

Annual Report 2013

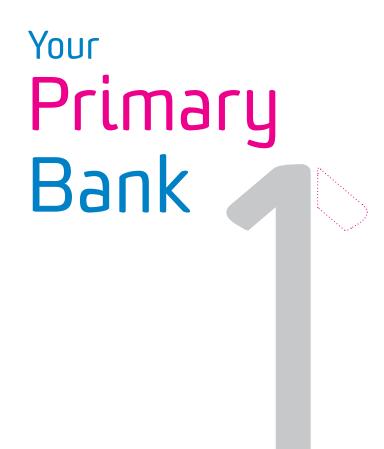
Your Primary Bank

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Your bank plays a central role in your day-to-day life. Partner, friend and advisor - often a significant voice in your most life-changing decisions, your relationship with your bank can easily grow to be much more than that of principal and agent.

In a competitive world of rapidly evolving industry standards, hundreds of voices vie for attention. Yet to deliver technologically superior best-in-class products and services with speed and consistency is no easy task. That's why finding a single perfect bank is so hard.

At Nations Trust, we want to be that bank. Over the last five years we have structured and built our offering to be diverse, strategic and very comprehensive. Now we are ready to take a quantum leap in the marketplace, confident of our promise to deliver world-class products and services powered by our deep local understanding of what modern Sri Lankans need and want. All this combined with an unmatched digitized service experience and an islandwide network that we are still expanding.

Our vision is very clear. We are ready to take our place among the front-runners of our industry. We are ready to be every Sri Lankan's Primary Bank.

Nations Trust Bank. Your Primary Bank

Annual Report 2013

About Us

The Bank has increasingly focused on online technologies in order to deliver better, more convenient services to our customers.

We understand that while personalized service is always important, the wave of the future is online access.

Vision

Making life simple by being the benchmark of convenience.

Mission

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

Values

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



Financial Highlights

Our long-term strategies and investments into the bank have delivered clear results. We realize that the future will be technology-driven and we will evolve to stay ahead.

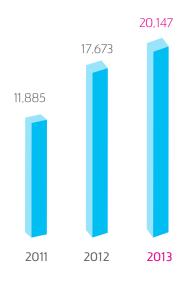
Adaptability will always be part of our plan for the future.

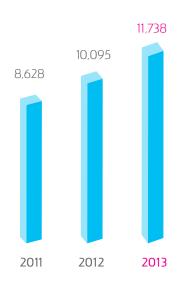
	2013	2012	Change
D. H. CH. V.	LKR Mn	LKR Mn	%
Results of the Year	9,459	7,883	20
Operating Income	3,151	2,750	15
Profit before Income Tax	1,015	815	25
Income Tax Expense	2,127	1,951	9
Profit for the Year			
At the Year End			
Shareholders' Funds	11,738	10,095	16
Deposits from Customers	95,730	86,274	11
Loans and Advances (Net)	82,327	73,424	12
Total Assets	142,128	122,447	16
Information on Ordinary Share			
Earnings per Share (LKR)	9.22	8.46	9
Net Assets Value per Share (LKR)	50.9	43.78	16
Market Value at the Year End	62.20	56.00	11
Ratios			
Return on Average Assets (%) (After Tax)	1.61	1.74	-7
Return on Average Shareholders' Funds (%)	19.49	20.84	-6
Capital Adequacy Ratios			
Tier I (%)	14.78	13.82	7
Tier II (%)	20.00	18.18	10

Gross Income

(LKR Mn)

Equity (LKR Mn)



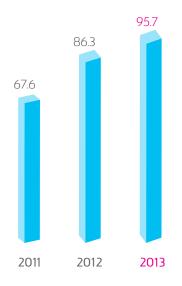


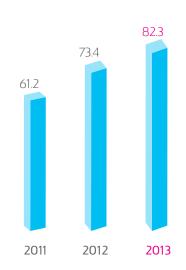
Deposits

(LKR Bn)

Loans & Advances

(LKR Bn)





Financial Highlights



Loans growth rate

Outpacing industry growth rate of 8.8 %

Deposits Total Deposits by end 2013

Loans and Advances

Total Loans and Advances portfolio by end 2013

A liquid and a well capitalized Statement of Financial Position

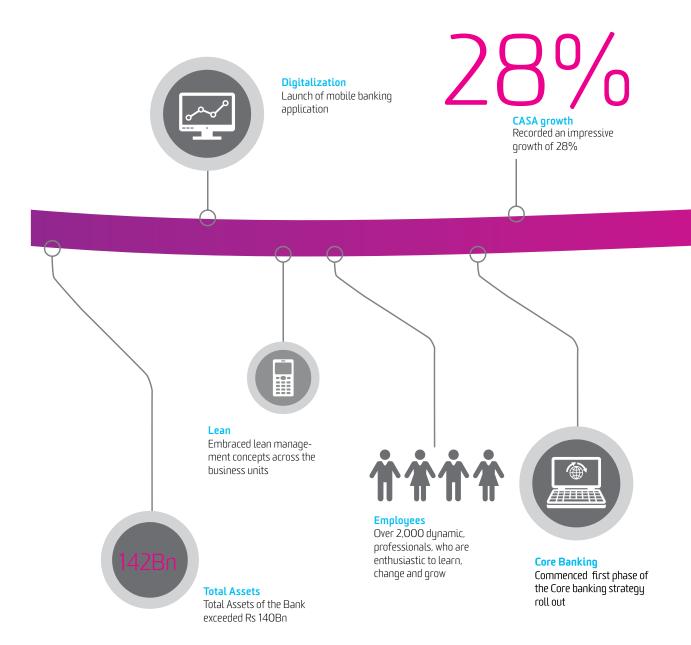
Total assets by year end

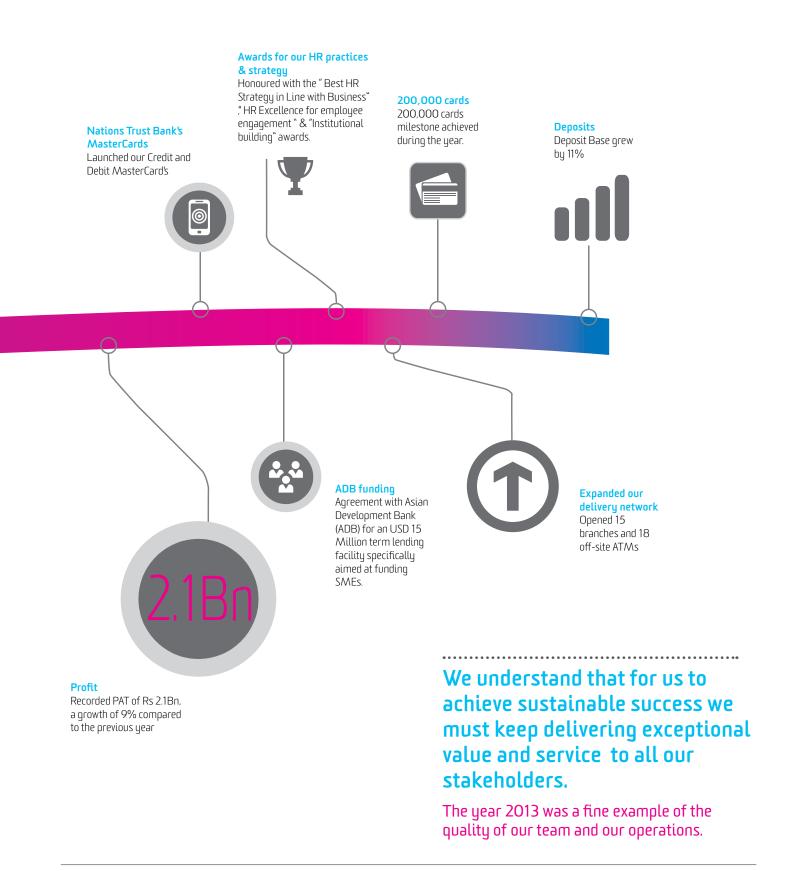
Capital Position
Total capital base for the Group by year end

ROE

Return on equity for the Group by year end

Highlights of 2013





Chairman's Message

A. K. Gunaratne Chairman

It gives me great pleasure to present to you the Annual Report of your Bank for the year 2013. I am proud to say that your bank has once again proven its mettle in the face of yet another challenging year. Characterized by a series of external influences and monumental internal change, the year was one of much transition and adjustment for the Bank. It is indeed very gratifying to see how well the bank has adapted to change in readiness to become your primary bank for the future.

Global Economic Survey

Notwithstanding improved global financial conditions and reduced short-term risks, the world economy demonstrated only tentative signs of recovery in 2013. With a gradual pickup in economic activity observed towards the end of the year, the global economy recorded measured growth of 2.9% for the year 2013.

The performance of key global economies also displayed signs of cautious growth during the year, led by the efforts of the US government to ignite economic growth and reduce unemployment.

However, despite the notable drop in sovereign bond risk premia, any real growth continued to elude many countries in the Eurozone area, in the face of severe austerity programs. In Japan, the bold expansionary policy actions adopted by the monetary and fiscal authorities did manage to spark a measure of short term economic activity during the year.

On the other hand developing countries and economies in transition continued to register much healthier growth for the year. Responding to the economic slowdown of the last two years, many of these economies in East Asia, South Asia and Latin America, adopted more expansionary monetary policies in order to strengthen domestic demand. Although these steps did result in the expansion of these economies, it was nevertheless at a slower pace than expected.

2.9%

Estimated global economic growth

Overview of Sri Lanka's Economic Performance

Mirroring the trend of emerging economies, Sri Lanka too continued to grow steadily during 2013 while significantly outpacing global growth rates for the year. With infrastructure investments spearheading the economic development in the country, the country's performance yet again substantiated the managed growth model established in the preceding year and achieved a robust estimated growth of 7.2%. Meanwhile, headline inflation remained at single digit levels and stabilized towards the end of the year leading to a decline in core inflation levels. This is the lowest level recorded since March 2012 and is also the longest period that inflation has remained at single digit levels following the liberalization of the economy.

Characterized by a series of external influences and monumental internal change, the year was one of much transition and adjustment for the Bank.

Your bank has once again proven its mettle in the face of yet another challenging year.



Listen to the Chairman's Message online...



Chairman's Message

A. K. Gunaratne Chairman

The Fiscal sector saw the budget deficit declining to 5.8% of GDP from 6.4% in the previous year. Debt to GDP ratio improved slightly to 78% from 79.1% in 2012. In the external sector, exports continued to improve, heightening expectations of a sustained growth in export proceeds. Imports, meanwhile, recorded a marginal decline during the year, despite the modest pickup observed in the latter part of the year leading to the narrowing of the trade gap as at 31st December 2013.

With no notable fluctuations, the currency also remained stable during the year, indicative of the greater resilience of the rupee compared to most other currencies in the region. Meanwhile, Foreign Direct Investment surpassed the USD 1Bn mark for the third consecutive year while Foreign Remittances accounted for more than USD 6.7Bn. The Foreign Reserves increased by USD 200Mn to USD 7.1Bn while the unemployment figure also declined to 4.5%.

Banking Industry Highlights

The lack of demand for credit remained the key factor impacting the performance of the entire banking industry during 2013. Hampered by the absence of a suitable credit appetite, the banking industry continued to be affected by excess liquidity. The problem was further exacerbated as no visible credit appetite materialized despite the interest rate cuts introduced by the CBSL during the year. The loans and receivables portfolio of the industry grew by 9% while customer deposits grew by 15% during the year.

The lack of demand for credit remained the key factor impacting the performance of the entire banking industry during 2013.

The problem was further exacerbated as no visible credit appetite materialized despite the interest rate cuts introduced by the CBSL during the year.



Consistent Success

Amidst industry challenges impacting certain business segments, the Bank ended the year on a positive note, with post-tax profits of LKR 2,127/Mn, a YOY growth of 9%. However, despite a commendable top-line growth of 19%, bottom line growth was restrained by increases in operating expenses attributable to the strategic initiatives rolled out during the year.

A detailed analysis of the Bank's performance is provided in the CEO's Review, Management Discussion and Analysis and in the Audited Financial Statements of this Annual Report. Ensuring greater value creation for stakeholders being the primary aim of the Bank, I am pleased to recommend for the approval of the Shareholders at the AGM, a First and Final Dividend of LKR 2.10 per share. This will amount to an effective Dividend Payout in the hands of the shareholders of LKR 455Mn, as against the LKR 439Mn in the previous year after adjusting for withholding tax.



The future looks promising for us as we position the Bank to reap the benefits of the economic opportunities.

Timely Change

Envisaging a key role for ourselves in Sri Lanka's long term economic transformation, we initiated a five year strategic mapping exercise to ensure that we attain our goal of being the primary banker to all our customers.

The strategy, enabled by a comprehensive road map will endeavour to deliver to our customers an unparalleled banking experience that goes well beyond the conventional brick and mortar banking principles. In achieving our goal, we hope to build on our core competencies and grow our island-wide presence. Moreover, by leveraging on state-of-the-art technology we expect to lead by innovation to deliver a more dynamic customer proposition. Embracing a holistic view to banking, we expect to pursue a broader customer and product matrix to cross sell our product offerings and explore new markets and territories in the country. Well aware that service is of paramount importance, we will also revamp our service architecture to headline a more customer-centric approach that would undoubtedly result in a new dimension of customer service. Finally, by adopting stringent process management strategies associated with

lean management concepts, we expect to transform our operations to achieve an agile future-ready business model that will drive Nations Trust to the pinnacle of Sri Lanka's banking industry.

Seeing the first phase of this ambitious transformation programme being rolled out in 2013, I am deeply gratified to witness the enthusiasm with which the entire Nations Trust team has responded to change. It is indeed a proud moment for me, to see their willingness to accept change and thereby build the future success of your bank.

Looking ahead

The future looks promising for Nations Trust as the Bank positions itself to reap the benefits of the economic opportunities being created in the country. In the light of the CBSL's Road Map for 2014 encouraging industry wide consolidation in the banking and non-banking finance sector in order to ensure financial system stability, I believe the implementation of the outcomes of the five year strategic mapping exercise comes at an opportune moment for the Bank. While transforming into a smarter, more agile, responsive business, the ensuing changes would help better combat market challenges through faster deployment and integration mechanisms that will ensure consistent and sustainable future growth for your hank.

Appreciations

I wish to express my sincere appreciation to the Board of Directors for the support and wise counsel extended to me at all times. I also take this opportunity to warmly commend the Chief Executive Officer, the senior management and the entire staff of Nations Trust for their unwavering commitment and dedication to deliver success to all our stakeholders. I would also like to acknowledge the support and guidance of the Governor and the officials of the Central Bank of Sri Lanka. I also thank M/S Ernst & Young, our external auditors for their valuable input. My gratitude also goes out to our valued customers and business partners for their continuing support and acknowledge their valued patronage. I wish to thank our shareholders for the trust and confidence placed in the Bank.

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A. K. Gunaratne Chairman

24 February 2014

Chief Executive Officer's Review

Renuka Fernando Director/CEO

The year 2013 was a challenging one for the banking industry. After two years of rapid growth, demand for credit slowed down to a trickle despite an aggressive monetary policy framework adopted by regulators to stimulate investment and economic growth. Despite the adverse impact this had on the banking industry's growth in revenue and profitability, Nations Trust Bank was able to continue on its growth trajectory recording a 19% and 9% increase in revenue and PAT respectively. The significance of these achievements should be measured in the light of investments made in developing the infrastructure for our long term strategy, led by rapid expansion of our branch and direct banking channels, re-engineering of our business processes and implementing a new core banking system. In that respect, 2013 could be deemed as the cornerstone of the foundation on which the future of Nations Trust Bank will be built. Hence it is with a sense of deep fulfillment that I present to you the performance of your bank for the year ended 31st December 2013.

Macro-economic Overview

The global economy experienced mixed fortunes during the year. The hitherto rapidly growing emerging markets lost some growth momentum during the year as a result of lackluster international demand for their exports and contraction in domestic growth momentum. In the developed economies, monetary authorities adopted policy aimed at keeping interest rates low to stimulate growth. These economies saw positive signs of recovery towards the last quarter of the year. The US Federal Reserve announced its intentions of scaling back quantitative easing towards the latter part of the year. This adversely impacted a number of emerging markets such as India and Brazil which saw significant outflows of foreign funds, thereby putting pressure on their exchange rates and increases in policy rates. Sri Lanka however remained relatively insulated from this mainly due to the attractive returns on investments that continued to prevail in the market. The challenge for Sri Lanka in 2014 will be to continue to attract investments in the face of less attractive returns.

Inflation eased to single digit levels averaging at 6.9 % for the year

Sri Lanka's economy continued its stable growth path with GDP growth accelerating in the latter part of the year. The country is estimated to post a healthy 7.2% growth for the year, albeit below forecast.

The monetary policy initiatives for 2013 were geared towards arresting the deceleration in private sector credit growth while controlling inflation. Inflation eased to single digit levels with YOY inflation recorded at 4.7% in December 2013 from around 9.8% in January 2013.

The monetary policy initiatives for 2013 were geared towards arresting the deceleration in private sector credit growth.

Nations Trust Bank was able to continue on its growth trajectory... the significance of these achievements should be measured in the light of investments made in developing the infrastructure for our long term strategy, led by rapid expansion of our branch and direct banking channels...



Listen to the Chief Executive Officer's Review online...



Chief Executive Officer's Review

Renuka Fernando
Director/CFO

Subsequent to the policy rate reduction in December 2012, the Central Bank eased policy rates by 0.5% in May 2013, swiftly followed by a further reduction of 0.5% in October. Hot on the heels of declining interest rates, a 2% reduction in Statutory Reserve Ratio (SRR) was also sanctioned by the CBSL from July 2013, further easing the pressure on interest rates and creating excess liquidity in the market. Private sector credit, however, remained unresponsive and sluggish. Overall annual credit growth, closed at 8.8% in 2013 compared to 21.1% in 2012. Both import and exports showed signs of recovery in the latter part of the year with the trade deficit shrinking to USD 8,594Mn compared to USD 9,313Mn in 2012. The Sri Lanka exchange rate was more resilient compared to other currencies in this region mainly due to limited impact to the currency as a result of foreign funds outflows



the year



Banking Industry Overview

Notwithstanding the high levels of liquidity prevailing in the market, and the efforts made by the Central Bank of Sri Lanka (CBSL) to spark private sector credit growth, the persistent lack of credit appetite in the market continued to plaque the entire banking industry, severely hampering any real growth prospects in 2013. The AWPLR eased to 9.9% p.a. in December 2013 from 14.1% p.a. in January. Market rates were further eased when the CBSL imposed a ceiling on lending rates at 24% p.a. Consequently, with the growth in the industry Loans and Advances falling short of expectations, excess funds continued to be invested in lowyielding liquid assets, resulting in a sharp decline in banking industry net interest

margins. Correspondingly, NPLs across the industry shot up mainly stemming from the pawning debacle which saw gold prices tumbling. The industry faced unprecedented levels of NPLs and impairment provisions resulting from the deterioration in security values. Industry NPLs closed at 3.8% by the end of the year.



72 Total Branches by uear end

Given the uncertain market conditions that prevailed in 2013, I am happy to report that our overall performance has been more than satisfactory.

Amidst the innumerable challenges that befell the industry during the year, we have remained resilient, demonstrating consistent returns.

Realigning Strategic Ambitions

In late 2012, driven by our vision to be "The Benchmark of Convenience", we redefined our strategy and set up a roadmap to quide us towards our objectives for the next five years. It reflects our ambitious growth plans and our goal to become our customers' Primary Bank, especially to the bank's target customer groups and segments. The first phase of this plan was rolled out in 2013. While leveraging on our strengths, this comprehensive, multi-dimensional agenda to refocus ourselves was a timely move, and is expected to transform our bank to deliver unprecedented value to all our stakeholders. We embarked on a series of initiatives which were geared towards expanding and enhancing our delivery and distribution capability, bringing payment excellence to the Sri Lankan market, increasing and improving our product and services range to meet the life cycle needs of our customers, and using state of the art technology to bring convenient digital solutions to our customers and enhancing our operational efficiencies and productivity of our resources.

Key Performance Highlights

Given the uncertain market conditions that prevailed in 2013, I am happy to report that our overall performance has been more than satisfactory. Amidst the innumerable challenges that befell the industry during the year, we have remained resilient, demonstrating consistent returns. Our agile strategies and versatile business model was successfully able to counter the negative market conditions and in most part, achieve our targets for the year.

Your bank recorded a net profit after tax of LKR 2,127Mn against the backdrop of low credit demand, which constrained the growth in our Loans and Advances to 12%.

Group net interest income increased by 33% compared to the previous year, with a corresponding improvement to net interest margin. Although yields on loans and advances came under stress due to low credit demand and regulatory caps on interest rates, the gradual decline in cost of deposits coupled with improved spreads on the Fixed Income Securities portfolio produced a positive impact on our net Interest margin movements.

Fees and other non funds based income also recorded a growth, with a notable contribution from fees and commissions generated from the credit card business. With the slowdown in the economy, trade finance income fell below the level recorded in the previous year. Net foreign exchange trading results recorded losses during the year under review, in large part owing to the marked to market losses arising from SWAPs done to generate rupee funding. These losses came to light as a result of the drop in Fx forward premiums, resulting from the decline in domestic rates.

Operating expenses recorded a growth of 23% mainly attributed to the costs associated with the implementation of the strategic initiatives across the Bank. The largest contributory factor to the increase in the cost base was on account of the one-off consultancy fees incurred for the development and execution of productivity enhancement processes and cost efficiency concepts across key areas of the Bank.

Chief Executive Officer's Review

Renuka Fernando
Director/CEO

The Bank's pawning business was affected by the volatile gold prices that continued to distort markets throughout the year.

Timely action taken to limit exposures at an early stage managed to limit the adverse impact on our portfolio, indicating our agility and responsiveness in managing fast changing market conditions.

Business Review

With the lackluster demand for credit leading to a rate war within the industry coupled with intensified activities in the Corporate debt market, we experienced a contraction in our Corporate Loan book during the year. In a bid to mitigate these adverse developments we continued our thrust into new market segments, with the intention of bringing diversity and stability to our Corporate portfolio.

Encouraged by the success of moving into a broader market segment in 2012, our leasing business implemented a robust risk-reward based pricing model and realigned the mix between Finance Leases and Hire Purchase. The business also reviewed and reconfigured the mix of asset classes in our portfolio to brace ourselves against potential adverse developments in the market, not only did this help us to grow our volumes, placing us as the largest acquirer of new business among the commercial banks in 2013, but also succinctly laid the groundwork for a more stable and dynamic business blueprint for the future.

As interest rates continued to decline, the Central Bank of Sri Lanka sanctioned a further reduction of the credit cards interest rate ceiling to 24% in line with the interest rate ceiling on other banking activities. This posed a series of new challenges for the Cards business which managed to minimize the impact on the top line revenue by accelerated credit card acquisitions penetrating new markets and increasing spend volumes.

The Business celebrated the 10th year as the sole franchisee in Sri Lanka of the American Express flagship Centurion Line. It is with a sense of pride that I place on record that during this period Nations Trust has successfully acquired one of the highest market share percentages globally, for the American Express franchise. During the year, your bank also commenced the issuing of Mastercard for identified market segments. With the intention of being the primary bank for the upper and mid segment customer, we sought to position our credit cards and payment solutions to fulfill the needs of this growing market across all regions of the country.

In our retail banking business we continued to perform strongly in the mid market segment. We introduced new products such as the Salary Saver and the debit card branded as the Nations Shopping card, intended to meet the life cycle needs of our customers. We revitalized our Consumer Loan offer aimed at providing our customers with a comprehensive solution towards meeting their aspirations. With the expansion in our footprint we strategically acquired customers within new geographies and continued to strengthen the digital banking and delivery capability with the expansion of our ATM network and acquisition of customers to our mobile banking platform.

The Bank's pawning business was affected by the volatile gold prices that continued to distort markets throughout the year. I am indeed heartened to add, that the timely action taken to limit exposures at an early stage managed to limit the adverse impact on our portfolio, indicating our agility and responsiveness in managing fast changing market conditions.

