904
Other Financial Assets									
Sri Lanka Development Bonds	-	-	1,549,834	-	-	-	-	-	1,549,834
Unquoted Debentures	-	337,691	-	-	-	-	-	-	337,691
Unquoted Equity Instruments	-	-	-	-	-	-	5,397	-	5,397
	-	337,691	1,549,834	-	-	-	5,397	-	1,892,922
Loans and Advances to Customers									
Corporate Loans	6,167,560	4,111,826	-	4,876,818	430,901	3,446,161	1,594,594	67,565	20,695,425
Retail, SME and Consumer	1,007,773	470,777	-	6,072,592	1,071,398	688,622	4,218,887	18,293,079	31,823,128
Housing Loans	-	-	-	-	1,408,377	-	-	-	1,408,377
Leases	950,805	89,580	-	1,028,354	576,838	558,245	2,599,522	13,558,212	19,361,556
Staff Loans	-	1,861,546	-	-	-	-	-	-	1,861,546
	8,126,138	6,533,729	-	11,977,764	3,487,514	4,693,028	8,413,003	31,918,855	75,150,032
Impairment for Loans and Advances									(1,825,290)
Staff Loans Day 1 difference									(866,385)
Net Loans and Advances									72,458,356
	8,126,138	12,962,226	37,130,238	11,979,084	3,487,514	4,693,028	8,418,798	31,975,505	116,075,472

Notes to the Financial Statements

Group - As at 31 December 2012	Agriculture & Fisheries Rs '000	Financial services Rs '000	Government Rs '000	Trading Rs '000	Construction and Housing Rs '000	Manufacturing Rs '000	Services Rs '000	Other Rs '000	Total Rs '000
Cash and Cash Equivalents	-	2,534,155	-	-	-	-	-	-	2,534,155
Balances with Central Bank of Sri Lanka	-	-	5,089,342	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	-	2,655,277	-	-	-	-	-	56,650	2,711,927
Derivative Financial Instruments									
Forward Foreign Exchange Contracts	-	326,126	-	1,320	-	-	398	-	327,843
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	21,087,926	-	-	-	-	-	21,087,926
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	10,237,904	-	-	-	-	-	10,237,904
Other Financial Assets									
Sri Lanka Development Bonds	-	-	1,549,834	-	-	-	-	-	1,549,834
Unquoted Debentures	-	337,691	-	-	-	-	-	-	337,691
Unquoted Equity Instruments	-	-	-	-	-	-	5,397	-	5,397
	-	337,691	1,549,834	-	-	-	5,397	-	1,892,922
Loans and Advances to Customers									
Corporate Loans	6,167,560	3,373,069	-	4,883,314	430,901	3,446,161	1,627,148	67,565	19,995,719
Retail ,SME and Consumer	1,007,773	526,279	-	6,447,964	1,208,263	976,471	4,999,076	18,219,590	33,486,286
Housing Loans	-	-	-	-	1,408,377	-	-	-	1,408,377
Leases	950,805	89,580	-	1,028,354	576,838	558,245	2,599,522	13,558,212	19,361,556
Staff Loans	-	1,861,546	-	-	-	-	-	-	1,861,546
	8,126,138	5,850,475	-	12,359,632	3,624,379	4,980,877	9,225,746	31,845,368	76,113,484
Impairment for Loans and Advances									(1,823,148)
Staff Loans Day 1 difference									(866,385)
Net Loans and Advances									73,423,951
	8,126,138	11,703,724	37,965,006	12,360,952	3,624,379	4,980,877	9,231,541	31,902,018	117,305,970

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

Commitments and Guarantees	2012	
	Bank Rs.'000	Group Rs.'000
Bonds and Warranties	4,819,125	4,819,125
Acceptance	1,250,876	1,250,876
Guarantees	219,070	219,070
Letters of Credit	2,596,995	2,596,995
Undrawn Commitments		
<i>Cards</i>	16,192,459	16,192,459
<i>Other</i>	25,805,096	27,129,179
	41,997,555	43,321,638
Total Commitment and Guarantees	50,883,621	52,207,704

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

42.3 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Liquidity risk is measured through stock or flow approach. Bank maintains a minimum 20% ratio of liquid assets to total liabilities under stock approach based on the regulations of the Central Bank of Sri Lanka as given below.