Our move into the SME sector continued to gather momentum as we increased our presence across the country in new geographies. We initiated a series of programs to enhance our value proposition to the Small and Medium Enterprise customer in terms of faster turnaround times and a wider products and services range to meet the evolving needs of their businesses.

We commenced the implementation of a SME scorecard and took a number of new measures internally to strengthen our risk management capabilities, especially in our approval and collections processes, as we increase our credit underwriting.

During the year, the Assets and Liability Committe (ALCO) skillfully managed the Banks' funding and pricing to effectively manage the impact of fast changing interest rate and market liquidity. Meanwhile, in cognizance with our long term strategy we also pursued long term funding alternatives, key among them being the USD tranche negotiated with the Asian Development Bank and the LKR 3.0Bn 5 year Debenture, issued in December 2013.

 142_{Bn}

Total Assets by year end

Going Beyond the Norm

Much of the groundwork to support the long term strategy of the bank was put in place in 2013. It involved people, processes and systems across our entire organization. This is expected to be the catalyst in driving Nations Trust's strategic aspirations in the next few years. Focusing predominantly on augmenting our core competencies, the transformation exercise features a three pronged approach that would ensure a versatile, "future ready" business model.

Firstly we launched a wide scale branch transformation strategy during the year, bringing a far greater degree of customercentricity to our branches by redefining our existing sales and service intensive model. The operating structure within the branch was strengthened with the introduction of a number of sales tools and service processes, to create a much stronger understanding of our customer's needs and to consolidate the branch as a one stop shop to meet the financial needs through out their lifecycle. The aggressive expansion of the island-wide branch network forms a key part of our delivery and distribution strategy.

Our second objective is to achieve operational excellence and benchmark productivity standards. Your bank took the transformational step of introducing lean management concepts across the entire organization. Adoption of lean

methodologies will be an ongoing process in the Bank and will form part of our DNA in the future.

As part of this exercise, during the year we have commenced the redesign of a number of key critical processes in the Bank, aimed at improving our transactional delivery, with faster customer turnaround times and higher productivity of our resources. We have also invested in state of the art technology including a workflow management system to facilitate this process. I am confident that as we progress through the different phases of the lean implementation and bring it as part of the bank's operational culture, we will be able to deliver benchmark standards of customer convenience while improving our productivity ratios in the face of growing transactional volumes

The third aspect of our strategy was recognizing the need to take our business to the next generation in financial services.



Become the most admired financial services brand in Sri Lanka

Chief Executive Officer's Review

Renuka Fernando
Director/CFO

We believe that the increased regulatory reporting and monitoring requirements coupled with the accelerated development and growth anticipated in our country and the rapid move towards a digitalized world mandates a core banking system capable of meeting not only the present, but also the future needs of the bank. During the year we completed a stringent evaluation process, after which we procured the services of Infosys Corporation in India to deploy a best in class core banking system which we are confident will meet the demands of our strategic aspirations.

Nurturing Human Capital

Being able to successfully manage short term objectives in the face of difficult market conditions while concurrently investing in long term strategic initiatives demonstrates our strength and versatility.

I believe our ability to effectively manage these challenges while driving a paradigm shift within our business is largely due to the resourcefulness of our management and staff. Given the importance of human capital as a key driver of the business, we will continue to provide an enriching work environment that inspires all our employees. With an island-wide staff cadre of over 2,000 we remain committed to developing our employees and nurturing them to become true professionals in their chosen fields. The HR awards, both local and international, received during the year, are indeed a testament to our global standards in talent management and development.

Commitment to Excellence

I believe our success, over the years has also been due to the "passion" we have for all what we do. Whether it is servicing customers, delivering value to shareholders, working for the betterment of society or managing our carbon footprint, Nations Trust has remained firm in delivering sustainable value to all stakeholders. Operating strictly within a framework of business ethics and integrity

which are our core values, we will continue to generate meaningful returns to all these stakeholders. Supported by our diligent governance, compliance and risk management structure, we strive to develop a secure, yet responsive business model that will spearhead future growth.

As in the past, our CSR activities focus on empowering the community and uplifting social standards across the country. Our efforts are directed towards bringing consistent social changes that would have national impact in the future. Developing a deeper understanding of our accountability and responsibility in this manner, we will continue to fulfill our role as an exemplary and responsible corporate citizen in Sri Lanka.

Given the importance of human capital as a key driver of the business, we will continue to provide an enriching work atmosphere that inspires all our employees.

The HR awards, both local and international, received during the year, are indeed a testament to our global standards in talent management and development.

Looking Ahead

With most of the foundation for the five year strategy laid out, we look forward to capturing market share within new geographies and deepening our relationships with all our existing customers as we reap the benefits of our branch transformation and expansion strategy. In parallel, I believe that with the entrenchment of lean principles within our operational philosophy, we will be able to provide our customers with transactional and payment delivery excellence, while moving our bank towards achieving global standards in productivity and operational efficiencies. We expect to complete the migration to our new core banking system within the first half of 2014. This final phase of the process would culminate in our ability to introduce much more versatile products and bring service enhancements that would help us to better service our customers in the future.

With Sri Lanka set to reach a USD100Bn economy in the years ahead, I believe, our transition is indeed a timely and necessary move that would bring multiple growth opportunities for the Bank in the years ahead.

Appreciations

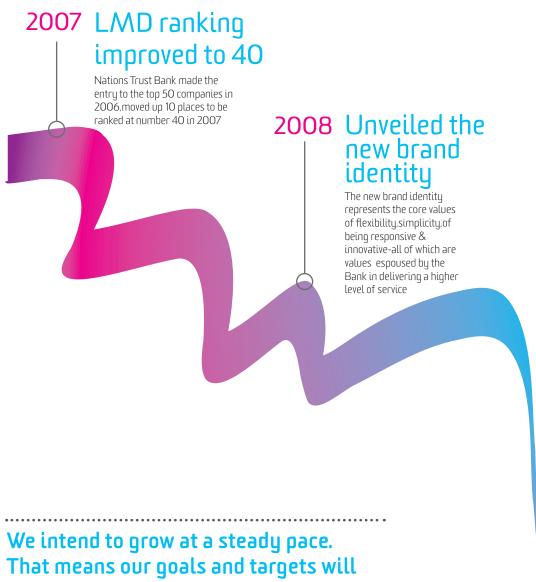
This year has been a particularly challenging one for all of us at the Bank and I am deeply grateful for the strength and resilience of our staff. It is their unwavering support and enduring perseverance which has empowered our journey towards a quantum leap in our

business. My sincere appreciation goes out to the Corporate Management of the Bank who have been tireless in their efforts to help navigate the monumental changes that we have undergone during the year. I also wish to thank the Chairman and my colleagues on the Board for their wise counsel, and unstinted support at all times. They have been an immense source of strength. I wish to express my gratitude to the Governor and officials of the Central Bank of Sri Lanka for their quidance and continued support. Thank you also to Messers Ernst and Young, our external auditors for their valuable input. In conclusion I am deeply thankful to all Nations Trust customers and shareholders for their loyalty and valued patronage. While assuring you of our best services at all times, I seek your esteemed support to ensure the sustainable development and growth of Nations Trust Bank in the years ahead

Renuka Fernando Director/CEO

24 February 2014

Our Journey 2007-2013



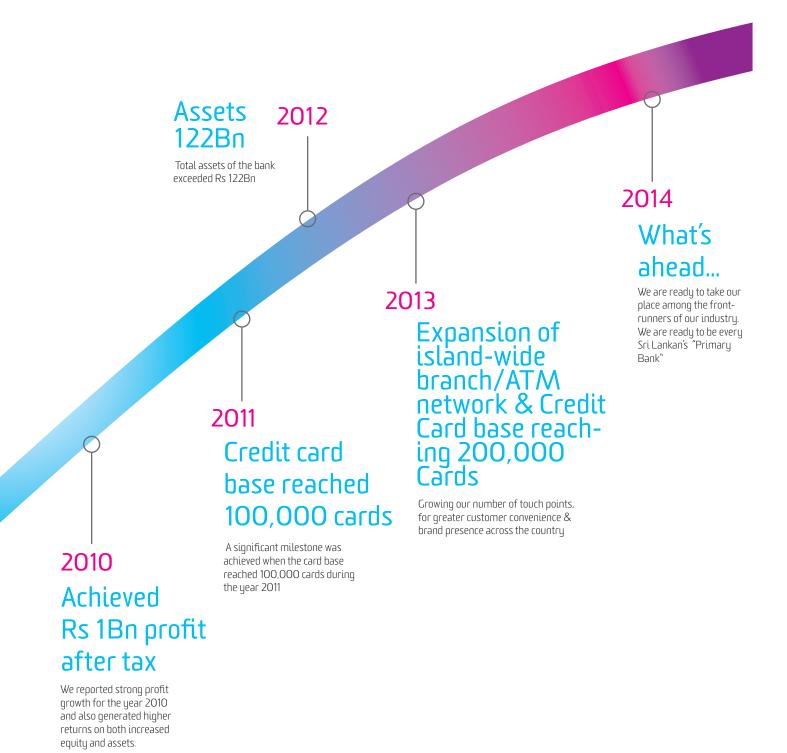
Expanded our branch net work to North

With the end of 30 years civil war, economic activity revived in the North & East province of the country. The Bank made in roads to North & East with the opening of Vavuniya branch



change as well.

We know that technology and regulation will change many aspects of our industry but we will remain faithful to the strategies of innovation and flexibility that have steered us so far.



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Management Discussion and Analysis

We have a unique franchise, expertise in product verticals, a balanced mix of businesses and a strong performance driven culture. These pillars of success have steered our performance over the years as demonstrated by our sustainable and growing returns.

We have concluded yet another successful year on our sustainable model. As we resolutely march forward embracing change we remain committed to our vision, mission and values upholding integrity, creativity, teamwork and innovation.

Global Economic Overview

In 2013, the global economy finally showed signs of gradually emerging from the economic downturn experienced in the past two years. However, despite the improved economic fundamentals in the west, global GDP growth was hesitant at best, reaching only a passive 2.9% for the year. Although broad policy initiatives introduced by key economies in late 2012, did manage to reduce global financial risks and create a measure of stability in consumer, business and investor confidence during 2013, these measures failed to influence global growth patterns for the year.

In the US, improving economic fundamentals did manage to circumvent the looming fiscal cliff. Moreover, as the recovery in the housing market began gathering momentum, the US government

further eased monetary policy regulations in a bid to stimulate the economy. However, despite the strengthening private sector demand throughout the 2013, automatic spending cuts and uncertainties associated with budget issues put a damper on overall consumer spending in the US, in the latter part of the year. Across the Atlantic, in the Eurozone area, as debt-ridden countries continued to struggle, austerity measures, prevented any real growth momentum from taking hold. On the other hand in Japan, the bold expansionary policy actions adopted by the monetary and fiscal authorities managed to ignite only a short term burst of economic activity in the country.

Emerging economies on the other hand continued to post robust growth throughout 2013. Measures taken by many of the larger Asian and Latin

American countries in 2012, to counteract the global economic slowdown, came into fruition during 2013. These steps focused primarily on introducing a more liberal monetary policy, while restructured fiscal alternatives were intended to strengthen domestic demand within each individual country. With the slight upturn in external demand many of these countries did manage to rekindle the flames of economic expansion in 2013. However, the pace of the upturn was slower than initially expected as many large economies in this group, including Brazil, China, India and Russia were faced significant structural challenges. Notwithstanding these challenges many lesser developed countries (LDCs) registered above average growth in 2013 easily outperforming global growth throughout the year.

Sri Lanka's Economic Performance

Sri Lanka's economy performed commendable well during 2013. With key sectors expanding well, GDP growth gradually picked up throughout the year, accelerating considerably towards the third and fourth quarters registering and estimated growth of 7.2%. for the year.

The external sector too showed signs of strengthening, with export earnings reaching record levels, in the latter part of the year. Meanwhile expenditure on imports continued to decline resulting in the contraction of the trade deficit. Moreover, higher inflows to the services account together with a growth in private transfers contributed towards a reduction

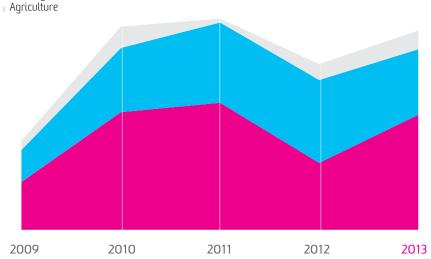
in the current account deficit, while growth in the external sector culminated with the higher inflows in to the financial account, led to a surplus in the country's Balance of Payments (BOP) for the year.

The rupee remained relatively stable throughout 2013 with no significant changes. Having since attained a measure of consistency, the stability of the rupee is bound to add a considerable boost to the country's growth prospects for the year ahead.

GDP Growth Composition

(%)

- Services
- Industry



Banking Industry Highlights

Continuing with the measures initiated in late 2012, the Central Bank of Sri Lanka (CBSL) further eased the country's monetary policy regime, in a bid to stimulate private sector credit appetite. Consequently, in response to the quantitative easing of the monetary

Inflation rates for the year remained stable, following the passive international commodity prices together with reduced domestic supply side pressures. Amidst well contained demand driven inflationary pressures, inflation continued to remain at single digit levels throughout the year, averaging at 6.9% for 2013.



Sri Lanka's GDP growth in 2012 and 2013 (estimated)

Management Discussion and Analysis

72.4_{Bn}

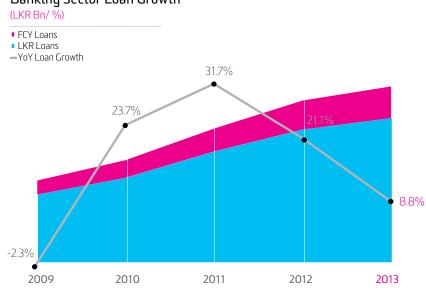
Growth in Banking sector assets for the year 2013 which recorded a 16.6% growth compared to 19.9% for 2012.

policy, market interest rates continued to adjust downwards throughout the year, with AWPR declining steadily to settle at 9.96% by the end of the year.

However, despite the CBSL's stimulus package, the private sector failed to ignite any lasting credit momentum, except for a brief respite in October 2013, where a momentary rebound was observed in the private sector credit, the demand for credit continued to slowdown during the year.

Underpinning the lackluster credit appetite that persisted throughout the year, the subdued 8.8% growth in the loans and advances portfolio for 2013 is a sharp contrast to the year - on year (YoY) growth of 21.1% recorded in the previous year. Moreover, despite the banking sector assets reaching approximately LKR 6 Tn

Banking Sector Loan Growth



as at the end of the year, the resulting YoY sector expansion was only 16.6%, a notable drop from the YoY 19.9% sectorial growth recorded in the preceding year.

With no visible credit appetite the excess liquidity in the market edged up investments in government securities. Meanwhile, the quality of the lending portfolio also deteriorated during the year, pushing up industry NPL's, in large part due to the slow growth in advances together with the distressed pawning portfolio caused by catastrophic upsets in international gold markets. Consequently, led by a dramatic reduction in the demand

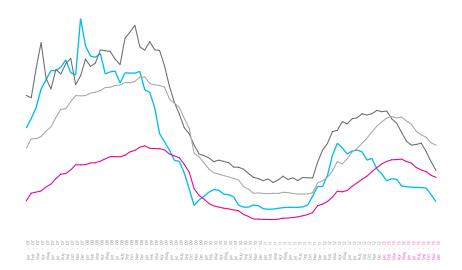
for pawning products, the pawning portfolio continued to suffer, edging up the share of pawning NPL's to12.7% well in excess of the overall industry NPL of 5.6%

Culmination of these factors led to the decline of industry-wide earnings, with Net Interest Income (NII) margins declining to 3.5% from in 4.1% the previous year. This YoY decline of NII's also manifested as a drop in the profitability levels of the banking industry as a whole, further exacerbated by increased operational costs and provisioning charges.



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

- AWFDR
- AWPR
- AWDR
- T-BILL



Management Discussion and Analysis

Creating a robust, future ready business blueprint that truly reflects our banking ideals is the underlying philosophy that has shaped the Banks' strategic focus for the next five years.

Customers remain at the core of all that we do at Nations Trust. We Serve our customers as one unified bank.

OPERATIONS REVIEW

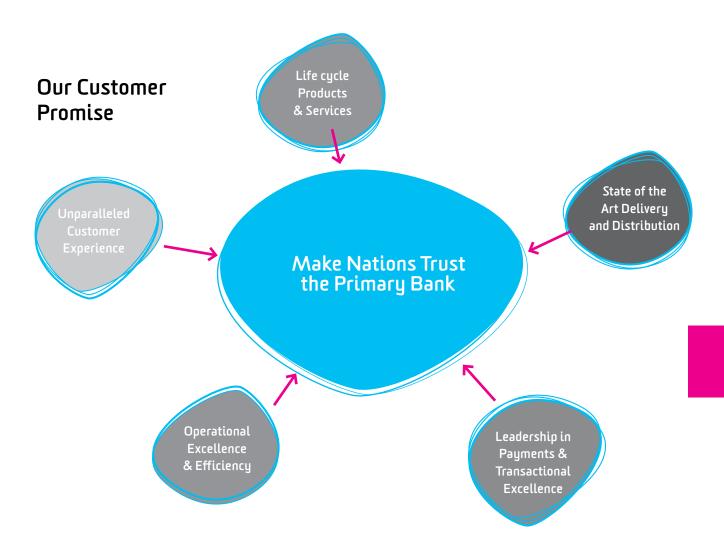
Strategic Refocus

With globalization on overdrive, in the recent past, many modern banks have been put under severe pressure to adopt ad-hoc changes amidst a hypersensitive commercial environment. Often falling short of delivering stakeholder expectations, such ad-hoc changes only underscore the importance of building a long term sustainable business model.

Our approach to such challenges remains firmly affixed to an agile business model that would drive the Bank's commercial aspirations while simultaneously conveying sustainable value to all stakeholders of the business. Creating a robust, future ready business blueprint that truly reflects our banking ideals is the underlying philosophy that has shaped the Banks' strategic focus for the next five years. Conceptualized with the aim of promoting the Bank as the 'Bank of Choice' among all Sri Lankans, the initiatives for the next five years would develop the Banks' core competencies vis-à-vis a well articulated strategic approach that permeates to all aspects of the business. While simultaneously regenerating technology, people and processes, the bold new changes are expected to reset the benchmark for banking standards in Sri Lanka in the future.



Become the most admired financial services brand in Sri Lanka



Our Customer Promise

Customers remain at the core of all that we do at Nations Trust. While our operational status quo follows a multifaceted business structure, we serve our customers as one unified bank. Underpinned by our fundamental values, we seek to fulfill customer perceptions while pursuing excellence at every step along the way. In doing so, the Bank

aspires to embrace a more responsive customer-centric business model that would help determine the pulse of the customer and enable us to gain a deeper understanding into customer needs. By imbibing this robust customer – centric approach into the course of every-day business, the Bank expects to stay ahead of the league and justify it's position as the "Primary Bank" for our identified customer segments.

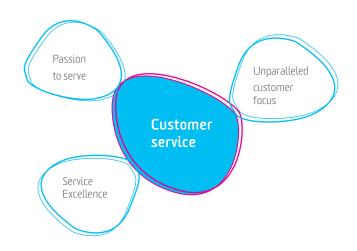
Management Discussion and Analysis

Our Customer Promise Entails...

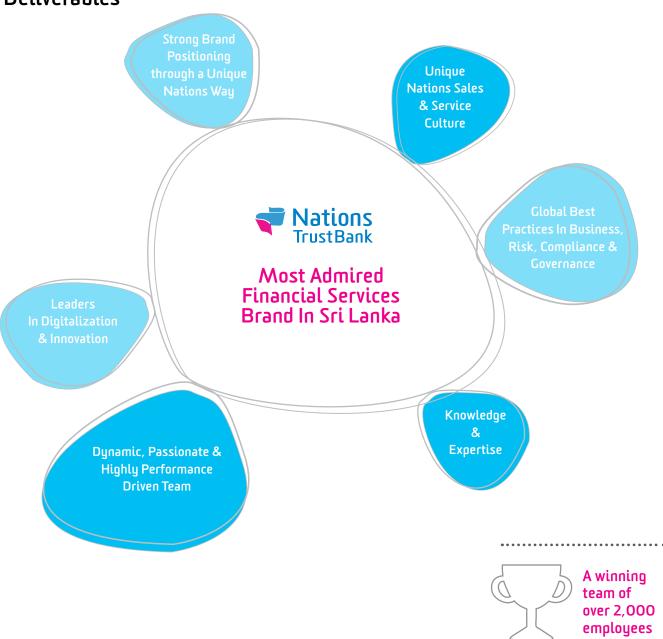
Life Cycle Products & Services	State of the Art delivery and Distribution	Leadership in Payments and Transactional Excellence	Operational Excellence and Efficiency	Unparalleled Customer experience
Offer all products to suite customer life cycle	• 365 days banking, Extended hours	• Credit Cards	Lean management as a core competency	One customer proposition across the bank
Continuos innovation to address customer needs	• Expanding reach – Branch/AT/Ms	• Debit Cards	Leverage on state-of-the-art technology	Benchmark service levels
Retention and growth across businesses	Alternate channels	• Utility Payments / ABS		Strengthening customer relationships
	• Digitalization of sales			Nations Trust as the "Bank of First Reference"

Our strategic deliverables

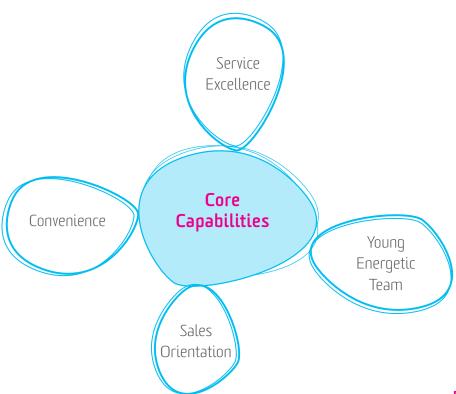
By exploring the economic, social and environmental implications of the business, our strategic deliverables aims to deliver sustainable value to all stakeholders of the Bank. Moreover, by selling Nations Trust unique brand proposition to a wider geographical market, the Bank aims to be the "Primary Bank" for the identified segment. Underscoring these future aspirations, the Bank's strategic deliverables are designed to complement it's mission to herald a new era of banking convenience in Sri Lanka's banking milieu.



Our Strategic Deliverables



Management Discussion and Analysis



Spearheaded by the aim to be "the benchmark of convenience" for the banking public, the Bank continued on its expansion drive in 2013.

Introducing a new dimension to branch banking, the new model portrays the branch as the nucleus of the Bank's delivery mechanism, offering the entire gamut of mainstream banking products under one roof.

Retail and SME Banking

Delivery Network

In just over fourteen years, Nations Trust Bank has certainly made its mark as a multi-faceted banking institution in Sri Lanka's banking sector. Growing rapidly since its inception, the Nations Trust brand has continued to gain momentum, extending its reach across the country. Spearheaded by the aim to be the "benchmark of convenience" for the banking public, the Bank continued on its expansion drive in 2013, to enhance it's footprint and enrich delivery channels and service standards.

The underlying objective of the branch expansion strategy in particular is to increase the Bank's visibility and brand presence across the country and channel the "network effect" to its maximum. In pursuit of this initiative,15 new branches and 18 new off site ATMs were opened during the year. As the customer demand for round-the-clock banking continues to grow, mini-branches within supermarkets were replaced by external ATMs, thereby affording customers with a 24/7 access to their account, supplemented by full service branches in nearby localities.

The Bank continued offering its signature 365 Day Banking and Extended Banking Hours. These pioneering concepts have been validated by the customer demand for its convenience, which is now becoming the banking standard across the industry.

Nations Trust Bank now operates on a nation-wide layout of 72 branches and 100 ATM's.

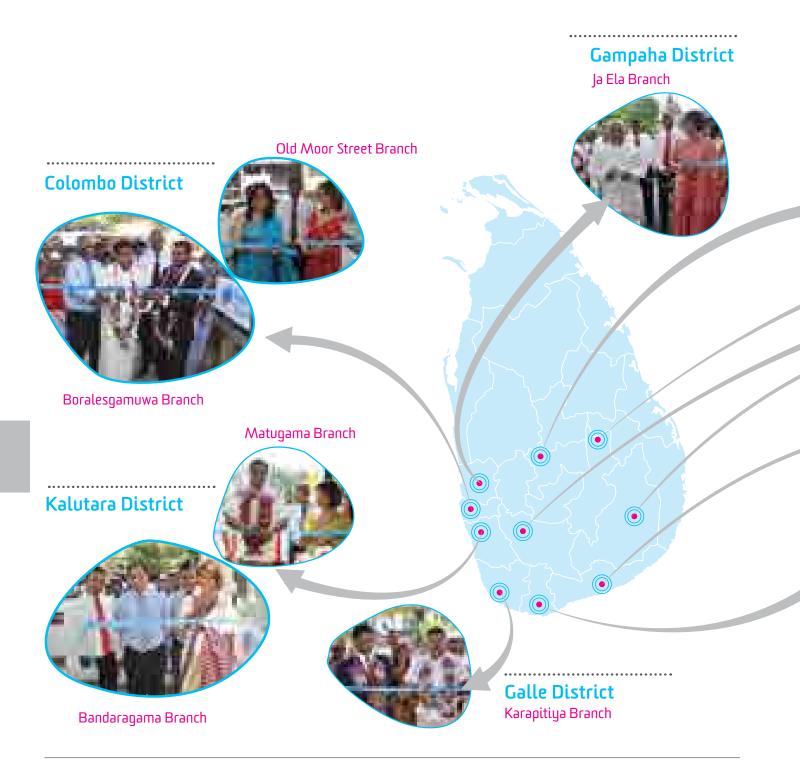


Branches

Creating a new branch model – Branch Transformation Strategy

To deliver an even greater level of convenience to the customer and better value to the Bank, Nations Trust sought to refine the mechanics of the existing branch operations. Laying the groundwork for the transformation, a series of branch re-engineering efforts were launched in 2013. A needs-assessment reviewed the manpower requirements at branch level, while a gap analysis revealed the areas of required skills training. Underpinned by a greater degree of customer-centricity, the new branch transformation strategy aims to feature the evolving needs of the modern customer by streamlining and automating back-end processes, thus providing a better customer experience as well as bringing better cost efficiencies to the Bank. This is supported by a clear demarcation of staff roles and a focus on re-orienting staff in their primary functions, whether they be in sales, customer service or operations. Introducing a new dimension to branch banking, the new model portrays the branch as the nucleus of the Bank's delivery mechanism, offering the entire gamut of mainstream banking products under one roof. When fully rolled out, the transformation process is deemed to be the cornerstone in transitioning towards a more versatile branch model for the future.

Management Discussion and Analysis



Kandy District Katugastota Branch



Badulla District

Badulla Branch



Ratnapura District

Monaragala District Monaragala Branch



Balangoda Branch

Matara District

Akuressa Branch



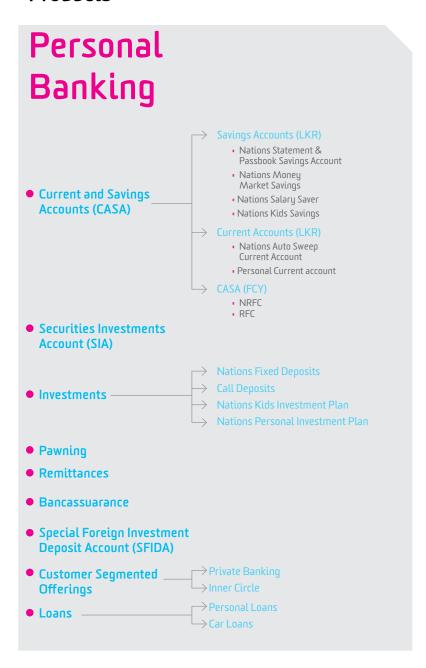
Deniyaya Branch



Embilipitiya Branch



Products



SME

- Business Current Accounts
- Nations Business Investment Planner
- X-press OD
- Post Dated Cheque Discounting facility
- Nations Business Loans



Retail and SME Banking Performance for the year was driven by strong revenue growth of over 20%

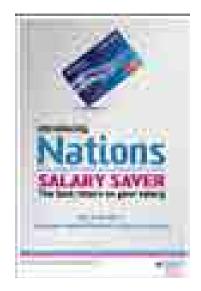
Deposit Mobilization

Amidst a challenging market environment, the performance of the Bank's current and savings (CASA) portfolio recorded and an impressive growth during the year, with annual targets being successfully accomplished. Having continued to experience a steady YoY growth, the portfolio recorded a growth of 22% for 2013, compared to the previous year, indicative of the significant customer confidence in the Bank.

Endorsing the strategy launched in 2012 to secure a larger share of an individual's transactional capacity, business current accounts and personal savings accounts remained the key thrust in mobilizing deposits and growing the CASA book in 2013. Building on these strategies, the Nations Salary Saver was launched in May 2013, in response to the growing customer receptiveness towards tiered products. Targeting the entry level and middle-income segments, the Nations Salary Saver expects to secure a captive

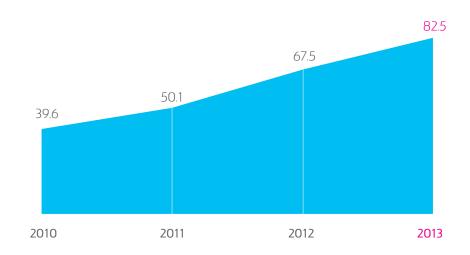
market amongst the salary earners. While introducing a degree of financial sophistication to the customer, these bundled offerings would undoubtedly be a gateway for the Bank to position itself as the primary bank for this target market in the future.

Given the high level of liquidity that prevailed during the year, term deposits also demonstrated a satisfactory performance with the overall deposit portfolio growing by 20%, a clear demonstration of the well-aligned business strategies that drive performance of the segment.



Nations Salary Saver Product launch in May 2013

Retail & SME Deposits (LKR Bn)



82.5_{Bn}

Retail Deposits

YoY Growth of 22%

Consumer Assets

The consumer lending portfolio which was straddled with slow volume growth due to increased interest rates during 2012 emerged as a winning proposition for the Bank during 2013 as disbursements picked-up steadily with good asset margins and payment experience. Central sales teams made significant contribution in building the portfolio as the product picked up momentum with the launch of salary saver bundled offer. The unit continued to push volume through salary saver offer and the variable rate product.

Pawning

Unexpectedly volatile gold prices had a catastrophic impact on much of Sri Lanka's pawning industry in 2013. Understanding the direct impact of the declining gold prices, Nations Trust's pawning arm took preemptive steps to minimize losses. To cushion against volatile price fluctuations the advance quantum was reduced during the year. Moreover, by restructuring

conventional pawning norms, the Bank introduced a new gold loan that would facilitate regular customer settlements and reduce the risk of collateral devaluation. Offering either quarterly or bi-annual settlement options, the gold loan scheme offers customers the ability to access a higher advance by obtaining a short term loan against their gold as opposed to the longer term pawning option. These measures proved successful in stemming the negative effects of an unstable gold market and also helped to maintain the health of the overall pawning portfolio during 2013.

Remittances

By far the highest foreign exchange earner in Sri Lanka, the growth in remittance income over the past few years has been nothing short of astounding. As such, it remained a key focus area for the Bank during the year under review. Steps were taken to intensify the Bank's overseas footprint in a bid to capture a



Remittance Campaigns



larger market share in identified regions of the Middle East, European Union and Australia. A series of promotional campaigns in partnership with local ground partners were initiated during the year to create brand awareness among target segments present in these regions, including a very successful tour of the Middle East with our brand ambassador, Kumar Sangakkara.

Efforts during the year culminated to produce a phenomenal 142% YoY increase in volumes in 2013 comparative to the previous year, with Middle-East being the primary contributor to total volumes.

Also aiming to broad base volume spread, measures were taken to approach a number of new destinations. A series of promotional activities were launched in partnership with Money Gram, Nations Trust Bank's ground partner in Canada to explore the largely untapped North American and Canadian market. Moreover, Japan, South Korea, Dubai and Saudi Arabia

were the other focal markets that were deemed to possess latent potential for future growth and steps were initiated to explore potential tie ups with local partners who would nurture these markets in the future

Bancassurance

Nations Trust Bank's bancassurance product saw a significant resurgence in 2013, in tandem with branch expansion strategy that aimed to deliver the entire array of the Bank's offerings to a wider mass market. A life insurance product offered in partnership with Union Assurance, bancassuarance offers customers the convenience of banking solutions and insurance benefits under one umbrella. The growing popularity of the product is testament to the increasing demands of customers for insurance and other investment products as our country matures into a middle income economy.





Launch of Nations Trust Debit MasterCard

Debit Card

The launch of the Nation's Trust Bank Debit Master Card is also an initiative that stems from the need to deliver timely and accurate solutions that add value to the lives of customers. The dual functionality of the debit card, both as an ATM card as well as a shopping card will undoubtedly transform customer perceptions of shopping convenience. Termed the "Nations Trust Bank Shopping Card" it allows customers to pull out their card and shop with it wherever they are, without the hassle of having to look for an ATM machine or bank from which to withdraw money and without the risk of carrying large amounts of cash.

Customer Segment Offerings

Whilst ensuring branches graduate into delivery hubs for mainstream banking products, the Bank's branch transformation strategy also explores strategies for servicing niche banking markets across the country. Undoubtedly, the Bank's highly specialized customer segmented offerings will continue to be

Out of 221 applicants 28 were selected for training at the SME Academy the catalysts in driving this objective. A series of efforts were initiated to bolster the service platform and support customer segmented offerings in particular, the very successful Private Banking and Inner Circle concepts. Spotlighting needs based banking solutions, a well-trained, dedicated team of relationship managers act as the core facilitators of this service model. These relationship managers are deployed to forge customer relationships, study behavioral patterns and map the modalities of emerging needs and in doing so, lay the groundwork for the development of cohesive banking solutions that truly embody the customers' expectations.

SME Banking

The SME business model continued to operate on an evolutionary landscape during the year. A conscious effort was made to streamline processes not only as measure of business resilience but also to transmit greater cost efficiencies for the future. The Bank undertook a comprehensive review of the branch led SME loan application, approval and collection processes through the introduction of lean concepts encompassing multiple levels of the operational structure. By emphasizing the efficient use of staff time and resources, it is hoped lean management would not only enhance customer service and delivery systems and strengthen the customer experience but also increase sales performance, improve end-to-end productivity, enhance overall

organizational efficiency and reduce procedural complexity.

SME Academy

The Nations SME Business Academy was launched in 2013 as a direct response to the need to train our staff to understand the SME market and its customers. It has proved to be a critical resource facilitator in fulfilling the Bank's customer-centric aspirations. Offering a holistic training



Launch of Nations SME Business Academy



Nations SME Business Academy - 1st batch



SME seminars conducted for customers

agenda, the SME Academy strives to deliver fully-fledged service personnel who are equipped to be able to understand the customer and determine the need for a bespoke financial solution to meet specific customer needs.

Nations Trust Bank also conducts regular workshops and seminars for both customers and potential customers in Colombo and the outstations. While creating product awareness, these efforts also nurture financial discipline and best business practices for SMEs. Moreover, by acting as a barometer to measure the pulse of the customer, these interactions provide the basis for redefining the Bank's approach to customer service.

Partnerships and Funding

Nations Trust Bank and the SME
Development programme of the
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH entered
into a Public Private Partnership (PPP)
to improve access to finance for SMEs.
The SME Development programme is
implemented by GIZ on behalf of the
German Federal Ministry for Economic
Cooperation and Development (BMZ),
in partnership with the Ministry of

Finance & Planning. As a federally owned enterprise, GIZ supports the German government in achieving its objectives in the field of international cooperation for sustainable development. The SME development programme works on improving and strengthening Sri Lanka's growing SME sector through a range of technical assistance activities. These focus on improving access to finance for SMEs whilst improving competitiveness through innovation, technology transfer and creating an enabling policy environment. Through these activities the programme aims to achieve longer term impact on generation of employment and a more equitable social and regional distribution of economic benefits.



Partnership with GIZ



Agreement with ADB

The Bank signed an agreement with Asian Development Bank (ADB) for an USD 15 Mn term lending facility specifically aimed at funding SMEs, a cause strongly supported by ADB. The Bank's strong financial performance over the past few years along with its sound credit portfolio and expanding customer reach were some of the main reasons behind ADB's decision to grant the facility to Nations Trust. The loan disbursed in two tranches requires a quantum to be specifically granted for SMEs outside Colombo and a further percent of the loans would be allocated to SMEs owned or controlled by women borrowers to promote access to finance for women.

Alternate Channels

Nations Trust's alternate banking channels also experienced a significant revival in 2013, as the bank strives to be a leader in digital technology in banking for the Sri Lankan public.

The launch of the Bank's mobile banking application remained the key highlight for the year. Available on both iOS and Android platforms the mobile application is complete with enriched capabilities alongside a user friendly interface to complement the Smart Banking needs of today. We are convinced that the convenience of having the bank literally at your fingertips is the future of banking



Nations Trust Mobile Banking Campaign

transactions, making banking accessible to more and more individuals for their day to day transactions.

Steps were also taken to completely revamp and upgrade the internet banking portal to ensure greater security and promote the ease of the online banking experience. The significantly enhanced digital capacity of the new internet banking platform conveys superior online capabilities at high speed, making it a versatile tool that is a complement to customer lifestyles. The full impact of the improved internet capabilities will be felt when the Bank completes its core banking system up-grade in 2014.

Cards Performance Overview

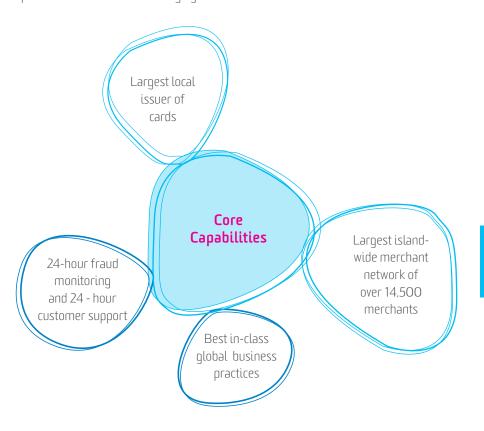
The year proved to be a challenging one for the cards business, particularly with the regulatory cap on interest rates coming down further in the second half of 2013. The drop in interest rates from 28% to 24% had strong negative connotations for the top line of the cards business due to the corresponding funding costs not showing similar downward trend. Having envisioned the severity of these conditions, very early on, the cards unit deployed strategies to stem the negative effects caused by these adverse market conditions by growing the book.

Strengthened by the combined brand value of Nations Trust and American Express, the cards business leveraged on its core capabilities and intensified volume growth to compensate for narrowing margins.

Capitalizing on the continued post-war stability, an aggressive volume push was initiated during the year. Complimented by the Bank's expanding footprint across the country, volumes in the cards business grew beyond planned levels by capturing a broader customer base, vis-à-vis a larger geographical foot print. Spearheaded by this timely and accurate strategic move a notable recovery was evident, as demonstrated by the commendable results for the year under review.

While spotlighting the success of the volume driven strategy, growth in both spend and receivables increasing by over

20% and 30% respectively comparative to the previous year is also a clear indication of a resilient and robust business model adopted by the bank. Consequently, the cards business was able to retain its dominant position as one of the key contributors to banks top and bottom-line leveraging its present position as the Sri Lanka's largest credit card issuing local bank.



A number of important operational changes also took place during the year under review to further augment the service channels pertaining to the cards business. Supportive of the Bank's goal to be the "Benchmark of Convenience", efforts during the year focused on improving the efficiency of the foreign exchange travel service booths, located at leading travel agencies. Steps were taken to re-engineer these booths as travel service hubs by integrating them into the cards business. It is hoped that these changes would materialize in delivering a whole new concept of travel related convenience to the customers.

Membership has its privileges

Parallel to providing customers with a premium service, the Bank continued to work effectively to enhance the range of benefits and privileges entitled to American Express cardmembers. Adopting a more focused approach to service the core customer segment, the Bank leveraged on existing partnerships and fostered new relationships during the year. The strong association with Keells Super outlets and leveraging the Nexus partnership was key as the year 2013 commenced. A 360 degree advertising campaign was carried out with the message "One Card. Dual Benefits" illustrating the dual rewards offering on the American Express Card. Further, the

cardmembers enjoyed exclusive Nexus offers and savings on selected essentials, varying it on a monthly basis, special savings on fresh vegetables during the weekends and savings on fresh meat during the festive seasons. Cardmembers continued to enjoy special benefits at Keells Super outlets throughout the year.

Servicing the Cardmember in an online platform the bank tied up with Anything.lk to offer cardmembers an additional 10% savings for all purchases made via www.anything.lk Sri Lanka's premier online retails store. Affording cardmembers an ultimate hassle-free on-line shopping experience.

Whilst encouraging the Cardmembers to subscribe to e statements instead of

paper statements the saving was routed to facilitate Bio- Diversity gardens in six selected schools in the Kalawana – Potupitiya region in Ratnapura in collaboration with Wildlife & Nature Protection Society of Sri Lanka(WNPS). The project was conducted by WPNS in an attempt to "conceptually extend the boundaries of Sinharaja".

Nations Trust Bank reached an important milestone in 2013 with the grand 10 year celebration of the Nations Trust Bank and American Express partnership in August 2013. Celebrating a decade of success (2003 – 2013), a special rewards programme was launched and carried out during the month of September 2013.



Dual rewards offering on AMEX



Membership offering during 2013

American Express Cardmembers were offered a guaranteed rewarded of LKR 10,000 for their daily spend of LKR 4,000 for any 20 days during the promotion month and a Guaranteed reward of LKR 5,000 for their daily spend of LKR 2,000 for any 20 days during the promotion.

The promotion was widely accepted amongst the Cardmembers and was considered a successful promotion as it concluded with a considerable amount of Cardmembers actively taking part in this promotion. Taking it a step further Cardmembers who were celebrating their 10th year of Card membership were gifted with a travel book courtesy of American Express.

The 10th year celebrations continued amongst staff members and it culminated with a celebratory party and awards ceremony held at the Nelum Pokuna with the global American Express officials being present.

Enabling financial convenience Cardmembers enjoyed the freedom to make any purchase, anywhere in the world for LKR 50,000 and above and convert it into a 3 month installment plan at no extra charge or interest during the festive season.



Celebration of Nations Trust Bank's 10 year partnership with American Express



"Sail with Sanga" a special event organized for card holders





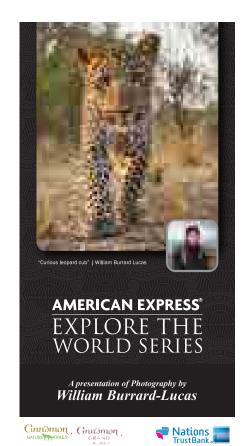
Exclusive membership privileges on AMEX

The American Express Card which continued to cater to the Cardmember requirements and lifestyle choices during the year 2013 facilitated fantastic benefits and privileges in the travel, leisure, fuel and retail categories.

Further enhancing the brand message an array of events catering to varied lifestyle interests were hosted by American Express. Broadly covering the fields of sports, hobbies and aesthetic pursuits, these efforts go beyond conventional banking practices and serve as the basis for greater customer fulfillment. Few such events were "Sail with Sanga" held at Cinnamon Lakeside where Cardmembers got an opportunity to mingle and partake in a witty and well delivered oration by Kumar Sangakkara followed by cocktails.

The "Explore the World with American Express" Series continued in 2013 with "Tony Wu and his marine Adventures" in April and a presentation of wild life photography by William Burrard- Lucas of the "beetle- cam" fame in September at the Cinnamon Grand.

For the 3rd consecutive year Nations Trust Bank American Express partnered with the George Keyt Foundation to nurture and support the local artists. "The Exhibition - Sri Lankan Art" held at the J.D.A. Perera Galleries was well received by the art loving public, the patrons and the artists themselves.



One of its kind events for our card holders



Art exhibition for the 3rd consecutive year



200,000 cards milestone achieved during the year.

New Products

Underpinning Nations Trust's unique value proposition, a series of efforts were launched in 2013, to enhance the profile of the cards business whilst complementing the American Express brand. Key among them was the unveiling of three new cards in partnership with MasterCard International. The Nations Trust Bank Sapphire World MasterCard, the Nations Trust Bank Ruby World MasterCard and the Nations Trust Bank Platinum MasterCard, are designed to enrich the credit card market in Sri Lanka by facilitating a mature offering of options that cater to diverse customers. Symbolizing the ultimate in luxury and convenience, the Nations Trust MasterCard are geared for the information age, offering Cardholders a range of unparalleled services.

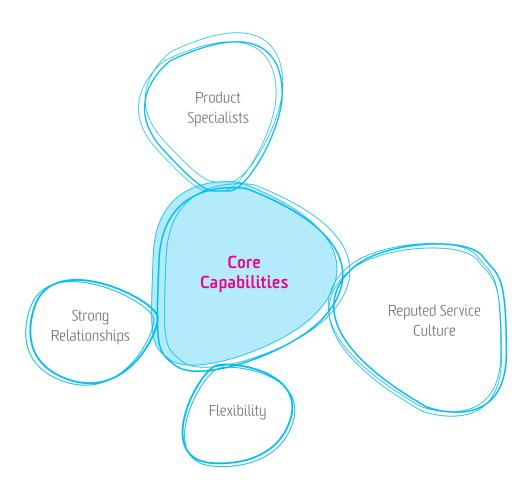
Positioned as a top-tier brand at the pinnacle of MasterCard International's credit card hierarchy, the World MasterCard is the assured choice to compliment a dynamic, cosmopolitan lifestyle. With worldwide acceptance and a host of highly personalized value added

services, the World MasterCard empowers the user with the flexibility and ease to live life to the fullest. Literally targeting "High Flyers", the World MasterCard caters to high net-worth individuals and high income earners whose lifestyle demands frequent overseas travel.

The World MasterCard comes with an unmatched personalized service platform to augment the business and leisure pursuits of the user, with particular focus on travel-specific benefits and privileges. The Card is offered in two variants; i.e. The Sapphire World MasterCard and Ruby World MasterCard

The Platinum MasterCard option is a sophisticated procurement tool with enhanced financial capabilities that targets a broad spectrum of premium individuals. It is the perfect initiation into the world of credit cards and the ideal accompaniment for the upwardly mobile professional. Offering a whole new perspective to the concept of 'purchasing", the card bridges the gap between affordability and indulgence. Structured on a designated value driven framework, the card allows the user to match his/her spending patterns in line with their income. With the Platinum MasterCard, the cardholder remains in complete control, choosing to enhance their purchasing power within their own predetermined limits. Moreover, the card offers the user a plethora of value added services making it the ultimate choice for premium cardholders to access the world on their own terms.





Commercial Banking

Corporate Banking

Amidst the subdued demand for credit, 2013 was an extremely challenging one, not only for Nations Trust but the entire banking sector. The rate sensitive nature of the clients, high liquidity levels and declining interest rates, led to challenging times for the industry-wide corporate banking business.

During the year, the corporate banking unit made a concerted effort to realign its market focus in order to build the loan book and stem deteriorating margins. Moving away from the customary import sector clientele, the Bank altered the customer portfolio mix to focus more on exporters, with particular focus on the apparel sector where the Bank had limited presence in the past and mid tier corporates.

This refocusing agenda proved to be a move in the right direction, with a commendable contribution made towards trade fees and foreign exchange income during the year.



Corporate Loans

Corporate loans and advances portfolio as at year end contributed to 21% of the total loan book.