Liquid assets mainly consist of cash, short-term Bank deposits and government securities.

In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 8% of Sri Lankan Rupee customer deposits.

Liquid Assets Ratio	2012	
	DBU	FCBU
As at 31 December 2012	27.5%	25.3%

Notes to the Financial Statements

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2012 under the flow approach.

Bank-As at 31 December 2012	On demand (Less than 15 days) Rs '000	16 days - 3 Months Rs '000	3 to 12 months Rs '000	1 to 5 years Rs '000	Over 5 years Rs '000	Total Rs '000
Financial Assets						
Cash and Cash Equivalents	2,534,056	-	-	-	-	2,534,056
Balances with Central Bank of Sri Lanka	5,089,342	-	-	-	-	5,089,342
Reverse Repurchase Agreements	2,030,272	227,479	1,097,915	-	-	3,355,666
Financial Investments - Held for Trading						
Government debt securities - Treasury Bills and Bonds	1,982,050	9,612,690	7,965,951	1,868,030	-	21,428,721
Financial Investments Held to Maturity						
Government debt securities - Treasury Bills and Bonds	795,125	2,641,438	2,969,313	5,343,188	-	11,749,064
Unquoted Equity Instruments	-	-	-	-	5,397	5,397
Loans & Advances	29,030,721	12,468,659	15,446,807	30,272,572	4,189,884	91,408,643
Total Undiscounted Financial Assets	41,461,566	24,950,266	27,479,986	37,483,790	4,195,281	135,570,889
Financial Liabilities						
Due to Banks	532,087	1,898,421	430,416	-	-	2,860,924
Repurchase Agreements	6,467,992	1,711,777	3,991,282	3,188	-	12,174,239
Due to Customers	26,693,346	29,532,144	31,020,093	5,383,455	32,600	92,661,638
Debt Issued and Other Borrowed Funds	170,656	-	2,445,452	4,627,241	-	7,243,349
Total Undiscounted Financial Liabilities	33,864,081	33,142,342	37,887,243	10,013,884	32,600	114,940,150
Net Undiscounted Financial Assets/ (Liabilities)	7,597,485	(8,192,076)	(10,407,257)	27,469,906	4,162,681	20,630,739
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
Contractual Amounts Payable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
Contractual Amounts Payable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
	-	-	-	-	-	-
Total Gross Settled Derivative Assets / (Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/(Liabilities)	7,597,485	(8,192,076)	(10,407,257)	27,469,906	4,162,681	20,630,739

Group-As at 31 December 2012	On demand (Less than 15 days) Rs 000'	16 days - 3 Months Rs 000'	3 to 12 months Rs 000'	1 to 5 years Rs 000'	Over 5 years Rs 000'	Total Rs 000'
Financial Assets						
Cash and Cash Equivalents	2,534,155	-	-	-	-	2,534,155
Balances with Central Bank of Sri Lanka	5,089,341	-	-	-	-	5,089,341
Reverse Repurchase Agreements	1,454,925	227,479	1,097,915	-	-	2,780,319
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	1,983,675	9,618,783	8,681,868	2,075,897	-	22,360,223
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	795,125	2,641,438	2,969,313	5,343,188	-	11,749,064
Unquoted Equity Instruments	-	-	-	-	5,397	5,397
Loans & Advances	29,994,173	12,468,659	15,446,807	30,272,572	4,189,884	92,372,095
Total Undiscounted Financial Assets	41,851,394	24,956,359	28,195,903	37,691,657	4,195,281	136,890,594
Financial Liabilities						
Due to Banks	532,087	1,898,421	430,416	-	-	2,860,924
Repurchase Agreements	6,467,992	1,711,777	3,991,282	3,188	-	12,174,239
Deposits	26,670,395	29,147,941	31,020,093	5,383,455	32,600	92,254,484
Debt Issued and Other Borrowed Funds	673,312	-	2,445,452	4,627,241	-	7,746,005
Total Undiscounted Financial Liabilities	34,343,786	32,758,139	37,887,243	10,013,884	32,600	115,035,652
Net Undiscounted Financial Assets/ (Liabilities)	7,507,608	(7,801,780)	(9,691,340)	27,677,773	4,162,681	21,854,942
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
Contractual Amounts Payable	4,628,665	5,468,619	4,058,932	-	-	14,156,216
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
Contractual Amounts Payable	6,112,911	9,017,708	4,744,103	-	-	19,874,722
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/(Liabilities)	7,507,108	(7,801,780)	(9,691,340)	27,677,773	4,162,681	21,854,942

Notes to the Financial Statements

Whilst the management understands the above contractual maturity gaps, more emphasis is given for the behavioural nature of these cash flows when managing the overall liquidity profile by the ALCO. Also to further limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity on a daily basis.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Additionally, the Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. The Bank also has uncommitted lines of credit that it can access to meet liquidity needs.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Bonds and Warranties	357,571	1,182,815	2,849,782	428,956	-	4,819,125
Acceptance	245,185	614,283	391,408	-	-	1,250,876
Guarantees	58,502	160,568	-	-	-	219,070
Letters of credit	201,306	1,772,506	619,493	3,690	-	2,596,995
Undrawn Commitments	41,997,555	-	-	-	-	41,997,555
Total Commitment and Guarantees	42,860,119	3,730,173	3,860,684	432,646	-	50,883,621

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Bonds and Warranties	357,571	1,182,815	2,849,782	428,956	-	4,819,125
Acceptance	245,185	614,283	391,408	-	-	1,250,876
Guarantees	58,502	160,568	-	-	-	219,070
Letters of credit	201,306	1,772,506	619,493	3,690	-	2,596,995
Undrawn Commitments	43,321,638	-	-	-	-	43,321,638
Total Commitment and Guarantees	44,184,202	3,730,173	3,860,684	432,646	-	52,207,704

42.4 Market Risk

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

Interest Rate Risk

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose Banks' Net Interest Income to variations.

IRR exposure is primarily managed with Maturity Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term to their next re-pricing (floating rate) as shown below.

Bank-As at 31 December 2012	Total Rs '000	On demand (Less than 15 days) Rs '000	16 days- 3 Months Rs '000	3 to 12 months Rs '000	1 to 5 years Rs '000	Over 5 years Rs '000	Non-Interest Bearing Rs '000
Assets							
Cash and Balances with Central Bank of Sri Lanka	6,925,859	-	-	-	-	-	6,925,859
Loans & Advances	72,580,801	29,671,422	16,459,908	8,373,817	14,968,487	1,336,051	1,771,116
Investments	36,118,080	5,287,973	13,406,386	11,543,659	6,758,410	-	(878,348)
Other	41,090,564	10,462,411	15,623,128	8,857,505	-	-	6,147,520
Total Assets	156,715,304	45,421,806	45,489,423	28,774,980	21,726,897	1,336,051	13,966,147
Liabilities							
Deposits	84,694,556	17,535,840	27,601,696	28,148,170	3,387,220	15,050	8,006,580
Borrowings	20,886,023	7,792,285	3,471,049	7,486,363	2,001,953	-	134,374
Other	51,134,725	8,829,223	15,787,131	9,090,698	-	-	17,427,673
Total Shareholder Funds and Liabilities	156,715,304	34,157,348	46,859,876	44,725,231	5,389,173	15,050	25,568,627
Total Interest Sensitivity Gap		11,264,458	(1,370,453)	(15,950,250)	16,337,724	1,321,001	(11,602,480)