As in the past, in this year too, aggressive efforts were made towards securing a greater volume of the transactional accounts of customers. Leveraging on the existing corporate relationships to promote the Bank's brand proposition, the unit focused on securing the transactional accounts of the mid-tier corporates. Efforts were also made to encourage greater migration towards e-banking channels, to offer customers greater flexibility and banking ease, while improving process efficiencies and reducing costs for the bank. In a difficult environment, asset quality was well managed through stringent monitoring and initiating corrective action on early warning signs.

Embracing the bank wide lean initiatives, the unit too implemented concepts which enabled improved delivery times, process efficiencies and cost savings.

Much of the success of these measures are in no small part due to corporate banking team whose dynamism, steadfast commitment and excellent customer relations has been the cornerstone of success.



Efforts were made to encourage greater migration towards e-banking channels

The Bank once again hosted its annual Corporate Quiz exclusively for its corporate clientele. A much anticipated annual event, the Nations Trust Bank Corporate Quiz provides an opportunity for corporates to showcase their talents and test their intellectual mettle against their peers. The quiz programme in its seventh consecutive year is an enriching and entertaining annual event that intends to foster a spirit of camaraderie, friendly competition and collective fun among the corporate elite of Sri Lanka's business community. Held under the theme "The Battle for the Throne" the quiz featured 40 teams with Dialog Axiata PLC being awarded the championship for 2013.





Corporate Quiz 2013

Factoring

The Bank's factoring arm also saw a number of significant changes during 2013. Traditionally focusing predominantly on the SME sector in the western province, in 2013 the Bank's branch expansion strategy enabled the factoring proposition to be taken to a wider island-wide geographical market, culminating in the establishment of 7 factoring centers at selected branch SME centres across the country. This was followed by a series of relationship management activities that aimed to nurture and strengthen relationships with SME customers in key markets across Sri Lanka. By realigning the product in this manner and advocating the fundamentals of cross selling through the branches the unit was able to make inroads into yet untapped geographies across the country. An extensive portfolio of strong debtors ensured the health of portfolio and secured profit margins for the business. Despite the challenges encountered, the year concluded on a positive note, with a notable growth in the portfolio together with the expanding market share that resulted in the Bank being ranked the no 2 factoring portfolio in the industry.

Continuing with the strategy to migrate from the captive customer segments, emerging markets across a larger geographical periphery was explored given the rapid growth in branch based leasing centers across the island.

Ending the year on a positive note Nations Leasing positioned itself as the premier leasing services provider in the Banking Industry.

Leasing

Performance Overview

Notwithstanding the low market interest rates, a lack of credit appetite continued to mar the performance of Sri Lanka's financial sector in 2013. Amidst this nonconducive environment, a lull in the leasing industry was only to be expected.

As this subdued environment continued to filter through, many industry giants and smaller players alike experienced a drop in new business volumes that impinged in their portfolio growth. Responding with swift action, Nations Leasing took preemptive steps to strengthen volumes, while maintaining healthy margins. Continuing with the strategy to migrate from the captive customer segments, the unit was able to explore emerging markets

across a larger geographical periphery, particularly given the rapid growth in branch based leasing centers across the island. In correlation to the branch expansion strategy, 11 new branch based leasing centers were initiated at the Bank branches across Sri Lanka bringing the total number of leasing centers to 44 as at the year end.

Intensifying the risk-reward driven approach initiated in the preceding year, the product focus was also swiftly reconfigured in tandem with changing market trends of 2013.

State of the art IT Platform

Core Capabilities

Expertise in Recoveries

Risk-based Pricing Model

Promoting auto financing through hire purchase schemes, was deemed to be the way forward. Meanwhile a conscious decision was made to temporarily ease the dependency on finance leasing until a more conducive market environment opened up. This new asset mix, undoubtedly played a pivotal role in determining the performance of the Banks' leasing arm for the year. Portfolio growth for the year reached unprecedented levels with LKR 13 Bn worth of new business being added to the overall portfolio.

The growth in the portfolio only underscored the importance of a stringent recovery mechanism. Further intensifying the aggressive recovery, strategies practiced in the past, potential threat buckets were stringently monitored throughout the year. Dedicated recovery agents were deployed to manage and control the recoveries pertaining to these threat buckets. These efforts were duly rewarded as evidenced by the healthy NPL of 5.7% for the year.

Affirming the success of the overall strategic realignment agenda, this commendable performance has also propelled Nations Leasing to the very pinnacle of the banking sector leasing segment. Ending the year on a positive note Nations Leasing positioned itself as the premier leasing services provider in the banking industry.

During the year the unit successfully developed strategic partnerships with Indra Traders (Pvt) Ltd to launch a special promotion for hybrid vehicles, compact (small) cars and permit vehicles. Customers were able to avail themselves of attractive lease rentals, free registrations as well as special insurance packages as part of this promotion. Due to its greater fuel efficiency, affordability and smaller environmental footprint a greater number of hybrid vehicles are seen on the road today. Having understood the changing trends in the market Nations Leasing launched the Green Lease, a product designed especially for hybrid vehicles last year.

Nations Leasing also made strategic partnerships with DIMO for their range of Mahendra Tractors. Further, many promotional activities were conducted at branch level with the participation of reconditioned and brand new vehicle agents.



Nations Leasing Campaigns & Promotions

Operational Changes

A series of operational changes were introduced during the year, in tandem with the initial phase of the Bank's core banking strategy. Key amongst them was the business process reengineering mechanism in conjunction with lean management practices to reduce procedural complexity and improve application turn-around times (TAT). Changes brought in during the year led to the streamlining of processes to eliminate duplication and reduce the time taken, thereby improving productivity at each operational layer. Testifying to the success of these changes is the improvement of TAT's from 2 -3 days to a 24 hour window, by the end of the current year.

New Developments

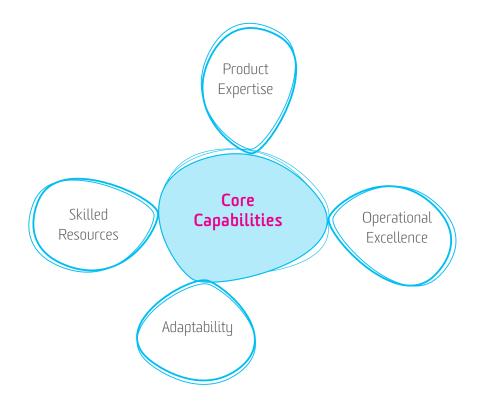
With the easing of the vehicle transfer regulations in the month of November 2012, the permit vehicle category resulted in a shift in demand for vehicle loans. Moving swiftly to capture this emerging market, the unit launched a new product titled "Auto Loans" during the year.



Treasury

Characterized by a series of highs and lows, the performance of the treasury division was subject to a number of macro implications during the year. Key among them being the CBSL's easing of the monetary policy in a bid to stimulate the credit appetite in the money market, yielded both positive and negative results for the Bank's Treasury division.

The drop in market interest rates during 2013, proved to be a boon to the Fixed Income Securities (FIS) portfolio. As interest rates continued to decline, swift action to capitalize on the favourable market environment in the latter part of the year, resulted in a YoY growth of 41% in the FIS portfolio, comparative to the previous year. Amidst this highly conducive environment the total assets under the FIS desk saw a marked increase as at the year end, representing 31% of the total assets on the bank's balance sheet.





Despite having to absorb higher deposit costs at the beginning of the year, prudent and timely management of assets and liability re-pricing, guided by a robust ALCO process and an effective gapping strategy enabled the ALM desk to benefit from the favourable interest environment and substantially contribute to the overall Treasury performance.

In contrast however, the foreign exchange trading arm continued to struggle, in the face of a depreciating rupee. Moreover, FX forward premiums plunged amidst declining interest rates in the latter half of the year, severely affecting funding SWAPS and adversely impacting the MTM revenue.

Consequently the sharp reduction in MTM revenue meant that FX trading made only a marginal contribution to the treasury bottom line for the year.

Customer FX trading segment however, proved its agility as market conditions shifted gears throughout the year.
Supported by an aggressive volume push initiated to counteract these adverse market conditions, the closing results for the year for customer FX trading desk were commendable. Recording a very healthy YoY volume growth of over 16%, the segment tenaciously raced ahead to achieve targets for the year, only falling short marginally.

The Margin Trading desk too demonstrated a consistent performance throughout the year, given the challenging market conditions that persisted throughout 2013. Being able to maintain the advances portfolio of LKR 1.6Bn, amidst a backdrop of poor credit growth was in itself a notable achievement, underscoring the veracity of the Treasury division's strategic focus.

The Bank issued 20 million listed, rated, unsecured subordinated redeemable debentures priced at LKR 100 each, with an option of 10 million tranch in case of an oversubscription in December 2013, the issue of 30 million debentures issuance was successfully oversubscribed on the opening day it self.



Operations and Informations Technology

Core Banking Strategy

Encumbered by staggering procedural complexity modern banks continue to be plagued by serious inefficiencies that not only affect productivity and compromise service standards, but ultimately impinge on the bottom line. As per this reasoning, in 2013 the Bank conducted a strategic mapping exercise to assess functionality of the existing core banking system and determine its adequacy and ability to support the Banks future strategic expectations. Results revealed that the current core banking platform was often rigid and unresponsive and would undoubtedly hinder the ability to pursue growth opportunities, enhance the customer experience, and mitigate future operating risks. Finding the existing system woefully inadequate to sustain the Banks' future aspirations, swift measures were initiated during the year itself to procure a next-generation core banking system that would be the key advocate of the Bank's growth strategy in the years ahead.



Core Banking Team

It was decided to work with the Finacle core banking model, proposed by Infosys Limited of India. By enabling comprehensive, agile and compartmentalized support, the Finacle core banking system would offer integrated business solutions that address all the core needs of the bank. Fortified with a series of easy-to-configure modules, the Finacle architecture provides the building blocks of business functionality enabling users to configure products and processes flexibly in order to adapt to a dynamic environment. Moreover, with Finacle's 360 degree single source view into customer accounts, the Bank would be geared to provide bank customers not only with relevant information and timely product offerings, but do so vis-à-vis the customers' preferred delivery channel.

Consequently, plans were immediately put in motion to ensure a smooth transition of all aspects of the business to the new Finacle module. Following the assignment of the core transformation team, the first phase of the core banking strategy roll out commenced in 2013. Moreover, under the guidance of Infosys Limited, the core team training agenda was successfully completed in the year under review. The critical challenge for the year ahead is the prospect of the overnight changeover from one system to the other.



30 employees trained over 3 months on a fulltime basis on the core banking project

Lean Management Practices

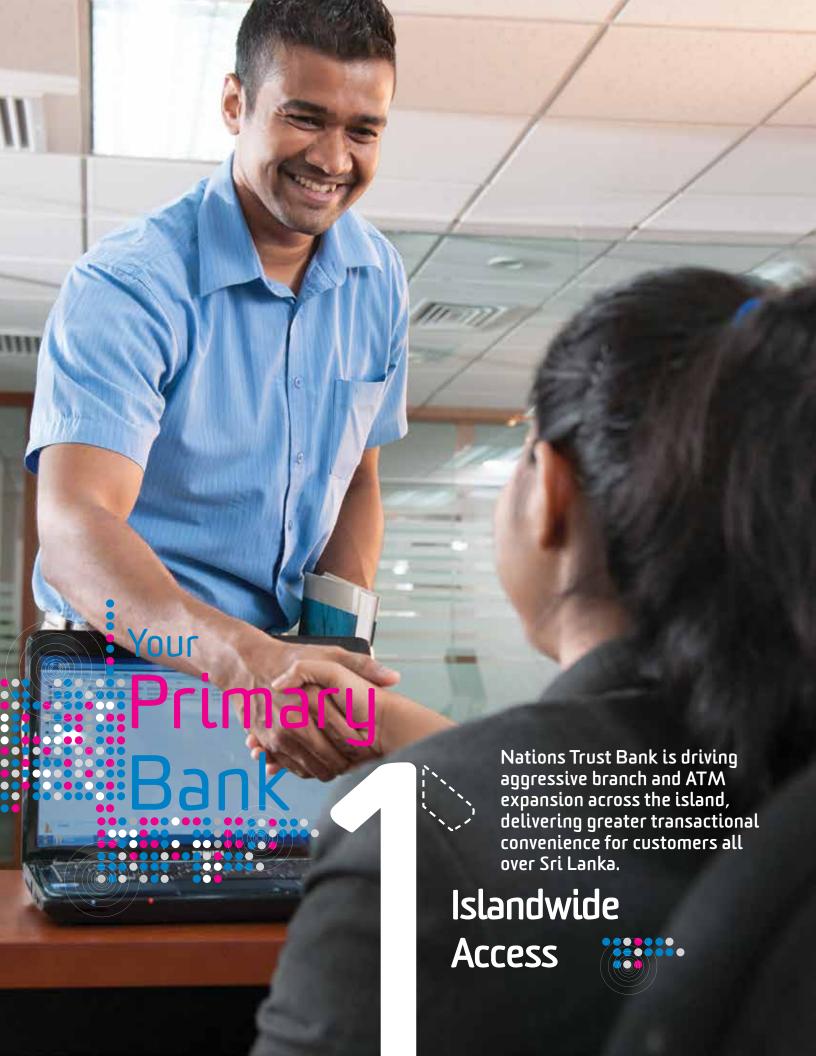
Nations Trust's goal to transform into a leaner business unit certainly complements the new core banking strategy. Essentially focusing on optimizing customer value creation by reforming practices and the dynamic use of existing resources, Lean Management (LM) principles rely on the `elimination of wastefulness' as a trigger towards achieving greater value generation. As opposed to traditional result oriented management systems, LM attempts to bridge the gap by emphasizing a customer-centric approach and scrutinizes each component across the value chain, with particular attention to the human quotient that drives the equation.

LM is not a "quick fix" solution but rather an investigative study and analysis of the processes that shape an organization in confluence with an exploration of the human behavioural aspects that impact on these procedures. Embodying the spirit of learning, LM would create an ideal platform for the Bank to evolve through a process of learning and understanding in developing a competent operational structure for the future.

The first phase of the learning process was rolled out in 2013 and aimed to establish performance indicators and parameters that map out the efficiency of existing mechanisms alongside the desired future targets. Using these learnings the Bank expects to formulate a productive, customer-centric operational model derived through rational thinking and an open minded approach.



Lean Management workshop



Financial Review

The modest financial performance recorded by the Bank was underpinned by a well diversified business mix minimizing earnings volatility and offsetting economic headwinds seen in multiple areas.

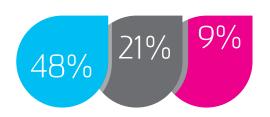
The year commenced with weakening credit demand leading to higher liquidity and loan growth falling below anticipated levels in the banking system.

Summary

Nations Trust Bank Group recorded a profit after tax of LKR 2,127Mn compared with LKR 1,951Mn in the previous year, a moderate earnings growth of 9%. The performance was evenly balanced across the business pillars with results demonstrating good underlying momentum despite industry challenges faced in a subdued macro-economic environment. The modest financial performance recorded by the Bank was underpinned by a well diversified business mix minimizing earnings volatility and offsetting economic headwinds seen in multiple areas. The year commenced with weakening credit demand leading to higher liquidity and loan growth falling below anticipated levels in the banking system. The policy rate cuts affected at frequent intervals, to fuel credit growth led to a gradual decline in interest rates as the year progressed. Slower loan book

KPIs	2013	2012	Industry 2013	
- <u></u>				
Loans & Advances Growth	12.1%	20.0%	8.8%	
Deposits Growth	10.9%	27.6%	15.0%	
Profit After Tax Growth	9.0%	21.4%	(9.8%)	
ROE	19.5%	20.8%	16.0%	
CAR	20.0%	18.2%	15.8%	

^{*} Industry Loans & Advances is net of IIS & Provision



Growth in post tax profits over the last 3 years

growth led to excess funds being invested in low-yielding liquid assets with Banks witnessing a decline in Net Interest Margins. Non Performing Loans across the industry shot up with the slowdown in economic activity also leading to a substantial rise in impairment charges.

Net Interest Income

Across the industry NIMs depleted due to the increase in asset yields not commensurating with the rising cost of deposits. The lack of credit demand resulted in excess liquidity being invested in lower yielding government securities. As the industry grappled with looking for optimum out lets to channel funds, the Bank look towards steering high yielding portfolios such as cards, leasing and SME to manage the margin pressure. Bank NII was also impacted further due to a disproportionately high share of customer assets being subject to interest rate caps and penal interest rate ceilings. Bank continuously reviewed its internal pricing strategies to balance risk and rewards on customer assets whilst the mobilization effort on deposits continued with emphasis given to acquire low cost deposits.

Growth

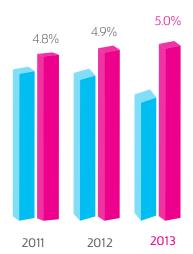
Int Inc/Exp	2013	2012	LKR	%
Total Interest Income	17,911	15,113	2,798	19%
				
Customer Advances	13,256	11,063	2,193	20%
Fixed Income Securities	4,145	3,313	831	25%
Investments	510	737	-226	-31%
Total Interest Expenses	10,237	9,358	878	9%
Deposits	8,080	6,831	1,249	18%
Borrowings	2,156	2,527	-371	-15%
Net Interest Income	7,675	5,755	1,920	33%
NIM	5.8%	5.1%	0.7%	
Foreign Exchange funding SWAP Cost	1,033	278	754	
Net Interest Income incl SWAP cost	6,642	5,477	1,166	21%
NIM including SWAP Cost	5.0%	4.9%	0.1%	

Financial Review

NIM Movement

(%)

- Industry
- Bank



The push for CASA growth peaked during the latter part of the year there by improving CASA mix and surpassing anticipated growth levels. These strategies are amply demonstrated by the considerable improvement in NIM and Net Interest Income (NII) for the year.

Total interest income in 2013, amounted to LKR17,911Mn, representing an increase of 19% over 2012. The increase in interest income resulted from increases in both customer advances and fixed income securities. Customer advances during the year increased by LKR 8.9Bn with a resultant increase in absolute interest income partly owning to volume growth

Movement in Net Interest Income Components

(LKR Bn / %)

- Interest Income
- Interest Expense
- NIM (%)



and increase in overall yields. The larger fixed income securities portfolio holding in 2013 compared to 2012, at higher yields also contributed towards the increase in interest income. Interest expenses amounted to LKR 10,237Mn in 2013, an increase of 9% mainly attributable to increase in cost of deposits due to both volume growth and increase in yields. Customer deposits volume growth was 11% amounting to LKR 9.4Bn at a higher weighted average cost of funds rate than in 2012 despite the higher contribution from low cost funds. Interest cost of borrowings trended down due to the drop in yields. Quite apart from the customer deposits and borrowings, Bank holds a

foreign exchange funding SWAP book which is used to generate rupee liabilities to fund the Bank customer assets. The costs arising from the funding FX SWAPs increased significantly during the year due to relatively larger size of the funding SWAP book maintained and the impact arising from the forward premium movement. As the SWAP book constitute of a fairly larger impact on the total borrowing cost of the Bank, it is important to understand the impact to NII and NIM considering this cost. As such, NIM for 2013 was at 5.0% improving from 4.9% reported for 2012.

The faster rate of growth in interest income over the interest expenses resulted in widening NIMs, and an increase in net interest income by 33% for the year. Continues monitoring and direction given by ALCO on re-pricing gaps for assets and liabilities assisted in managing NIMs and achieving targets set for NII growth for the year.

As with the down-turn seen in industry NIMs which was at a record low in 2013, we also anticipate such an outcome in the future as regulatory controls on pricing becoming tighter with the added pressures of stiffer competition and more rate sensitive consumers. As the industry move towards a low interest rate regime in the future, the challenge would be to manage a healthy diversified assets mix funded largely through low cost deposits to mitigate any significant margin erosion. Anticipating this out come the Bank has aligned its business strategies towards re-balancing the deposit mix and building further on the diversified assets portfolio.

Non Fund Base Income

Non fund based income recorded a decrease of 13% mainly due to foreign exchange losses. The high volatility that prevailed in the SWAP premiums during the year negatively impacted FX income arising from funding SWAPS. These losses were partly compensated by trading and mark to market gains on the FIS portfolio due to favourable movement in the yield curve.

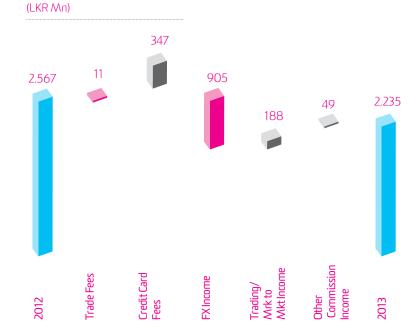
On a positive note, credit card fees recorded a substantial growth of over 25% compared to the previous year. This growth was underpinned by strong performances in both issuing and acquiring businesses. New cards issuance expanded steadily during the year with both spend and receivables surpassing the previous year by over 20% and 30% respectively. Greater attention was paid to increase business drivers on spend and card acquisitions as the re-introduction of interest ceiling impacted top-line earnings. The resultant income lines on cards fees and merchant discount commission also recorded a growth of over 20%. Strategic venturing into Master credit card business showed encouraging results for the year with an accelerated card issuance contributing modestly towards the top line

non fund based revenue in the first year of launch.

With the slowdown witnessed in external trade, trade finance income fell below previous year level. Much emphasis was placed to enhance export business volumes to mitigate negative impact on trade business due to drop in imports.



Non Fund Based Income



Financial Review

Diversification of the earning base has been the corner stone of our business model and to this end the Bank have relentlessly pursued avenues of generating fee base income. Product offerings such as remittances, bancassuarance and Master card debit have been added to the product suite to enhance primarily the fee base income. Apart from meeting the objective of diversifying earnings, fee base income also minimizes the dependency on the much scarce resource of capital. The Bank, over the years has continuously enhanced fee based income thereby consistently improving NFB to Net Income ratio and outperforming industry average.

Operating Expenses

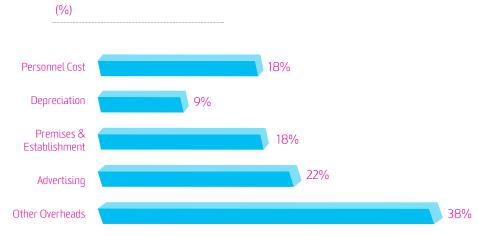
Significant investments were made during the year on the execution of lean management concepts and the phased implementation of the core banking project to uplift efficiencies and productivity levels to an unprecedented level over the medium term. This technology enabled transformation would drive operational excellence by enabling collaboration across front-end and support functions of the Bank. The Bank continued to expand its operations in areas of new markets and geographies, build Nations Trust brand and launch new products at the same time incurred substantial investments on the lean transformation and other strategic projects during the year. All of which culminated in operating expenses increasing by 23% over preceeding year. Nevertheless, cost management strategies adopted across

the organization resulted in maintaining the Cost: Income ratio below 60% thereby partly mitigating the adverse impact of the higher costs incurred on the strategic initiatives to the bottom line.

The highest increase over previous period in operating expenses is seen in other overheads which accounted for a one-off fee to external consultants for lean management project that was undertaken during the year. Excluding this item growth in overheads amounts to 28% bringing down the overall expenses growth to 23%. Personnel expenses recorded a growth of 18% mainly due to head count increase in line with branch network expansion. The Bank employs a large fixed term contract staff cardre primarily to drive sales in liabilities, personal loans

and credit cards. Apart from the fixed pay, they are entitled to a variable pay which is also accounted under personnel expenses which directly correlates with business volume acquisitions. Increase in premises and establishment expenses in mainly on account of the expansion of delivery network which accounted for costs attributable to the 15 new branches opened during the year and the full impact of the 9 branches opened in the preceeding year. Advertising and business promotion expenses increased to support enhanced brand visibility, top of the mind brand re-call and new product launches. Much of the marketing expenses were directed towards retail, cards and leasing businesses which accounted for 80% of the expenditure.

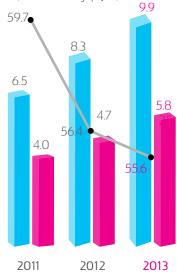
Operating Expenses Increase over 2012



Cost Income Ratio

(LKR Bn/%)

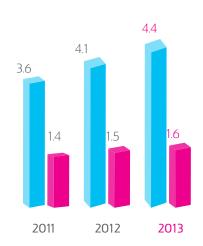
- Revenue Operating Expenses
- Cost:Income Ratio (Excld cost on strategic projects)



Efficiency Indicators

(LKR Mn)

- Revenue/Staff
- PBT/Staff



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 43% of total costs in 2013.

Significant improvement on efficiency indicators were recorded with both revenue per head count and profit per head count improving during the year. Commitment to drive the cost: income ratio below 50% in the medium term remains a key management focus as the Bank transformation through efficiencies continue.

Impairment

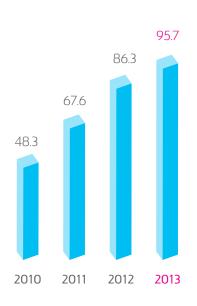
The Bank has consistently displayed a strong credit culture through its credit risk management framework, policies and processes. Historically Bank NPL ratio has been lower than the industry average even in times of economic down turn demonstrating its successful centralized approval, monitoring and collection recovery processes. Impairment for loans and advances for current year was LKR 451Mn compared to LKR432Mn for the previous year. Impairment charge for corporate loan book recorded a significant decrease compared to previous year due to the favourable impact arising from

i) write-off of loans which have been fully impaired as of previous year ii) consideration given to future cashflows which have become certain of receipt as at end of the current year and iii) improved objective evidence of individually impaired customers. Out of the increase in Retail/ SME and Consumer impairment charge, the amount attributable to pawning was at a manageable level of LKR165Mn. This is due to the relatively small size of the pawning portfolio, which is 2.7% of the loan book. A detailed analysis on impairment and credit quality is given under the credit risk management commentary.

Financial Review

Deposit Growth

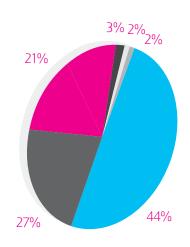
(LKR Bn)



Loans Composition

(%)

- Retail & SME/ Consumer
- Pawning
- Corporate
- Leasing
- Margin Trading
- Other



Capital Adequacy

The Banks core capital base stood at LKR11.78 Bn with tier 1 and 2 ratios at 14.78% and 20.0% respectively. The bank carried out the Internal Capital Adequacy Assessment Process review as at 31st December 2012 in line with the Regulatory guidelines facilitated by external consultants. This revealed that the Bank's capital ratios are at comfortable levels. A more detail review of the capital position is given under Risk Management sections of the Annual Report.

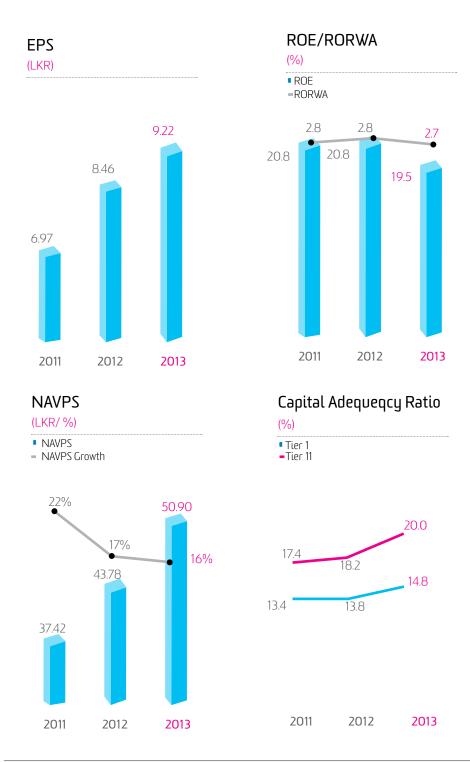
Business Volumes

Deposits

Bank has a fairly stable deposit base with over 80% of the deposits concentrating with in the individual and SME customers. The push for CASA growth gathered momentum during the year through the launch of new products and rejuvenated sales efforts. Total deposits recorded a growth of 11% with CASA contributing to over 50% of the growth. Low cost mix improved substantially and reached 25% by end of the year.

Loans and Advances

Group closed the year with total net advances growing by 12% despite the slump in private sector credit growth which prevailed in the industry though-out the year. Whilst corporate loan growth slowed down significantly Retail/SME, Leasing and Cards put up a solid growth contributing towards a larger share of the overall growth. Corporate portfolio declined as it faced stiff rate competition compounded by excess liquidity and low credit demand in the market.



Financial Review

Looking Ahead

The future holds much promise with many of the Bank's five year strategic initiatives come into fruition in the years ahead. Having far reaching manifestations, these changes would not only complement the Bank's core competencies but also reshape the traditional architecture of the Bank. Key among them being the live launch of the core banking system in mid-2014, expected to transform Sri Lanka's conventional banking norms and elicit an entirely new banking realm, on par with global standards. Furthermore, culminating with the aggressive branch expansion strategy, the Bank's customer-centric transformation roll out would allow the mass banking public to experience hitherto unmatched levels of service and delivery in the near future. Moreover, integrating lean management concepts across the entire operational framework, is expected to transform the functional makeup of the Bank and revitalize the business model in readiness for future changes in the country's banking industry.

Nations Trust would thus be ideally poised to benefit from the Central Bank of Sri Lanka's roadmap for Sri Lanka's banking sector for 2014 and beyond. Forming apart of an ongoing policy shift to reinforce the country's financial stability, the roadmap advocates sweeping industry-wide structural changes and underpins the need for systematic consolidation in the financial services sector. Deemed to be a timely move by the Central Bank of Sri Lanka, it is particularly well-suited for the Bank, as it transitions towards a more versatile business blueprint, in readiness to be the "Primary Bank" for all citizens of Sri Lanka.



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 tradeoff. Through the IRM framework, the BOD assesses 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

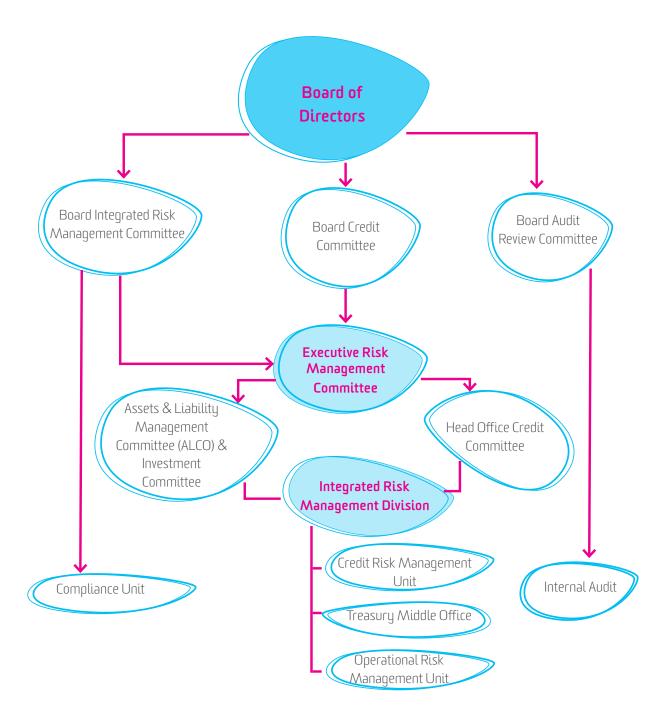
The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different Executive Risk Committees. It also monitors compliance with Bank's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



Risk Management

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). 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, judgment and ability.

Risk Rating

The Bank's Internal Credit Risk Rating mechanism was improved with a robust Internal Credit Risk Rating System which has been developed and implemented during the year 2012 with the assistance of IFC. 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 reliability 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 stabilized.

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 prescreening 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 in the process of validating the SME Scorecard to identified market segments within SMEs.

A customer rating analysis is given in the note 41 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 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 stabilizes 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 criterias are amended prudently to insulate portfolios from further deterioration. The portfolio management team also undertakes, apart from the

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.

Large Exposures - As at 31 December 2013

Particulars	Amount
	LKR '000
Large Exposures (above 15% of capital)	-
Exempted Large Exposures	-
Total Large Exposures	-
Exposures to the Directors and their Associates	25,737
Exposures to the Bank's Associates	-
Exposures to the Significant Shareholders	635,476
Total Exposures to Related Parties	661,213

Credit Portfolio Details - As at 31 December 2013 Asset Category	On and Off Balance Sheet Exposures before CRM	Credit Risk Mitigant (CRM)	Net Credit Exposure before Risk weights
	LKR '000	LKR '000	LKR '000
Claims on SL Government (Govt. Securities)	25,063,242	552,164	24,511,078
Claims on Banks	1,204,886	-	1,204,886
Claims on other Financial Institutions	3,981,945	-	3,981,945
Claims on Corporates	17,590,774	1,367,576	16,223,198
Regulatory Retail Portfolios	45,662,252	11,230,461	34,431,791
Claims Secured by Residential Property	3,172,793	-	3,172,793
Claims Secured by Commercial Real Estate	995,455	-	995,455
Past Due Exposure	1,813,979	-	1,813,979
Past Due Residential Mortgage Exposure	268,802	-	268,802
Cash Items and Other Aseets	7,557,312	2,096,884	5,460,429
Total	107,311,441	15,247,084	92,064,357

Geographic Distribution of Exposure

Province	Mix %
Western	84.5%
Central	2.1%
Eastern	2.1%
North Central	0.9%
North Western	4.1%
Northern	1.1%
Sabaragamuwa	1.4%
Southern	3.5%
Uva	0.4%

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

Maturity of Loans Exposure by Type

LKR Mn	15 Days	16 Days-1 Month	2 Months	3 Months	4-12 Months	1-5 Years	Over 5 Years	Total
Corporate	10,531	1,442	1,635	1,164	1,716	1,641	107	18,238
Retail,SME &	25,590	190	377	878	3,862	10,030	1,872	42,799
Consumer								
Leasing	1,028	631	638	661	5,601	13,186		21,745
Staff Loans	37	19	19	20	179	820	1,051	2,145

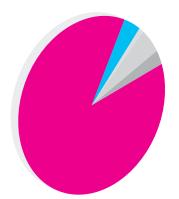
Past Due Not Impaired

Central	7%
Eastern	5%
North Central	2%
North Western	9%
Northern	2%
 Sabaragamuwa 	2%
Southern	8%
Uva	0%
 Western 	64%



Impaired Loans

 Central 	4%
Eastern	0%
North Central	0%
North Western	1%
Northern	0%
 Sabaragamuwa 	5%
Southern	3%
Western	87%



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 41.2 to the Financial Statements.

In addition to above as prescribed and encouraged by the regulator, the Bank has engaged a structured Loan Review Mechanism (LRM) Process under the purview of a Senior Manager reporting directly to Chief Risk Officer. The LRM process critically evaluates the quality of credit selected on a sample basis covering a minimum of a 30% of the credit portfolio after O3 months of disbursement/review.

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 topend 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. Treasury 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 31st December 2013 / 2012 are as follows

Foreign Exchange Position as at 31 December 2013

	On Balance Sheet Positions Forward (a)							
Currency	Assets	Liabilities	Net	Assets	Liabilities	Net	Overall Exposure in Respective Foreign Currency	Overall Exposure in Sri Lankan Rupees (b)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	2'000	LKR '000
US Dollars	4,042,493	14,088,780	(10,046,287)	25,095,565	15,217,379	9,878,186	(1,285)	(168,101)
Pound Sterling	30,621	1,500,331	(1,469,710)	1,689,173	222,646	1,466,527	(15)	(3,182)
Euro	79,727	608,289	(528,562)	671,544	136,862	534,682	34	6,120
Japanese Yen	98,917	80,493	18,423	494,530	513,481	(18,951)	(422)	(527)
Singapore Dollor	8,785	11,988	(3,203)	207,493	202,842	4,651	14	1,448
Other Currencies	50,424	1,309,516	(1,259,093)	1,372,812	115,903	1,256,908	-	(2,184)
Total Exposure								(181,562) (c)
Total Equity								10,790,677
Total Exposure as a % of Total Equity (Should not exceed 30%)								

- (a) Unsettled Tom and spot transactions are also included
- (b) Exposures indicated against each currency are added ignoring the signs to arrive at total exposure under (c)

Foreign Exchange Position at 31 December 2012

	On Bala	On Balance Sheet Positions						
Currency	Assets	Liabilities	Net	Assets	Liabilities	Net	Overall Exposure in Respective Foreign Currency	Overall Exposure in Sri Lankan Rupees (b)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	'000	LKR '000
US Dollars	2,979,224	8,980,101	(6,000,877)	24,468,034	18,449,235	6,018,799	140	17,922
Pound Sterling	37,434	1,599,929	(1,562,495)	1,727,746	169,324	1,558,422	(20)	(4,073)
Euro	69,217	472,254	(403,037)	1,126,361	726,579	399,782	(19)	(3,255)
Japanese Yen	86,468	129,508	(43,041)	713,569	670,124	43,446	272	405
Singapore Dollor	14,577	20,302	(5,725)	246,016	242,880	3,136	(25)	(2,589)
Other Currencies	53,104	880,592	(827,488)	915,812	89,749	826,063	-	(1,424)
Total Exposure 29,6								29,668 (c)
Total Equity								9,162,120
Total Exposure as a	% of Total Equ	ity (Should no	t exceed 30%)					0.32%

- (a) Unsettled Tom and spot transactions are also included
- (b) Exposures indicated against each currency are added ignoring the signs to arrive at total exposure under (c)

Further details on management of Interest Rate Risk exposure and Foreign Exchange Risk exposures are explained in the Note 41 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.

Interest Rate Risk expense as at 31 December

Impact on Equity

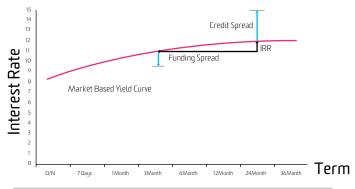
			1	
Interest Rate Shock (bps)	2013	Percentage of Equity	2012	Percentage of Equity
	LKR '000		LKR '000	
200	(440,448)	(3.75%)	(296,946)	(2.94%)
100	(224,102)	(1.91%)	(151,512)	(1.50%)
50	(113,049)	(0.96%)	(76,538)	(0.76%)
25	(56,778)	(0.48%)	(38,467)	(0.38%)
(25)	57,293	0.49%	38,870	0.39%
(50)	115,109	0.98%	78,150	0.77%
(100)	232,344	1.98%	157,961	1.56%
(200)	473,475	4.03%	322,778	3.20%

Fund Transfer Pricing

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



Unmatched Funding Gap

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 reviews the cash flow projections, pricing of products, changes to Asset / Liability profile if warrant 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.

Liquidity Risk Measurement

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

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.

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 up at frequent intervals. The Bank benchmarks the guideline issued by CBSL under its Directive No.5

		Mar-13	Jun-13	Sep-13	Dec-13	Limit
1	Net loans to total assets	61.8%	61.1%	60.6%	59.0%	<=70%
2	Loans to customer deposits					
	(i) Loans : Deposit Ratio(%)	93.0%	87.6%	85.5%	89.1%	<=90%
	(ii) Loans : Deposit Ratio - with Specified Borrowings (%)	86.3%	81.6%	81.0%	80.9%	
3	Liquid assets to short-term liabilities -30 days - 60 days	198.1%	185.9%	273.6%	273.7%	>=100%
		100.0%	126.4%	138.7%	165.7%	>=80%
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.	(8.6%)	(12.8%)	(17.0%)	(6.4%)	<=5%
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.	28.1%	25.8%	24.2%	25.3%	<=40%
6	Commitments to total loans, where the commitment in the nature of Letter of Credits (LCs), guarantees and acceptances	13.9%	16.2%	12.5%	11.4%	<=20%

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.

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

Bank Consolidated(LKR Mn)	15 days	16 days-1 month	2 months	3 months	4-12 months	1-5 years	Over 5 years	Total
Liabilities								
Capital & Reserve							10,766	10,766
Long term Borrowings					67	5,000	2,682	7,749
Short term Borrowings	1,880	892	91	141	180			3,185
Repos	11,535	1,727	1,049	309	1,948			16,568
Deposits	7,721	7,631	8,448	7,766	28,682	6,117	28,389	94,753
Other Payables & Provisions	2,152							2,152
Interest Payable & Others	3,552			1,236			1,202	5,990
Off Balance Sheet Items	7,413	2,702	6,519	6,603	14,291	627		38,155
Assets								
Cash & Cash equivalents	3,314	302	366	341	1,221	224	1,275	7,042
Investments	55		12	185	925	1,454	5	2,637
Reverse Repo	1,452	2	5					1,459
Tbill & bonds	22,277				16,781	3,901	142	43,100
Advances	6,993	3,127	4,035	6,388	14,381	26,070	18,020	79,015
Interest Receivables &	1,707	259		74	582	450	4,837	7,909
Others								
Off Balance Sheet Items	3,986	2,277	5,708	2,494	12,791			27,255
Total Liabilities	34,252	12,952	16,107	16,055	45,169	11,744	43,038	179,318
Total Assets	39,783	5,967	10,126	9,482	46,680	32,100	24,279	168,418
GAP	5,531	(6,985)	(5,980)	(6,574)	1,512	20,355	(18,759)	
Cumulative GAP	5,531	(1,454)	(7,435)	(14,008)	(12,497)	7,859	(10,900)	
Cumulative Liabilities	34,252	47,204	63,311	79,367	124,535	136,280	179,318	
Cumulative GAP as a % of cumulative liabilities	16%	(3%)	(12%)	(18%)	(10%)	6%	(6%)	

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 a robust Operational Risk Managemewnt framework has since been established.

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 oversees 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, operational risk unit has established a management information system regarding customer complaints

and process of resolution as part of it's functions in line with Customer Charter Direction issued by CBSL.

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

Policy Name	Coverage
Bankers' Indemnity	Cash and pawning articles
	• Actions related to employees
Bankers' Indemnity	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	For Bank employees covering accidental death, permanent total and partial disablement and temporary total and partial disablement
Group Personal Accident Insurance	Accidental death, Permanent total and partial disablement, Temporary total and partial disablement, Riot & Strike, Terrorism.
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

operational risk management tools implemented so far has helped the Bank to manage its operational losses in relation to it's operational income/ expenses well within internationally accepted norms.

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.

Agreement No	Department	Outsourced Company	Nature of Service
1	Central Operations	AB Securitas (Pvt) Ltd	ATM Management (PBC ATM's and outstation offsite ATM's)
2	Central Operations	CBA	Embossing and data encoding of ATM cards
3	Collections	Central Management Services (Pvt) Ltd	Investigations and Debt Collection
4	Collections	Central Recoveries	Investigations & Debt Collection
5	Central Operations	Direct Mailing Services (Pvt) Ltd	Card PIN and Letter/Advices mailing
6	Collections	Ganegoda Mudiyanselage Sumith Somaweera	Investigations & Debt Collection
7	Collections	K & D Management Services (Pvt) Ltd	Investigations and Debt Collection
8	Central Operations	Lake House Printers	Cheque Return Notification Printing
9	Collections	M. V. A. D. S. S. Karunasekara	Investigations and Debt Collection
10	Consumer finance	Management & Link Placement Services (Pvt) Ltd	Tele-sales and application collection for cross sell promotions
11	Credit Operations	Micronet Global Services (Pvt) Ltd	Data Entry
12	IT	Millennium Information Technologies	Network Managed Services
13	Factoring	Pronto (Pvt) Ltd	Collection of receivables
14	Central Operations	Ranvil BPO (Pvt) ltd	A/Cs opening related data entry, scanning,etc.,
15	Collections	S. T. B. Recoveries	Investigations and Debt Collection
16	Central Operations	Sanje Lanka (Pvt) Ltd	Scanning of card applications and related Documents
17	Collections	SIR Securities (Pvt) Ltd.	Investigations and Debt Collection
18	HR	SSP Corporate Services (Pvt) Ltd	Staff Payroll/EPF
19	Central Operations	Toppan Forms (Colombo) Ltd	Bank and Amex statement printing and security documents printing
20	Collections	Total Credit Management Services Lanka (Pvt) Ltd.	Investigations and Debt Collection
21	Central Operations	Transnational Logistics Solutions (Pvt) Ltd	ATM Management (offsite ATM's within Colombo limits)

Capital Management

The Bank 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.

LKR Mn	2013	2012
Tier I Capital	11,729	10,070
Tier II Capital	4,141	3,179
Total Capital	15,870	13,249
Risk - Weighted Amount for Credit Risk	66,397	62,176
Risk - Weighted Amount for Market Risk	2,179	1,772
Risk - Weighted Amount for Operational Risk	10,757	9,030
Total Risk - Weighted Amount	79,332	72,978
Risk - Adjusted Capital Ratio against Tier I Capital*	14.78%	13.80%
(Tier I Capital/Total Risk Weighted Amount)		
Risk - Adjusted Capital Ratio against Total Capital **	20.00%	18.16%
(Total Capital/Total Risk Weighted Amount)		
*Statutary minimum 5%		
* * Statutary minimum 10%		

The constituents of Group capital and the capital ratios based on above approaches as at 31.12.2013 are given below.

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 3 Bn worth of subordinated debt despite the healthy profit after tax in excess of 2.1 Bn 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.

Sources Utilisation

LKR '000	%	Balance LKR '000	Weighted Value	Charge (10%)	%
			LKR '000	LKR '000	

Tier - I		
Stated Capital	4,297,675	5.42
Profit & Loss A/C	1,951,116	2.46
Equity Reserves	5,479,872	6.91
Total Tier I	11,728,663	14.78
Tier - II		
Revaluation Reserves		
Subordinated Term Debt	4,141,262	5.22
Total Tier II	4,141,262	5.22
Sub Total (Tier I & Tier II)	15,869,925	20.00
Less : Deduction for investments	-	
uncountries		
Total Regulatory Capital	15.869.925	20.00
	,,. 20	

RWA for Credit Risk					
Due from CBSL	4,031,763	-	-	-	
Govt. Securities	21,031,479	-	-	-	-
Cash in Hand	2,526,681	-	-	-	-
Cash in collection	1,223,072	20	244,614	24,461	0.03
	2,607,255	20	521,451	52,145	0.07
	4,493,249	50	2,246,625	224,662	0.28
Advances (Direct and indirect)	31,247,674	75	23,435,756	2,343,576	2.95
	33,617,766	100	33,617,766	3,361,777	4.24
	1,520,056	150	2,280,083	228,008	0.29
Placements with Banks	1,197,039	20	239,408	23,941	0.03
L (arcillelitz Mitti Dalikz	7,847	50	3,923	392	0.00
Fixed Assets	2,537,974	100	2,537,974	253,797	0.32
Other Assets	1,269,584	100	1,269,584	126,958	0.16
	107,311,441		66,397,186	6,639,719	8.37
Interest Rate	200,125				
Foreign Exchange	17,727				
RWA for Market Risk	217,852		2,178,521	217,852	0.27
RWA for Operational Risk	1,075,671		10,756,707	1,075,671	1.36
Required Regulatory Capital			79,332,413	7,933,241	10.00
Additional Capital Buffer				7,936,684	10.00
Total Regulatory Capital				15,869,925	20.00



A. K. Gunaratne Chairman **C. H. S. K. Piyaratna**Director

K. N. J. BalendraDirector



M. E. WickremesingheDirector

N. S. PanditaratneDirector

D. Prasanna De SilvaDirector



Murtaza JafferjeeDirector

R. N. K. Fernando CEO/ Director

Dr. Kemal de SoysaDirector



Dr. Dushni WeerakoonDirector

A. R Rasiah Director

Suran WijesingheDirector



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 Coordination 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 as the Chairman of the Board Supervisory Committee, Board Credit Committee and Human Resources and Remuneration Committee of the Bank. He is a member of the Nomination Committee of the Bank. Mr. Gunaratne has previously 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 carrier spanning 31 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, President's Counsel, is 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 has 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 Ltd 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 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 Honk 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

Independent 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 31 years of experience in Finance at a very senior level both internationally and locally and currently serves on the Board of Ceylon Cold Stores PLC and Walkers Sons & Co. Limited, MTD Walkers PLC and EB Creasy Group of Companies. He is also the Chairman of Ceylon Pencil Company. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and a former visiting lecturer and examiner at The Institute of Chartered Accountants of Sri Lanka. He is 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 currently 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, the advocacy chair for CFA Society of 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 . He was a Director of Colombo Stock Exchange from April, 2007 to August, 2009. He possesses experience and skills in the fields of management, corporate finance, financial statement analysis and industry analysis. He is a member of the Nomination Committee and the Board Supervisory Committee of the Bank.