** The Classifications are based on the way that ALCO monitors repricing gaps

Group-As at 31 December 2012	Total Rs 000	On demand (Less than 15 days) Rs 000	16 days- 3 Months Rs 000	3 to 12 months Rs 000	1 to 5 years Rs 000	Over 5 years Rs 000	Non-Interest Bearing Rs 000
Assets							
Cash and Balances with Central Bank of Sri Lanka	6,925,930	-	-	-	-	-	6,925,930
Loans & Advances	74,283,021	31,373,642	16,459,908	8,373,817	14,968,487	1,336,051	1,771,116
Investments	36,952,847	5,292,973	13,406,386	12,243,659	6,947,000	-	(937,170)
Other	41,070,736	10,462,411	15,623,128	8,857,505	-	-	6,127,692
Total Assets	159,232,534	47,129,026	45,489,423	29,474,980	21,915,487	1,336,051	13,887,567
Liabilities							
Due to customers	84,694,556	17,535,840	27,601,696	28,148,170	3,387,220	15,050	8,006,580
Borrowings	22,699,655	9,105,916	3,971,049	7,486,363	2,001,953	-	134,374
Other	51,838,323	8,829,223	15,787,131	9,090,698	-	-	18,131,271
Total Shareholder Funds and Liabilities	159,232,534	35,470,979	47,359,876	44,725,231	5,389,173	15,050	26,272,225
Total Interest Sensitivity Gap		11,658,047	(1,870,453)	(15,250,250)	16,526,314	1,321,001	(12,384,659)

** The Classifications are based on the way that ALCO monitors repricing gaps

The Board has established limits on the interest rate gaps for stipulated periods. The Bank monitors positions on a daily basis and ensure that they maintained within the established limits.

Notes to the Financial Statements

The ALCO monitors the above gaps and the sensitivity on the Income Statement for Sri Lankan Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the Income Statement is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Bank	Increase / (decrease) in basis points 2012	Sensitivity to Profit after Tax Rs.000
Asset/Liabilities		
LKR	+100/-100	+31,884/-32,217
USD	+50/-50	+1,295/-1,307
Group	Increase / (decrease) in basis points 2012	Sensitivity to Profit after Tax 2012 Rs.000
LKR	+100/-100	+28,359/-28,628
USD	+50/-50	+1,295/-1,307

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set the following limits to mitigate against currency risk exposures;

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-day Limits
- Cut-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2012. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Income Statement. A negative amount in the table reflects a potential net reduction in the Income Statement, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact. Given below is the sensitivity related to trading position in the DBU.

Currency	Change in Currency rate in % 2012	Effect on Profit after tax 2012 (Rs. 000)
USD	+5	652.8
GBP	+5	192.0
EUR	+5	(117.8)
AUD	+5	(130.2)
JPY	+5	(25.3)
Other	+5	75.5

In addition to above trading exposures, the Bank carries a structural position arising from the negative US Dollar reserves accumulated in FCBU books. The sensitivity to income statement from this exposure is as follows;

Currency	Change in Currency rate in %	Effect on Profit after tax (Rs. 000)
USD	+5	(14,261.8)

Notes to the Financial Statements

43 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 42)

Letters of credit and guarantees commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

43.1 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

43.2 Capital Commitments

The Commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

	Bank		Group	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Capital Commitments for Property and Equipment				
Approved and contracted for	106,027	82,192	107,613	82,192
Approved but not contracted for	26,868	30,009	26,868	30,009
	132,895	112,201	134,481	112,201
Capital Commitments for Intangible Assets				
Approved and contracted for	120,930	73,676	124,764	85,568
Approved but not contracted for	-	67,031	-	67,031
	120,930	140,707	124,764	152,599
	253,825	252,908	259,245	264,800

43.3 Lease Arrangements

43.3.1 Operating Lease Commitments – Bank as Lessee

The bank has entered into commercial leases for premises. These leases have an average life of ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	Bank	
	2012 Rs. '000	2011 Rs. '000
Within one year	123,172	160,477
After one year but less than five years	399,566	457,982
More than five years	19,099	76,836
	541,837	695,295

44 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2012 that require disclosure or/and adjustments in these accounts, except for the following;

Subject to approval of the Shareholders at the forthcoming Annual General Meeting, the Directors have recommended the payment of a first and final dividend of Rs. 2.10 per share for the year ended 31 December 2012.

45 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

45.1 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises Share Capital, Share Premium, Retained Earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

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.

AMORTIZATION

The deduction of capital expenses over a specific period of time (usually over the asset's life)

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.

CARRYING VALUE

Value of an asset or a liability as per books of the organization before adjusting for fair value.

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.

DERIVATIVE

Contracts whose value is derived from the performance of underlying market factors.

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.

FAIR VALUE

Rational and unbiased estimate of the potential market price of a good, a service or an asset.

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.

IMPAIRMENT ALLOWANCE

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for incurred losses inherent in the lending book. an impairment allowance may either be identified or unidentified and individual or collective.

IMPAIRMENT CHARGE / (REVERSAL)

The difference between the carrying value of an Asset and the sum of discounted future cash flows generating from the same asset.

I

INTANGIBLE ASSET

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today's marketplace.

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.

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.

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.

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.

Corporate Information

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

21 January 1999

Registered Office

No. 242, Union Place, Colombo 2.
Telephone : 4313131
Facsimile : 2307854
E-mail : info@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 (Ika) from Fitch Ratings Lanka Ltd.

Directors

A.K. Gunaratne (Chairman)
M.E. Wickremesinghe (Senior Director)
A.R. Rasiah
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
K. O. V. S. M. S. Wijesinghe
Ms. R. N. K. Fernando

Board Supervisory Committee

A.K. Gunaratne (Chairman)
C.H.S.K. Piyaratna
K. N. J. Balendra
Murtaza Jafferjee
K. O. V. S. M. S. Wijesinghe

Board Audit Review Committee

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

Human Resources and Remuneration Committee

A. K. Gunaratne (Chairman)
Dr. (Ms.) D. Weerakoon
A. R. Rasiah
K. N. J. Balendra
Dr. Kemal de Soysa

Nomination Committee

M. E. Wickremesinghe (Chairman)
A. K. Gunaratne
Murtaza Jafferjee
K. N. J. Balendra

Credit Committee

A. K. Gunaratne (Chairman)
(Alternate - D. P. De Silva)
C. H. S. K. Piyaratna
K. N. J. Balendra
(Alternate - K. O. V. S. M. S. Wijesinghe)
Ms. N. S. Panditaratne

Integrated Risk Management Committee

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

Notice of **Meeting**

Notice is hereby given that the Fourteenth Annual General Meeting of Nations Trust Bank PLC will be held on 28 March 2013 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 31 December 2012 with the Report of the Auditors 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. K. N. J. Balendra, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. A. R. Rasiah, who retires by rotation at the Annual General Meeting as a Director.
6. To re-elect Mr. M. E. Wickremesinghe, who retires by rotation at the Annual General Meeting as a Director.
7. To elect Ms. R. N. K. Fernando as a Director pursuant to Article No. 91 of the Articles of Association of the Company.
8. To elect Mr. K. O. V. S. M. S. Wijesinghe 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
22 February 2013

Notes

Form of Proxy

I/We..... of

..... being a member/members of

Nations Trust Bank PLC., hereby appoint of..... or failing him/her

Mr. A.K. Gunaratne	or failing him
Mr. M.E. Wickremesinghe	or failing him
Mr. A.R. Rasiah	or failing him
Dr. Dushni Weerakoon	or failing her
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. K. O. V. S. M. S. Wijesinghe	or failing him
Mr. C.H.S.K. Piyaratna	or failing him
Ms. R. N. K. Fernando	

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 28 March 2013 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 2013.

.....
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 December 2012 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 2.10 per share on the ordinary shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. K. N. J. Balendra, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. A. R. Rasiah, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. M. E. Wickremesinghe, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Ms. R. N. K. Fernando as a Director pursuant to Article No.91 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
7. To elect Mr. K. O. V. S. M. S. Wijesinghe as a Director pursuant to Article No.91 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

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 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 :

www.nationstrust.com