Dr. Kemal de Soysa

Independent Non Executive Director

Dr. De Soysa holds a PhD in History of Science, MPhil in History and Philosophy of Science and Medicine and BA Hons. in Natural Sciences from the University of Cambridge. He was appointed to the Board of Nations Trust Bank PLC on 21st January, 2011. Dr. De Soysa is currently the Executive Director of International Distillers Limited and a Director of East India Holdings (Pvt) Ltd. Dr. De Soysa previously served as the Country Head of Amba Research Lanka (Pvt) Ltd., managing the Sri Lanka-based operation of Amba Research (now Copal Amba, a Moody's subsidiary), the leading provider of investment research and analytics support services to the global capital markets industry. He was 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 and Human Resources and Remuneration Committee of the Bank

N. Shalini Panditaratne

Independent Non Executive Director

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

D. Prasanna De Silva

Non Executive Director

Mr. De Silva who is a Director of Central Finance Company PLC, possess 23 years of experience in banking and finance of which 16 years has 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 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. He has served as a member of the Nomination Committee of the Bank.

Suran Wijesinghe

Non Executive Director

Mr. Wijesinghe is a Fellow Member of hoth 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.

Corporate Management

























Senior Management







Bandara Jayathilake – Head of SME Banking / Damith Pallewatte – Deputy Head of Integrated Risk Management / Sanjaya Perera – Head of Branches



Kushlani Allis – Chief Manager- Management Reporting & Planning / Nisaja Aryasinghe – Chief Manager- Consumer Collections & Recoveries / Karthigesu Balachandrarajan – Chief Manager - Central Operations / Sheahan Daniel – Chief Manager- Leasing Sales / Lewie Diasz - Chief Manager - Consumer Finance / Tharusha Ekanayake – Chief Manager - Fixed Income Securities & Debt Sales



Anushan Fernando – Chief Manager - Operational Risk / Nisala Kodippili - Chief Manager - Technology & Infrastructure / Chamath Munasinghe - Chief Manager - Credit Operations / Gavin Perera - Chief Manager - Consumer Credit Risk / Jerome Ratnarajah - Chief Manager - Market Risk Management / Lasith Ranatunga - Chief Manager - Corporate & Margin Trading Risk / Dinesh Thomas - Chief Manager - Business Solutions / Suhen Vanigasooriya - Chief Manager - Corporate & Margin Trading Risk

Senior Management



Naveendran Anthonypillai -Senior Manager Branches - Zone O3 / Thushara Asuramanna- Senior Manager Credit Risk Management - SME & Retail Credit/ Randil Boteju -Senior Manager - Cards Sales / Chaminda Dheerasinghe -Senior Manager -Litigation / Gian De Rose -Senior Manager - Cards Marketing / Navamali De Silva -Senior Manager - Trade Services / Nilanthi De Meral -Senior Manager -Corporate Banking / Rasanja De Silva -Senior Manager -Branches / Priyashantha Fernando -Senior Manager Leasing -North Western & Central Region / Indrajith Gunasekera -Senior Manager -Retail & SME Credit / Nilmini Gunaratne -Senior Manager - Retail & SME Marketing / Niluka Gunathilake -Senior Manager - Cards Business Operations



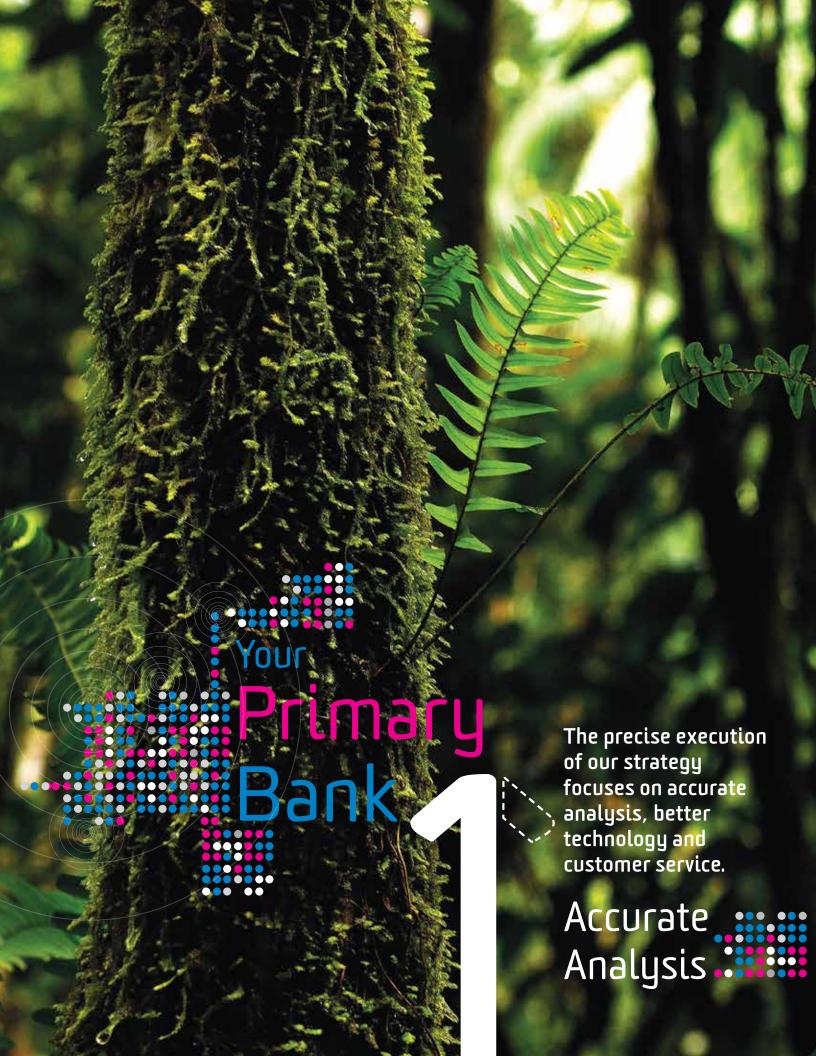
Samantha Herath -Senior Manager -Branches / Laksara Marapana – Senior Manager-Legal / Rishini Manatunga -Senior Manager -Taxation and Payments / Amanthi Motha – Senior Manager -Human Resources / Prabath Perera -Senior Manager - Branches / Sampath Perera -Senior Manager Internal Audit – Treasury & Corporate Support / Lakmal Randeni - Senior Manager - FX and Money Markets / Ruwan Rodrigo - Senior Manager -Branches / Priyantha Samaradiwakara - Senior Manager Leasing – Retail & Western Region / Chandima Samarasinghe - Senior Manager - Market Risk Management / Renuka Senadheera – Senior Manager - Payments & Treasury Settlements / Wasantha Senanayake - Senior Manager - Infrastructure and Administration

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Senior Management



Dimuth Sigera - Senior Manager - SME Banking & Alternate Channels / Damitha Silva - Senior Manager - Remittances / Chamila Sumathiratne - Senior Manager - Finance / Hirantha Tennakoon - Senior Manager - Factoring / Kishani Tennakoon Senior Manager - Recoveries Leasing / Saaraa Warnakulasooriya - Senior Manager - Internal Audit Credit and Support Services / Menaka Wavita - Senior Manager - Branches / Deepa Wickramasinghe - Senior Manager - Credit Risk Leasing and Factoring / Thilak Wijesinghe Senior Manager Internal Audit - IT & Operations / Ursula Wijeyasuriya - Senior Manager - Nations Insurance Brokers



Sustainability Report

Making an impact has meant creating a business model where the benefits we generate percolate to different parts of society.

It has meant generating earnings, delivering on promises and fostering potential. Earnings have been channeled to our shareholders. Earnings have also been channeled to deliver on promise and to foster and nourish potential. In this part of the report we look at how the Bank has channeled its earnings into creating a sustainable business and a sustainable society. We look at how we have integrated sustainability in the different facets of the Bank's operations and how we seek to create sustainable outcomes for us, society and the environment.

The Bank's Sustainability Strategy

As a member of the financial services industry, the Bank is aware of the special role it plays and the heightened responsibilities it must discharge. We are conscious that our activities are closely linked to the success or failures of our several thousand clients, both corporate and individual. We are also aware that our activities are linked closely to the economy of the country and to society at large. The Bank's business strategy is therefore guided by the highest levels of prudence and care, and an awareness of the larger social responsibilities that banks' discharge.

The Bank is also conscious of the changed social and political context in which we now operate. The end of the war almost five years ago has brought new opportunities and enabled us to invest in regions that were previously inaccessible. We are ready to support the people and the state in making optimum use of these new opportunities.

Intervening in ways that ensure sustainable dividends for company, society and the environment lies at the root of our business and sustainability strategy. The Bank has blended its corporate strategy with its sustainability strategy to focus on generating dividends, both tangible and intangible, that empower people and drives sustainable development for our country.



Sustainability

Society and the environment lies at the root of our business

The Bank's sustainability strategy is driven by the following



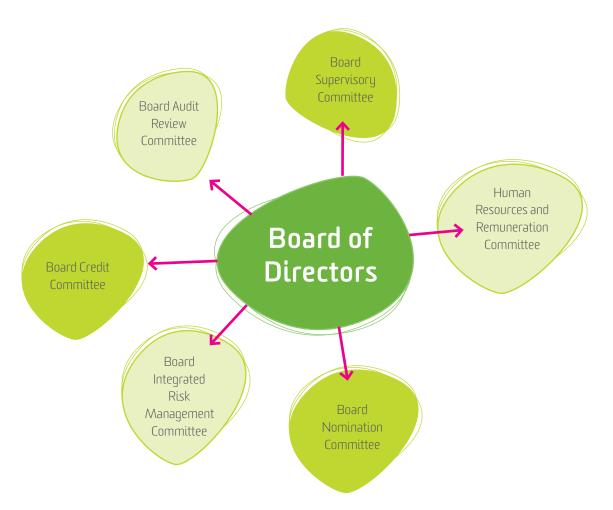
1. Sustainability Governance

The Bank's sustainability and business strategy is driven by the Board of Directors led by a non-executive Director. The Board consists of six independent non-executive Directors, four non-executive Directors and two executive Directors. The Board is vested with the task of monitoring and supervising the Bank's performance in all areas: economic, social and environmental.

The Bank complies with the Corporate Governance Code for Licensed Commercial Banks issued by the Central Bank, and has complied with all directions issued by the Central Bank with regard to corporate governance as provided for, under the Banking Act.

The Board has appointed the following Committees to monitor specific aspects of the Bank's operations. Detailed Committee reports are given on pages 161 to 168 of the Annual Report.

Sustainability Report



The Annual General Meeting and Extraordinary General Meetings provide the primary means through which shareholders engage directly with the Board of Directors. Shareholders submit questions and exercise their voting rights on directors' appointments, removals, remuneration and annual performance.

The Bank posts regular financial and operational updates on its website and in market disclosures released in accordance

with continuous disclosure requirements. All these disclosures are available to shareholders.

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 engage with the Board.

Communication between the Board of Directors and employees takes place through the CEO of the Bank and the Corporate Management team. Employees are free to raise grievances through mechanisms such as the Nations Voice Committee, headed by the CEO, which meets once in two months with employees representing from every department.

An employee attitude survey conducted at regular intervals gets feedback on working conditions, specific grievances and business strategy. A well structured whistleblower policy and procedure is in place and is being used by employees.

Corporate Social Responsibility Committee

Our corporate social responsibility efforts are designed to synchronize with our key thrust areas. All projects are approved by the Committee that reviews all community investment efforts every quarter.

The Committee consists of:

- The CEO
- The DGM Cards and Strategic Marketing
- The DGM Legal and Compliance
- The DGM Commercial Banking

Stakeholder Engagement

The Bank has regular engagement with its multiple stakeholders. Regular stakeholder engagement provides a 360 degree feedback on the impact the Bank is having, gaps in performance and relationship building, deficiencies in the working environment and specific grievances and ideas for enhancing its business and sustainability strategy.



Stakeholder

The Bank has regular engagement with its multiple stakeholders

The Bank's stakeholders include the following:

Existing and potential customers

Existing and potential employees

The Central Bank of Sri Lanka (CBSL)

The Government of Sri Lanka (GOSL)

Shareholders and investors

Industry analysts

Environmentalists and other special interest groups including the media

Training institutions

Outsourcing agencies

Local and overseas financial institutions

Suppliers, merchants and other services providers

The general public

Engagements with Stakeholders

The Bank engages with its stakeholders in the following ways:

The Bank's performance, innovations and other achievements are published in the media.

The Annual Report, which contains detailed information on all aspects of the Bank's performance over the previous financial year, is distributed to shareholders prior to each Annual General Meeting.

Periodic meetings, visits, cocktails and dialogues are held with selective customer groups.

The annual `Corporate Quiz Night' which provides a niche group, the opportunity to engage with the Bank.

Employee Engagement mechanisms includes a range of training and awards schemes. Star Awards' are provided to those staff who perform beyond the call of duty. The Nations Magnus Awards' are given every year, to 10 selected employees for outstanding personal and team performance. This is in addition to the numerous awards schemes which are conducted within each individual business unit.

The Bank follows an `open-door' communication policy and encourages employees to communicate regularly with their supervisors and peers. Employee feedback mechanisms such as the Employee Attitude Survey are done every two years where employees complete a survey providing detailed feedback on the working environment and on company policies.

Sustainability Report

The Nations Voice headed by the CEO meets with staff once in two months and the working environment and other performance related issues are discussed through this committee.

Internal customer surveys, where customers rate departments provide feedback on service delivery and processes.

The Bank's sports and welfare club organizes a number of events throughout the year, including Avurudu celebrations, sports days, annual dances and a Christmas party for children of employees, which build team spirit among employees across different grades.

Investor Relations

Investor Forum

The Bank conducts an annual Investor Forum for the benefit of investors, analysts and research companies that provides details of the Bank's performance.

The 3rd consecutive investor forum was held in August which was a success from the positive feed back received from the participants and media. The Bank's primary objective of the forum was to update the investor community and the market participants on the highlights of the performance during the current year and provide a glimpse of what the future holds. The forum commenced with an audio visual of the bank journey, followed by a presentation made by the CEO on performance and future strategic objectives of the bank. The head table was represented by the Chairman, Executive Director, CEO, and CFO who answered questions raised by the participants.

"Invest Sri Lanka"- Investor Forum

Nations Trust Bank also participated in the "Invest Sri Lanka" Investor Forum held at the Shangri-La Hotel in Hong Kong conducted by The Colombo Stock Exchange and The Securities and Exchange Commission of Sri Lanka. The forum showcased the economic growth prospects and investment opportunities in Sri Lanka's capital market which attracted over a hundred participants, including institutional and high net worth investors and fund managers.

Relationships with Multilateral Agencies

The Bank continued to foster and strengthen its relationships with multilateral agencies during the year. Many visits from these agency officials were entertained during the year for annual reviews, surveys and prospective fund raising options. Currently the Bank has funding lines from ADB and FMO.







Nations Magnus Awards night

2. Sustainability Performance

Environmental ContributionInvesting in Nature

Driving the Bank's sustainability strategy have been the investments we have made in nature and in preserving the environment. The interconnections that man and woman have with their physical and natural environments has raised problems and identified potential that has challenged the wau we innovate and add value. We have tried to minimize the impact our operations have on the environment and are progressively maximizing the efficient use of our resources. We have accompanied this with investments in the natural environment that have sought to replenish, restore, and conserve the environment.

Supporting Sri Lanka's Bio Diversity

Over the years the Bank has supported efforts at "bio diversity conservation at the 'Hiyare Rainforest' in the Galle district. The 600 acre 'Hiyare Rainforest', a unique natural habitat and little known to many Sri Lankans, is home to several endemic and rare species of fauna and flora. The Bank has partnered with the Wildlife Conservation Society of Galle (WCSG) and the Municipal Council of Galle to help preserve this unique space and to raise awareness about its special beauty while contributing to the general Bio diversity conservation efforts carried out from this location. The Bank supported Hiyare conservation project has successfully discovered new faunal species which will add value to Sri Lanka's biodiversity.

Sinharaja Bio-Diversity Gardens Project

Recognizing the importance of sponsoring Bio Diversity programs the Bank sponsored the Sinharaja Bio-Diversity Gardens Project in association with Wildlife & Nature Protection Society of Sri Lanka (WNPS). The project which commenced in 2012 was concluded in 2013 where bio diversity gardens were established in five selected schools in the Kalawana Potupitiya area in Ratnapura with the efforts of school children, teachers and officials of WNPS

The idea behind establishing bio diversity gardens in the schools of the area stems from the need to educate the younger generation of the areas surrounding the Sinharaja Reserve on the value of bio diversity and the importance of preserving the forest reserve and its rich bio diversity for future generations. The programme therefore aims to promote the guardianship of Sinharaja which is an important World Environmental Heritage Site, by conceptuallly extending its boundaries.



Bio-Diversity Gardens



600 acre
Hiyare Rainforest in Galle district

The `wild animal' rescue program

The `wild animal' rescue programme provides shelter, food, medical attention and comfort to wild animals that are trapped or injured due to changes in their habitats caused by human activity or intervention. Through this programme we aim to raise awareness among local communities and to empower them to take care of animals and the natural environment.

In 2013, together with WCSG we rescued and treated 165 injured wild animals, an increase over the 120 animals rescued and treated in 2012. The Bank has provided the WCSG with the financial resources it needs to operate the animal hospital at Hiyare and has helped train officials in the care of injured animals. The vehicle used as the ambulance to carry out rescue operations is funded by the Bank and plays a vital role spearheading the rescue programme.

Through this programme we have combined innovative practices with the basic human value of `care and concern' for the environment. Through this combination we hope to create a model that may be replicated in other parts of Sri Lanka and possibly in other parts of the world.



23 lectures and seminars conducted to raise awareness on bio-diversity conservation

Changing Mindsets

Changing mindsets lies at the core of sustainable business practices, whether in innovating new products, creating dynamic workspaces or regenerating natural and physical environments.

In 2013 the Bank funded a series of workshops and educational programmes in partnership with the WCSG. The programmes were aimed at school children, university students and the general public, and were aimed at raising awareness on bio-diversity conservation in Sri Lanka. The programmes consisted of lectures, fieldwork experience, tours of the 'Hiyare Rainforest' and explanations of captive breeding programmes.

23 lectures and seminars were conducted for the benefit of various groups during 2013.



Wild Animal rescue program



Workshops for school children at Hiyare

`Embrace Nature'

In June 2013, the Bank launched the `Embrace Nature' project, an awareness campaign that seeks to foster a love and concern for the environment among different sections of the public. This project was implemented in association with the WCSG.

The first phase of the project focused on conserving eco-systems deemed to be at risk in the Western Province. The Thalangama Tank, located in the highly urbanized Kotte Pradeshiya Saba in the Colombo District, was picked as the first site of intervention.

The National Environmental Act, (No. 47 of 1980), has classified the Thalangama Tank as a wetland eco-system. Apart from its rich vegetation and high bio-diversity, the area is demarcated by a number of natural water ways and marshlands inhabited by a large number of species including many varieties of reptiles, fresh water turtles and monitor lizards. Though not endemic to the area, the fishing cat and the otter are also species that inhabit the tank and are particularly vulnerable to destruction. Their habitats have been threatened as a consequence of mass urbanization taking place in the area in the recent past.

To coincide with World Environment Day on 5th June 2013, the Bank commissioned the first public hoarding, capturing the essence of the Thalangama Tank. This hoarding was designed to deliver a powerful message with the hope that it will trigger a change in public behaviour and

attitudes. It is hoped that the strategically placed hoarding will nurture a lasting visual impression and help create more responsible citizens who would accept the onus of protecting and preserving this national asset in the future.



Public hoarding in Thalangama

The Hog Deer Breeding and Rehabilitation Programme

The hog deer (Axis Porcinus) is considered to be a critically endangered mammal in Sri Lanka. The hog deer breeding and rehabilitation programme' was initiated by the Wildlife Society of Galle in collaboration with the Geoffrey Bawa Trust and is funded by the Bank.

During the past year, five hog deer were released for breeding purposes to the 'Hondaruwa Island', a habitat which provides a conducive environment for the breeding of these animals. This project will be the first animal captive breeding programme which is conducted by a non governmental organisation funded by a private bank.

Survey on National Freshwater Fishes

Three years ago, the Bank together with the WCSG and the Biodiversity Secretariat of the Ministry of Environment, initiated a National Survey of the Freshwater Fishes of Sri Lanka. The study identified six new freshwater fish species. Random observations following the survey in other river basins have revealed there may be many more new species of freshwater fishes waiting to be identified. Some of the discoveries in 2013 include a new species of Vateri flower Rasbora, and Rohan's Vateri flower Rasbora (Rasboroidesrohani) from the Suriyakanda area in the Sinharaja Forest Reserve and Pallid Vateri flower, Rasbora Rosboroides pallidus from Kottawa Kobala forest Galle.



The Hog Deer Breeding Programme

Fruit Bat Conservation Programme

Fruit bats are considered to be in population decline. In 2013, the Bank supported a Fruit Bat conservation programme in the Galle and Hiyare areas. The decline in the fruit bat population has been linked to increasing urbanization which is reducing wildlife habitats. However, some of species are able to exploit modified areas especially parks.

This programme has entailed the planting of fruit and other plants which produce edible parts for bats to feed on. The initial stage of the project has been completed and the bat colonies in the Galle area have been enhanced. Awareness among people living in and around these colonies has improved and the WCSG has educated farmers on the role that fruit bats play in the pollination process and how they contribute to sustainable agriculture.

Stretching and Conserving Resources

The optimization of resources forms part of our sustainability strategy and the Bank is reviewing its resource usage polices to ensure that resources are optimized and energy conservation options are pursued at every available opportunity.

The Bank's primary source of energy continues to be from the national grid while we pursue alternative sources where we can. Diesel generators are used as a standby source in the event the national grid fails.

Electricity consumption during 2013

Main Locations	Head Office – Union Place	522,500 Kwh
	Processing Centre - Kotahena	1,600,000 Kwh
	Millennium House – Nawam Mawatha	1,740,171 kWh
	Sales Centre – Sangaraja Mawatha	172,843 Kwh
Branch Network		2,806,745 Kwh
Total		7,602,088 Kwh

Over the years the Bank has initiated a number of measures to trim our energy usage:

Inverter energy saving air conditioners'
were installed in all new branches
opened in 2013 and all replacements
of air conditioners will be done with
this new energy saving air conditioner
model. This resulted in a considerable
saving in power consumption, which the
Bank is in the process of quantifying.

 A`Lights Out' policy was implemented at the Head Office, the Kotahena Processing Centre and the Nawam Mawatha branch, with effect from 15th March 2012. It was continued through out 2013. In terms of this policy all employees leave the buildings in order to switch-off lights and the air-conditioning at 5.30 pm. The `lights out' policy was applied across



7,602,088Kwh

Total electricity consumption during 2013

all departments within these buildings except for identified divisions which were compelled to attend to customers and transactions after 5.30 p.m.

The Bank is in the process of obtaining the `ISO 50001' certification for the bank's Union Place Head Office building with the Sri Lanka Sustainable Energy Authority. The ISO 50001 guidelines called for several measures which the Bank has implemented and include:

- An Energy Survey which was completed at the Head Office
- Sub measuring meters which were fixed for energy evaluation 'High utilizing' energy sources which were identified.
- An 'energy management team' which was appointed at the Head Office.
- Awareness sessions on energy usage and consumption were conducted for all staff

The first Surveillance Audit will be done in February 2014 and the Bank's goal is to obtain ISO 50001 certification by mid 2014.

Conserving Water Resources

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

Over the years the Bank has initiated a number of measures to minimize our water usage.

These include:

 Posters and periodic notices requesting staff to conserve water resources

Water consumption during 2013

Main Locations –	Head Office	4,764 M³
	Processing Center	8,400 M ³
	Millennium House	20,057 M ³
	Sales Center	3,200 M ³
Branch Network		16,300 M ³

 A supply of regulated water to minimize water wastage at three of our locations: Kotahena, Nawam Mawatha and Union Place

Waste Management

The Bank's operations generate several types of waste. This includes paper, e-waste and food waste. The Bank's paper waste is disposed of through Neptune Waste Management Ltd, which in turn recycles it. E-waste is disposed of by way of public auctions and food waste is disposed of by way of the municipal and other local council's waste collection systems.

e-Statements

In 2013, the Bank continued its practice of providing all Bank credit and debit card customers the option to converting in to e-statements. The Bank currently provides PDF e-Statements through email to account holders who have registered for the e-option. The Bank continues to encourage its customers to transit to e-statements so as to reduce paper consumption.

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 Lankan 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.

•••••••••



52,721 M³ Total water consumption in year 2013

Social Contribution

Investing in Society through Education and Health

Intrinsic to our sustainability strategy are the investments we have made in social infrastructure and social services. Through these investments we hope to empower communities, provide better lifestyles and enhance opportunities for all, especially the disadvantaged.

Ward 19 at the National Cancer Hospital

The Bank has been investing in the National Cancer Hospital in Maharagama in a structured manner since 2009. We started with upgrading a selected ward at the hospital and providing patients and hospital staff with new facilities and equipment, and giving them a safe and clean environment.

The Bank continued its investments in the hospital from 2009 onwards. The Bank's investments have focused on new infrastructure, new equipment, improved patient facilities, improved visitor facilities and better conditions of work for staff. In 2013, the Bank focused on the renovation and refurbishment of patient lavatories, the pantry, a staff rest room and the construction of rooms and quarters for doctors and for patient consultation.

The 'Blood Donor' Card

In 2011 the Bank partnered with the National Blood Transfusion Service of Sri Lanka (NBTS) to launch the 'Blood Donor Card'. The NBTS is the country's focal point for the collection and distribution of blood and blood products for a variety of medical emergencies. The state-of-the- art Blood Donor Card is the size of a credit card that records data from all blood donors on a magnetic chip.

Approximately 110,000 cards were provided by the Bank in 2013. The cards are simple, easy to use and far more effective than the paper booklet. It has helped the NBTS to attract new donors, reduce transaction time and store data in a more durable form.

Empowering the Disabled

In 2013 Nations Trust Bank provided funding to set up a new classroom for the purpose of displaying 'educational models' for students at the School for the Blind in Ratmalana. The models are made to the shape of animals and birds, which enables blind students to form an idea as to what certain animals and birds look like in the real world. The Bank also donated physiotherapy equipment to the school.



Children of the Blind School Rathmalana

Refurbishment of Amunutenna Dweethika Kanishta Vidyalaya, Rathnapura

In 2013 the Bank continued its assistance to Amunutenna Dweethika Kanishta Vidyalaya in Rathnapura by funding the refurbishment and renovation of the students' assembly hall and constructing a new fully equipped library. In addition, the Bank donated five new computers which allowed the school to establish its own computer lab. The students of the school were also provided with their full requirement of school necessities for 2014 which included school bags, shoes, books and stationery, by the Bank.

Enhancing Rural Schools

The Bank has been donating libraries and math labs to rural schools in Sri Lanka since 2009. This is done in partnership with Candle Aid Lanka (formerly AFLAC). In 2013 the Bank donated books for seven libraries. So far 33 libraries and new math labs have been opened with the help of the Bank.

The following Math Libraries and General Libraries were opened in 2013:

Math Libraries:

- Rajakeeya Vidiyalaya , Pannagamuwa– Weerawila
- Udawela Central College, Passara Road–Badulla

General Libraries:

- Lankagama Model Primary School, Lankagama, Deniyaya
- Gangeyaya Vidyalaya, Gangeyaya, Ambilipitiya
- Hatangala Maha Vidyalaya, Weligepola, Balangoda.
- Bopagoda Kanishta Vidyalaya, Akuressa.
- Halloluwa Navodya Maha Vidyalaya, Halloluwa, Katugastota

'Math Labs' 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 specially designed equipment. The lab creates an environment conducive for teachers and students to engage in stimulating mathematical education. The Bank also facilitates the training of teachers in order to optimize the resources in the lab. General libraries include books and material in all topics and languages.



Libraries and math labs opened in rural schools



Computer laborataroy established within school premises



Presentation of books and stationery to the Principal

Creating Innovative and Safe Workspaces

Delivering sustainable value has required the Bank to create workspaces that are enjoyable, generate creativity and are safe. The Bank's drive to create innovative products for its stakeholders has been supported by the innovative workspaces created for the Bank's 2,000 plus staff in all its geographically dispersed locations.

Our workforce is diverse and we have made a special attempt to recruit from the communities in which we work. Flexible working hours enable employees to combine work with parental and other responsibilities. 40% of the Banks workforce consists of women.

Award winning Human Resource Practices

Asia's Best Employer Brand Awards - Best HR Strategy in Line with Business

Nations Trust Bank was recognized at the 4th annual Asia's Best Employer Brand Awards, held at Pan Pacific Hotel, Singapore in July 2013. The event saw the participation of industry leaders and professionals from over 20 countries.

Nations Trust Bank won the award under the organizational category – 'Award for Best HR Strategy in Line with Business'.



Head of Human Resources receiving the award on behalf of Nations Trust Bank

The award recognizes the revolutionary HR practices that positively impact Nations Trust Bank employees, while delivering a strong support function to core banking business.

Asia's Best Employer Brand Awards 2013 was hosted by Employer Branding Institute, World HRD Congress, and Stars of the Industry Group, along with their strategic partner CMO Asia, and endorsed by the Asian Confederation of Business.

HR Excellence Award for Employee Engagement

Nations Trust Bank was the proud winner of the HR Excellence Award for employee engagement which was presented at the IPM Conference organized by the Institute of Personnel Management (IPM), which was held on 18th and 19th June 2013 at the Waters Edge, Battaramulla.

The HR Excellence Awards recognises and rewards the corporate sector for the contribution they have made towards promoting best practices within the sphere of human resources. Accordingly, this award recognizes the HR initiatives implemented by Nations Trust Bank in the area of employee engagement enabling positive change within the organization and industry as a whole.

Award for "Institution Building"
Nations Trust Bank was awarded with
an award for "Institution Building" at the
Asia Pacific HRM Congress Awards in
Bangalore, India on 5th of September
2013. The annual Asia Pacific HRM



Award for "Institution Building"



Receiving the HR Excellence Award for Employee Engagement

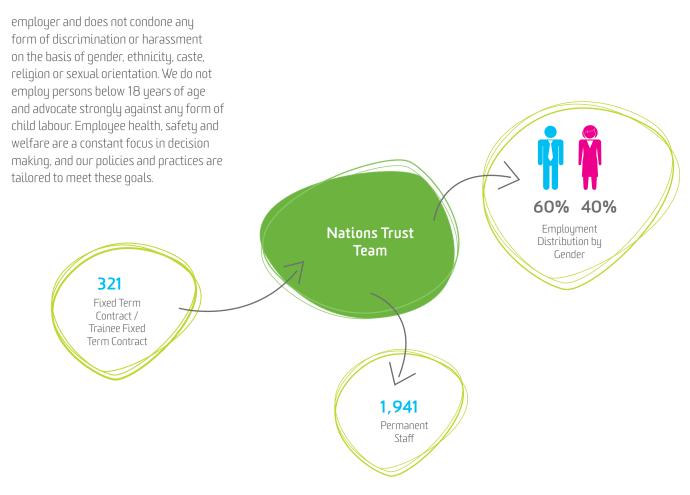
Congress, provides a platform to review evolving trends in HR leadership, strategy, in the field of human resource management.

The Asia Pacific HRM Congress is the largest congregation of HR Professionals held every year with the focus on sharing cutting edge innovations in HR practices and recognition of exemplary contributions in the field. The awards were judged by a council of sixteen academic

and professional experts from companies including Indian Institute of Corporate Affairs, World HRD Congress, and Asia Pacific HRM Congress.

Non-Discrimination and Equal Opportunity

The Bank conforms to all regulations and work practices as stipulated by regulatory authorities. Many of our practices go beyond what is required by regulation. The Bank is an equal opportunity



Employees by Categories

Grade	Count
Corporate Management	13
Senior Management	48
Management	226
Non-Management / Executive	1,654
Contract Employees	321
Total	2,262

2,262
Total Employees
by year end

Staff Retention

The Bank operates in a competitive environment in which there is a high demand for trained staff across the industry.

The following are some of the measures the Bank implemented in order to retain staff:

- Regular Branch visits by our Human Resource team to identify staff concerns and respond to them
- Implementation of Talent Management Programmes
- Implementation of flexible hours of work
- Training and development opportunities for staff to enhance skills
- Remuneration is maintained at levels which are market competitive

Programmes to increase staff involvement in 2013 included:

- Nations e-Quiz
- Nations Wellness Program (Lose to win)

 an awareness campaign/competition
 which included information for staff
 on a variety of health related topics
 including a three-month long weight
 reduction competition titled 'Lose to
 Win' aimed at creating an awareness on healthy lifestyles.



Staff participation in one of the many loose to win wellness events

Workplace Safety

The Bank takes great effort in order to ensure that workspaces are safe and secure. There were no workplace related injuries reported during 2013. Safety measures in place include periodic training for fire wardens from each department, fire alarm checks and Dengue Prevention Campaigns.

Training and Capacity Development

Staff is provided with opportunities for regular training and capacity development. The Bank has its own 'in-house' training programmes and also provides staff the opportunity for training in external locations both within Sri Lanka and outside. Every new recruit goes through a comprehensive training programme covering all aspects of the Bank's operations. The Bank has in place a Training Needs Analysis through which training needs are identified on a regular basis.

The future strategic plans of the Bank called for a very structured and intensive training of all segments of the Bank's Staff.

The primary focus in the Retail network was on Customer Service, Branch
Operation, Product Knowledge, AML &
Compliance and Building of the required
Sales Culture through the Sales Force
Effectiveness programme tools. New
training methods through the production
of attractive training videos facilitated the
concept of learning at your own seat. With
the rising of staff numbers its expected
that on-the-job training of junior staff by
their superiors would be pivotal to success
and L&D team will focus its efforts to
producing the required resources for them
to use.

Performance Appraisals

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

of all permanent employees who have been in service for over six 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 their 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. 'Development Centres' 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 Sport and Welfare

Sports and culture form an intrinsic part of the Bank's sustainability strategy. Through sports and the arts the Bank seeks to, build team spirit and cooperation among employees, develop a shared vision and values, encourage innovation and out-of-the-box thinking and progressively 'raise the performance bar' and deliver enhanced quality.

In 2013 the Sports and Welfare Club decided to give employees something new. The year began with the traditional Avurudu Ullela. However, the event was given a different spin and was titled 'Sayuruthere Avurudde' and was held at the Pegasus Beach Hotel. Over 1,000 staff members participated in the 'allday' activities and games which included several new events.

The Annual Nations Sports Day was transformed into a day-night Sports Carnival and was held under floodlights at the Bloomfield grounds in Colombo. 'The Olympics' was chosen as the theme and around 1,200 employees participated. New events such as tag rugby and badminton were introduced to attract wider staff participation.





Nations Sports Day events



200 Employees participated in the Annual Blood Donation campaign



Avrudu Ullela



Swimming, cricket and football events were held during the run up to this event. An invitation relay was introduced where many leading companies participated.

The Bank's Annual Dinner Dance was held in January 2014 at the BMICH. More than 800 staff members and their spouses attended the dinner dance which was titled 'For Your Eyes Only'. The highlight of the night was the raffle draw where the three main prizes were return air tickets to London, Paris and Rome.

The Kiddies Christmas Party for children of Bank staff was conducted in early December at 'Waters Edge'. Around 1,300 staff members, their spouses and kids, were present. Each child below 12 years of age was given a gift.

A blood donation campaign was organized by the Sports and Welfare Club in July, where around 200 employees donated blood.



Nations Trust Dinner Dance

Promoting Rights

Rights are respected at every stage of our operations: in the Bank's relationship with its employees; in its relationship with its suppliers and customers; and in assessing the impact our operations have on the communities we work in and on society at large.

The Bank is an equal opportunity employer and does not discriminate on the basis of sex, ethnicity, language, caste, social class, disability or sexual orientation. Recruitment to the Bank and promotions within the Bank are based on skills, aptitude, need and experience. Our conditions of employment offers flexible working hours which are specially helpful for working mothers.

All vacancies arising in the Bank are advertised internally and an equal opportunity is given to all employees to apply for these positions provided they meet required criteria. 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.

Our remuneration and benefits are on par with the rest of the financial services industry and in some cases above corresponding rates. Remuneration policies do not discriminate against women. Remuneration is linked to skill, aptitude and experience. Equal pay is provided for equal work in accordance with industry standards.

Freedom of Association and Collective Bargaining

The right to associate and collectively bargain is an intrinsic part of the Bank's polices and forms part of the company's Code of Conduct. The workplace culture is open and transparent and enables employees to raise a variety of issues with the senior management easily and confidentially when required.

The Bank is a member of the Employers' Federation of Ceylon, a trade union of employers, and often seeks advice from the Federation on terms and conditions of employment. The advice of the Federation in turn is shaped by many of the international norms on labour conditions and rights. A non-adversarial approach and a speedy resolution of disputes are very much a part of the Bank's workplace ethic.

Zero Tolerance on Child and Forced Labour

All of our recruits are above 18 years of age. We encourage all our stakeholders to follow a similar policy too. The Bank's practices and policies comply strictly with the labour laws and regulations of the country, including the Shop & Office Employees' Act.

Economic Contribution

At the Cutting Edge and adding Value to Society

Over these past years the Bank has innovated to deliver cutting edge products and state-ofthe -art services to multiple stakeholders. We have made the Bank accessible to a wide spectrum of customers through our branch network and through a state of the art online banking system. We have been honest about our business practices and ensured we are in strict compliance with all laws and regulations. We have created a dynamic and highly motivated workforce and added value to their lives, the lives of their families and to their immediate communities. Our customers come from different levels of society. They stretch from the blue chips, bold and innovative young companies, and urban professionals, to small and medium sized industry, women and young school leavers.

We have added value to government through the taxes we pay, and through the regular engagement we have with state officials on monetary policy, fiscal policy, financial industry regulation, and other matters of economic policy. We see ourselves as a trailblazer in the financial services industry, offering cutting edge products, reaching new and hitherto ignored market segments, and delivering value with prudence and security.

Benefit Plans

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 benefits which is detailed in the significant accounting policies to the Annual Report.

Bank employees receive the following henefits:

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 or retirement. (Employees become eligible after five years of service)

Fostering Local Economies

Contributing to and nourishing local economies is very much a part of the

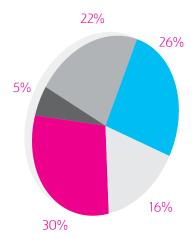
Bank's sustainability strategy. Wherever possible the Bank draws on local resources, human and material, and re-invests in the re-generation of local resources.

Most of our branch managers are drawn from the area in which the branch is located. Similarly in recruiting staff for our branches too, including the recruitment of staff for senior positions, we give a preference to those candidates who hail from the local community. In doing this we aim to foster and develop local talent and provide state-of-the-art and world class opportunities for those who live outside the major urban centres.

Value Distribution

(%)

- To Employees
- To Government
- To Service Providers
- To Providers of Capital
- Retained for Growth



It is the Bank's policy to fill vacancies by advertising internally and current employees are given the first preference. Where we lack suitable candidates internally we then advertise and recruit external candidates.

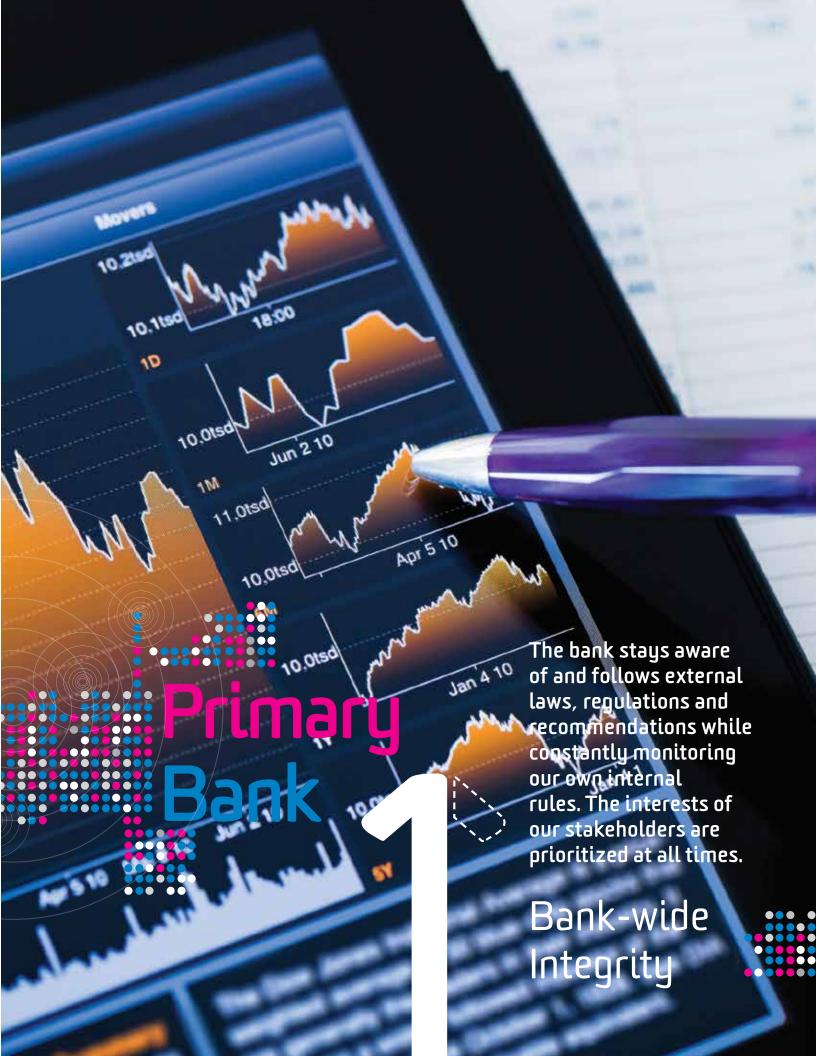
The 'NFresher' Internship Programme

The Bank launched an internship programme titled 'Nfresher' targeting students who have completed their Advance Level examination which offers them the opportunity to work with the Bank in different capacities while waiting for their results. Our goal is to expose school leavers to the financial services industry, generate new skills sets among them and to give them a taste of what it would be like to pursue a career in financial services.

The Bank's Learning & Development team leads the training of the 'NFreshers' on basic banking product with a special focus on digital channels including Mobile products, Internet Banking and ATMs. The interns were also provided 'outbound training' and guidance on 'Personal Branding' and 'Personal Goals' where areas such as team work, 'out-of-comfortzone', innovation and service mindset are emphasized. The interns are linked to a mentor throughout their training program who assists them to explore career opportunities, set life's goals, develop contacts and identify resources.



NFresher interns at training



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 2013, 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 December 31 2013		Resident		No	n - Resident			Total	
	No. of	No. of		No. of	No. of		No. of	No. of	
Shareholders	Shareholders	Shares	%	Shareholders	Shares	%	Shareholders	Shares	%
1 - 1,000	4,694	1,940,992	0.84	44	24,263	0.01	4,738	1,965,255	0.85
1,001 - 10,000	2,596	8,491,902	3.68	52	220,457	0.10	2,648	8,712,359	3.78
10,001 - 100,000	486	14,461,391	6.27	18	754,794	0.33	504	15,216,185	6.60
100,001 - 1,000,000	76	18,251,107	7.91	5	2,799,339	1.21	81	21,050,446	9.12
Over 1,000,000	15	155,605,346	67.48	5	28,057,692	12.17	20	183,663,038	79.65
	7,867	198,750,738	86.18	124	31,856,545	13.82	7,991	230,607,283	100.00

There were 8,437 Resident and 143 non-resident shareholders as at 31 December 2012.

Analysis Of Shareholders		31.12.2013			31.12.2012	
	No. of Shareholders	No. of Shares	%	Shareholders	No. of Shares	No. of %
Individual Institutional	7,557 434	34,804,281 195,803,002	15.09 84.91	8,121 459	46,506,278 184,101,005	20.17 79.83
	7,991	230,607,283	100.00	8,580	230,607,283	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31 December 2013 was 79.85% (79.85 % as at 31 December 2012).

Market Information On Ordinary Shares Of The Company

A Applicat Value	2013	2012
Market Value Highest Value (LKR) Lowest Value (LKR) Value at the end of year (LKR)	68.90 56.00 62.20	64.60 43.50 56.00
Trading Statistics No. of Transactions No. of Shares Traded (Mn) Value of Shares Traded (LKR Mn)	10,960 59.74 3,657.37	15,929 44.98 2,896.36
Market Capitalization Market Capitalization (LKR Mn)	14,343.77	12,914.01

Twenty Largest Shareholders As At 31St December

Twenty Largest Shareholders As At 313t December				
		2013		2012
Name of the Shareholder	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 O3	20,715,400	8.98	20,715,400	8.98
HWIC Asia Fund	19,048,765	8.26	-	-
CF Growth Fund Limited A/C No O1	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
HSBC Intl. Nom. Limited - SSBT -National Westminister Bank Plc				
as Depositary of First State Indian Subcontinen	3,497,452	1.52	-	-
Employees Trust Fund Board	3,153,850	1.37	2,557,553	1.11
HSBC Intl. Nom. Limited - JPMCB-Pacific Assets Trust PLC	3,101,851	1.35	-	-
Mr.M.F. Hashim	2,600,000	1.13	2,583,150	1.12
The Ceylon Investment PLC A/C #O2	2,542,368	1.10	-	-
The Ceylon Guardian Investment Trust PLC A/C #02	2,463,350	1.07	-	-
Renuka City Hotels PLC	1,858,775	0.81	1,858,775	0.81
Bank of Ceylon - A/C No O2	1,546,100	0.67	1,546,100	0.67
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
Deustche Bank AG as Trustee for Namal Acuity Value Fund	1,200,000	0.52	-	-
HSBC International Nominees Limited				
- SSBT - Deustche Bank AG Singapore A/C No O1	1,089,000	0.47	1,589,000	0.69
Malship Ceylon Limited	1,063,857	0.46	1,063,857	0.46
	183,663,038	79.64	151,696,105	65.78
Others	46,944,245	20.36	78,911,178	34.22
Total	230,607,283	100.00	230,607,283	100.00

^{*} Comparative shareholdings as at 31 December 2012 of the twenty largest shareholders as at 31 December 2013.

Investor Information

Ten Year Summary

Group

Year Ended December 31st	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
LKR Mn										
OPERATING RESULTS										
Gross Income	2,241	3,085	5,922	9,342	13,877	14,037	12,215	11,885	17,673	20,147
Interest Income	1,708	2,448	4,991	8,011	12,094	12,049	10,090	9,795	15,113	17,911
Interest Expense	(1,118)	(1,504)	(3,280)	(5,900)	(9,185)	(8,329)	(5,525)	(5,391)	(9,358)	(10,237)
Net Interest Income	590	944	1,711	2,111	2,909	3,720	4,565	4,404	5,755	7,675
Fees & Other Income	533	637	931	1,331	1,783	1,988	2,125	2,089	2,560	2,235
Net Income	1,123	1,581	2,642	3,442	4,692	5,708	6,690	6,494	8,315	9,910
Operating Expenses										
(inc. Imp. Charge/Reversal & VAT)	(1,009)	(1,383)	(2,104)	(2,594)	(3,664)	(4,327)	(4,662)	(4,158)	(5,549)	(6,768)
Profit Before Taxation	114	198	538	848	1,028	1,381	2,029	2,336	2,766	3,142
Provision for Taxation	(69)	(73)	(215)	(343)	(435)	(695)	(944)	(729)	(815)	(1,015)
Profit After Taxation	45	125	323	505	593	686	1,084	1,607	1,951	2,127
As at December 31st,										
ASSETS										
Cash & Short-Term Funds	1,977	1,633	4,780	3,147	4,065	1,431	1,531	3,694	2,534	3,020
Statutory Deposits with Central Bank	609	955	1,315	1,964	1,717	2,044	2,416	4,284	5,089	4,032
Government Treasury Bills & Bonds	5,771	5,341	10,323	11,331	15,688	23,894	26,876	24,982	34,038	44,807
Investment Securities	632	621	1,629	2,392	3,781	4,239	4,020	3,153	2,221	2,320
Loans & Advances	11,717	15,604	26,993	34,500	38,585	35,335	44,571	61,188	73,424	82,327
Other Assets	558	785	998	1,209	1,914	1,210	1,287	2,280	2,591	2,894
Property Plant & Equipment	381	414	1,133	1,065	2,035	1,919	1,788	1,891	1,908	2,048
Intangible Assets	68	59	451	79	79	432	758	600	642	680
Total Assets	21,713	25,412	47,622	55,687	67,864	70,504	83,248	102,073	122,447	142,128
LIABILITIES										
Deposits	10,460	14,314	20,670	28,666	34,146	44,222	48,315	67,633	86,274	95,730
Due to Banks	457	199	1,077	1,394	1,039	391	500	1,277	2,712	1,401
Deferred Tax Liabilities	97	100	193	201	436	437	456	236	280	341
Other Borrowings	9,360	9,336	22,820	22,557	27,901	20,677	27,173	24,298	23,085	32,918
Borrowings	8,105	7,275	19,374	18,077	22,455	14,025	19,674	14,480	18,068	18,068
Total Liabilities	20,374	23,949	44,760	52,818	63,522	65,727	76,443	93,444	112,352	130,390

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Year Ended December 31st	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
LKR /VIII										
SHAREHOLDERS' FUNDS Share Capital/Stated Capital Reserve Fund	850 13	850 16	2,062 29 771	2,062 57	3,110 80	3,110 106	4,368 156	5,101 224	5,101 314	5,101 419
Reserves Total Shareholders' Funds Total Liabilities &	476 1,339	597 1,463	2,862	750 2,869	1,152 4,342	1,561 4,777	2,281 6,804	3,303 8,628	4,680 10,095	6,217 11,738
Shareholders' Funds Commitments & Contingencies	21,713 4,886	25,412 3,832	47,622 13,276	55,687 18,138	67,864 53,617	70,504 51,591	83,248 60,844	102,073 52,366	122,447 86,239	142,128 90,267
										
RATIOS(Group) Return on Average										
Shareholders' Funds (%) Income Growth (%) Return On Average Assets (%)	3.36 5.96 0.22	8.54 37.66 0.53	11.30 91.97 0.88	17.62 57.74 0.98	16.45 48.55 0.96	15.05 1.15 0.99	18.72 (12.98) 1.41	20.83 (2.68) 1.73	20.84 48.70 1.74	19.49 14.00 1.61
Property Plant & Equipment to Shareholders' Funds (%) Total Assets to Shareholders'	28.45	28.30	39.58	37.12	46.86	40.16	26.28	21.92	18.90	17.45
Funds (Times) Cost/Income Ratio (%) Capital Adequacy Ratio Tier I (%) Capital Adequacy Ratio Tier II (%)	16.20 76.17 10.44 13.91	17.40 72.48 8.74 13.92	16.60 68.56 7.86 11.86	19.40 65.38 7.20 10.44	15.60 65.42 10.31 15.70	14.80 57.68 11.79 16.11	12.23 58.78 13.43 15.74	11.83 59.69 13.42 17.44	12.13 59.59 13.82 18.18	12.11 59.50 14.78 20.00
SHARE INFORMATION(Bank) Market Value per Share (LKR) Earnings Per Share (LKR) Price Earning Ratio (Times) Net Asset Value per Share (LKR) Earnings Yeild (%) Dividend Per Share (LKR) Dividend Payout Ratio (%) % of 20 Largest Shareholders	18.25 0.37 49.75 13.10 2.03	23.50 0.86 27.33 13.96 3.66	28.25 1.98 11.58 20.06 7.01 1.00 50.51 80.08	29.75 4.28 7.61 20.50 14.40 1.33 31.05 81.07	22.25 2.95 6.06 23.47 13.25 1.50 50.87 81.32	36.75 2.99 8.98 24.96 8.14 1.50 50.13 76.38	83.40 4.66 15.45 29.25 5.59 2.00 42.92 78.58	57.00 6.97 8.18 37.42 12.23 2.10 30.13 78.22	56.00 8.46 6.62 43.78 15.11 2.10 24.82 65.78	62.20 9.22 6.74 50.90 14.83 2.10 22.77 79.64
OTHER INFORMATION(Group) Number of Employees Number of Branches No of ATMs	479 26 30	549 28 33	820 30 38	1,239 31 38	1,615 36 47	1,532 38 44	1,608 40 48	1,853 48 48	2,037 57 70	2,262 72 100

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

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 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 on the effectiveness of the internal control mechanism reported by the Board of Directors.

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 90 to 93 Chairman of the Bank is a Non Executive Director. The Bank currently has six 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 the 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 Remarks

The Responsibilities of the Board	
The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following;	
Approve and oversee the bank's strategic objectives and	Complied
corporate values and ensure that these are communicated throughout the Bank	The Strategic Plan for the period 2013-2017 has been approved by the Board. Such approved Strategic Plan includes strategic objectives and corporate values.
	Vision, mission and corporate values have been communicated to the staff via intranet and regular training.
Approve the overall business strategy of the bank, including	Complied
	Refer comments on 3 (1) (i) (a)
next three years.	Board has approved the Risk Policy which includes the Risk management procedures and mechanisms with measurable goals.
	5 year Strategic Plan for the period 2013 -2017 was approved by the Board at the meeting held on 19th December, 2012.
Identify the principal risks and ensure implementation of	Complied
appropriate systems to manage the risks prudently.	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.
Approve implementation of a policy of communication	Complied
with all stakeholders, including depositors, creditors, shareholders and borrowers	The Board has approved and implemented a policy of communication. The policy addresses the requirements of the Rule.
	Board approved communication policy has been communicated to the staff via intranet of the Bank. Further, communication policy will be strengthened to cover all stakeholders.
	The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following; Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank 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. Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently. Approve implementation of a policy of communication with all stakeholders, including depositors, creditors,

Corporate Governance

Rule Number	Rule	Remarks
3 (1) (i) (e)	Review the adequacy and the integrity of the bank's	Complied
	internal control systems and management information systems	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)
3 (1) (i) (f)	Identify and designate key management personnel, as	Complied
	defined in the International Accounting Standards, who are in a position to (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management	The Board has identified Key Management Personnel (KMP), as defined in 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.
3 (1) (i) (g)	Define the areas of authority and key responsibilities	Complied
	for the board directors themselves and for the Key Management Personnel	Matters reserved for the Board are specifically identified and approved by the Board.
		Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions.

Rule Number	Rule	Remarks
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	Complied
		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.
		KMP also communicate to the Board via the monthly management report submitted to the Board of Directors.
		KMP responsible for internal controls and compliance attend every IRMC meeting.
		Board has delegated the function of overseeing Internal Audit Department (IAD) to a board sub-committee namely, BARC.
		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.
3 (1) (i) (i)	Periodically assess the effectiveness of the board of	Complied
	directors' own governance practices, including (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests and	(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.
	(iii) the determination of weaknesses and implementation of changes where necessary.	(ii) Approved Board procedure includes provisions to manage conflicts of interests of Directors.
		(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 same is submitted to the Board.

Corporate Governance

Rule Number	Rule	Remarks
3 (1) (i) (j)	Ensure that the bank has an appropriate succession plan	Complied
	for key management personnel.	A comprehensive succession planning process is undertaken for KMP. The process involves identification of senior officers and grooming them to take over Corporate Management positions.
		Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.
		Succession at Board levels is ensured through maintaining the Board composition at a level much higher that the statutorily required minimum number. This permits the Board to carefully fill any sudden vacancy created without an adverse impact on the functionality.
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 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.

Rule Number	Rule	Remarks
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	Complied
	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.	Functions and the responsibilities of the Chairman and the CEO have been separated and approved by the Board.
	Board procedure	
3 (1)(iii)	The Board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present.	Complied
		Board met 13 times during the year on a monthly basis with two meetings being held in the Month of December. All directors actively participate at such meetings. Any concern or comment by such directors
	Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	requiring action is minuted.
		Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary.
3 (1) (iv)	The board shall ensure that arrangements are in place to	Complied
	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.	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.

Corporate Governance

Rule Number	Rule	Remarks
3(1) (v)	The board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given.	Complied
		In terms of Clause 1.2 of the Board Procedure, the schedule of dates of meetings for the year is approved by the Board at the first Board meeting of the 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.
		Clause 2.4 provides that any meeting other than that contained in the Schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice.
3 (1) (vi)	The board procedures shall ensure that a director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the directors' meetings through an alternative director shall, however, be acceptable as attendance.	Complied
		Clause 6 of the approved Board procedure contains a similar provision.
		No director has violated this requirement during the financial year 2013.
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	Complied
		The Company Secretary who is an Attorney-at-Law satisfies the provisions contained in Section 43 of the Banking Act.
	and other regulations.	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.
3(1) (viii)	All directors shall have access to advise and services of	Complied
	the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.	All Directors have access to the advice and services of the Company Secretary.
		Clause 8.3 of the Board Procedure provides for same.

Rule Number	Rule	Remarks
3 (1) (ix)	The company secretary shall maintain the minutes of	Complied
	board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Board minutes are maintained by the Company Secretary. Clause 9.1 of the Board Procedure also provides for same.
3(1) (x)	Minutes of board meetings shall be recorded in sufficient	Complied
	detail so that it is possible to gather from the minutes, as to whether the board acted with due care and prudence in performing its duties.	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.
	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;	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.
	a.) A summary of data and information used by the board in its deliberations	Minutes will refer to the paper which contains the data and opinions relied on by the Board and also
	b.) The matters considered by the board	contain any other matter 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.	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.
	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	Clause 9.4 of the Board procedure also provides for the contents of the Board minutes.
	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.	
3 (1) (xi)	There shall be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advise in appropriate circumstances, at the bank's expense.	Complied Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.
	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.	

Corporate Governance

Rule Number	Rule	Remarks
3(1) (xii)	anneacance of conflicts of interests in their activities	Complied
		Clause 10 of the Board procedure specifically addresses avoidance of conflicts of interest.
	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.	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.
	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.	
	He/she shall not be counted in the quorum for the relevant agenda item at the board meeting.	
3(1) (xiii)	The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.	Complied
		There is a schedule of matters reserved for Board approval which has been approved by the Board.
3 (1) (xiv)	The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.	Complied
		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.
		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.

Rule Number	Rule	Remarks
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,	Complied
	an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Report is published on page 128 of the Annual Report of 2013.
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
		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 same was submitted to the Board.
		Self Assessment for the year 2012 were collated by the Senior Director and synopsis of same was submitted to the Board in July 2013.
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 the 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 January 1st, 2008.	Complied
		None of the directors have exceeded the period of nine years during the year under review.

Corporate Governance

Rule Number	Rule	Remarks
3 (2) (ii)(B)	In this context the following general exemption shall apply;	Not Applicable, for the current year 2013.
[Direction 3(2)(ii)(B) of Direction 11 of 2007 was replaced with Direction 5 of 2008 dated 15th August, 2008]	A Director who has completed nine years as at January 1, 2008 or who completes such term at any time prior to December 31st, 2008, may continue for a further maximum period of 3 years commencing January 1st, 2009.	
3 (2) (iii)	An employee of a bank may be appointed, elected or	Complied
	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.	The Board consists of twelve directors. Two of them are executive directors. CEO is one of the executive directors.

Rule Number Rule Remarks

3 (2) (iv)

The board shall have at least three independent non executive directors or one third of the total number of directors, whichever is higher. This sub direction shall be applicable from January 1st, 2010 onwards.

A non executive director shall not be considered independent if he/she;

- 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 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;
- i. 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
- ii. in which any of the other directors of the bank are employed or are directors or are material shareholders; or
- iii. 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.

Complied

The Bank has six Independent Non Executive Directors out of a total of twelve Directors, which represents half of the total number of Directors

Corporate Governance

Rule Number	Rule	Remarks
3 (2) (v)	In the event an alternate director is appointed to represent	Not Applicable
	an independent director, the person so appointed shall also meet the criteria that applies to the independent director.	No alternate director has been appointed to represent an independent Director.
3(2)(vi)	Non executive directors shall be persons with credible	Complied
	track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Directors possess qualifications and experience to meet the criteria specified in the Rule.
	33/1	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,	Complied
	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.	All meetings have been attended by a majority of Non Executive Directors.
3 (2) (viii)	The Independent non-executive directors shall be expressly	Complied
	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.	Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive directors are disclosed in page 90 to 93 of the Annual Report 2013.
3 (2) (ix)	There shall be a formal, considered and transparent	Complied
	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.	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.
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.	There were no new appointments to the Board of Directors after the Annual General Meeting held on 28 March 2013.

Rule Number	Rule	Remarks
3(2)(xi)	If a director resigns or is removed from office, the board shall :	There have been no removals or resignations during the year.
	 a. announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and 	
	b. issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	
3(2)(xii)	A director or an employee of a bank shall not be appointed,	Complied
	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.	Based on the quarterly declarations submitted by individual directors in the year 2013, no director is a Director of another Bank.
		Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution.
3(3)	Criteria to assess the fitness and propriety of directors	
	In addition to provisions of Section 42 of the Banking Act No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director.	
3(3) (i) (A) [Direction 3(3)(i)(A) and 3(3)(i)(B) of Direction 11 of 2007 was replaced with Direction 5 of 2008 dated 15th August, 2008]	In this contest the following general exemption shall apply; A director who has reached the age of 70 years as at January 1st, 2008 or who would reach the age of 70 years prior to December 31st, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.	Not Applicable

Corporate Governance

Rule Number	Rule	Remarks
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.	Complied
		No director of the Bank holds Directorships in more than 20 companies.
3(3)(ii)(A)	In this context, the following general exemption shall apply;	Not Applicable .
[Clause 4 of Direction 5 of 2008 dated15th August, 2008]	If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1st January, 2009 comply with the abovementioned limitation and notify the Monitory Board accordingly.	
3 (4)	Management functions delegated by the Board	
3 (4) (i)	The directors shall carefully study and clearly understand	Complied
	the delegation arrangements in place.	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 a board	Complied
	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.	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	Remarks
3 (5) (ii)	The chairman shall be a non executive director and preferably an independent director as well. In the case where the chairman is not an independent director, the board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element.	Complied
		Mr. Arjuna Gunaratna, a Non Executive Director is the Chairman.
		An Independent Non Executive Director, Mr. Maithri Wickremesinghe functions as the Senior Director (SD). TOR of the SD is approved by the Board.
	The designation of the Senior Director shall be disclosed in the bank's Annual Report.	The designation of the Senior Director has been disclosed in the Annual Report, 2013
3 (5) (iii)	The board shall disclose in its corporate governance report,	Complied
	which shall be an integral part of its Annual Report, the identity of the chairman and the chief executive officer and the nature of any relationship (including financial, business, family or other material/relevant relationship	Directors interests in contracts with the Bank have been disclosed under "Directors' interests in Contracts with the Bank" in the Annual Report, 2013.
	(s), if any, between the chairman and the chief executive officer and the relationships among members of the board.	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 2013.
		A process will be developed to identify and disclose any relationship including financial, business, family or other material/relevant relationship, if any, between the Chairman and the CEO and the Board members.
3 (5) (iv)	The chairman shall;	Complied
	a. provide leadership to the board	These are considered as the three key responsibilities
	b. ensure that the board works effectively and discharges its responsibilities; and	of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board.
	c. ensure all key and appropriate issues are discussed by the board in a timely manner.	The requirement is further covered by the self evaluation process of the Board.
3 (5) (v)	The chairman shall be primarily responsible for drawing	Complied
	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.	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.

Rule Number	Rule	Remarks
3 (5) (vi)	The chairman shall ensure that all the directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.	Complied
		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.
		Provision contained in Clause 2.2 of the approved Board Procedure strengthens this requirement.
3 (5) (vii)	The chairman shall encourage all the directors to make a	Complied
	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.	There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes.
		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 same was submitted to the Board.
3 (5) (viii)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors	Complied
		Refer comment under 3 (5) (vii).
3 (5) (ix)	The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied
		Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.
3 (5) (x)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied
		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.
		A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders.
3 (5) (xi)	The chief executive officer shall function as the apex	Complied
	executive-in-charge of the day-to-day management of the bank's operations and business.	The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.

Rule Number Rule Remarks

3 (6)	Board appointed committees	
3 (6) (i)	Each bank shall have at least the following committees;	Complied
	3(6)(ii) -Audit Committee	The Bank has established all four Board sub
	3(6)(iii)-Human Resources and Remuneration committee	committees as required by the Rule.
	3(6)(iv)-Nomination Committee	
	3(6)(v)-Integrated Risk Management Committee	
	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	Complied
	each committee, on their duties and roles at the annual general meeting	Reports are contained in the Annual Report of 2013.
3 (6) (ii)	Audit committee	
3 (6) (ii) (a)	The chairman of the committee shall be an independent	Complied
	non-executive director who possesses qualifications and experience in accountancy and /or audit.	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 of non executive directors.

Rule Number	Rule	Remarks
3 (6) (ii) (c)	The committee shall make recommendations on matters in connection with;	The matters referred to in the Rule are reviewed and appropriate recommendations made by the BARC. A
	i. the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	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
	ii. the implementation of the Central Bank guidelines issued to auditors from time to time;	BARC draws comfort that the relevant items are being taken into account by the External Auditors. In line
	iii.the application of the relevant accounting standards; and $% \left(1\right) =\left(1\right) \left(1\right$	with the Rule that the engagement of the Audit partner shall not exceed five years, the present Audit partner
	iv. the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of	of the External Auditors is engaged in the Bank's audit from the financial year 2012.
	the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous item.	Refer the Report of the Board Audit Review Committee given on page 166
3 (6) (ii) (d)	The committee shall review and monitor the external	Complied
	auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.	These are reviewed and monitored as detailed above. Further, the Board obtains a declaration from External Auditors on independence.

3 (6) (ii) (e) The committee shall develop and implement a policy on Complied the engagement of an external auditor to provide non-audit The matters referred to in the Rule are covered in the services that are permitted under the relevant statutes, terms of reference of the BARC and are exercised regulations, requirements and guidelines. In doing so, the with due care and diligence. Further a separate policy committee shall ensure that the provision by an external on the engagement of the external auditor to provide auditor of non -audit services does not impair the external non-audit services was developed by the BARC and auditor's independence or objectivity. When assessing the approved by the Board of Directors on 31st October, external auditor's independence or objectivity in relation 2011. This Policy was reviewed by BARC and reviewed to the provision of non audit services, the committee shall and approved by the Board of Directors on 31st May, consider; 2013. This Policy which inter alia takes cognizance of i. whenever the skills and experience of the audit firm the matters set out in the rule will be applied in the make it a suitable provider of the non-audit services; engagement of the external auditor to provide non audit services. A quarterly statement is provided to the ii. whether there are safeguards in place to ensure that BARC by Head of Internal Audit Department (HID) to there is no threat to the objectivity and/or independence confirm compliance with the guidelines. in the conduct of the audit resulting from the provision of such services by the external auditor; and iii.whether the nature of the non-audit services 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 3 (6) (ii) (f) The committee shall, before the audit commences, discuss Complied and finalize with the external auditors the nature and scope The matters referred to in the Rule are discussed in of the audit, including; detail at the BARC after satisfying itself on the scope of the work to be undertaken by the external auditors i. an assessment of the bank's compliance with the relevant directions in relation to corporate governance and the for granting of approval to proceed further. During management's internal controls over financial reporting; the tenure of the audit, regular status updates were obtained and discussed at the BARC meeting. ii. the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii.the coordination between firms where more than one audit firm is involved.

Remarks

Rule

Rule Number

Rule Number	Rule	Remarks
3 (6) (ii) (g)	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; 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.	Regular discussions with the external auditors, (independent of the management as well as with the CEO and the CFO present), discussions with the Head Internal Audit (independent of the management as well as with the CEO and the CFO present), and regular discussions with the CEO and the CFO are held by BARC. Separate BARC meetings were held in 2013 to review / discuss and finalize the quarterly / annual accounts.
3 (6) (ii) (h)	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. The committee shall review the external auditor's management letter and the management's response	Complied Regular discussions with the External Auditors, independent of the management is carried out, at every BARC meeting. The External Auditors are invited to draw the attention of BARC to any areas of concern or any matter they wish to raise regarding the accounts or otherwise. Complied Regular discussions with the External Auditors
	thereto.	are carried out on the management letter and the management's response thereto.

Rule Number Rule Remarks

3 (6) (ii) (j)

The committee shall take the following steps with regard to **Complied** the internal audit function of the bank;

- i. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;
- ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;
- iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.
- iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;
- v. Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning
- vi. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;

This is handled in the following manner;

- The annual audit plan of the Internal audit department as well as the staff requirements are reviewed/ discussed with the Head of Internal Audit.
- ii. The audit progress vis a vis the audit plan is tabled at the BARC every quarter. The audit report contains a section for the units audited to indicate the action taken based on IAD recommendation. In the case of branches, the Delivery Channels 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 as and when the audit is finalized for inclusion in the Risk Grid.
- 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.
- iv. All senior appointments to the audit team are approved by the BARC.
- 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.

Rule Number	Rule	Remarks
		(vi) Regular discussions are held with the HIA independent of the management.
3 (6) (ii) (k)	The committee shall consider the major findings of internal	Complied
	investigations and management's responses thereto	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.
3 (6) (ii) (l)	The chief finance officer, the chief internal auditor and	Complied
	executive officer may also attend meetings upon the	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, 2013. The External Auditors
	However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present.	and the CEO at the invitation of BARC attend all meetings of BARC. Where it is deemed necessary, other corporate heads including the CFO are called for the meeting.
3 (6) (ii) (m)	The committee shall have	Complied
	(i) explicit authority to investigate into any matter within its terms of reference	This has been covered in detail in the terms of reference of the BARC.
	(ii) the resources which it needs to do so	
	(iii) full access to information; and	
	(iv) authority to obtain external professional advise and to invite outsiders with relevant experience to attend, if necessary	
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.	Complied
3 (3) (6) (11)		The committee met 11 times during the year, 2013.
		Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained.

Rule Number	Rule	Remarks
3 (6) (ii) (o)	The board shall disclose in an informative way,	Complied
	(i) details of the activities of the audit committee	Please refer the Board Audit Review Committee
	(ii) the number of audit committee meetings held in the year	Report on page 166 of the Annual Report 2013.
	(iii) details of attendance of each individual director at such meetings	
3 (6) (ii) (p)	The secretary of the Committee (who may be the company	Complied
	secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	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	Complied
	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 the external auditor.	The audit charter provides for the confidentiality of potential whistle blowers. The Whistle Blowing Policy was developed by BARC and approved by the Board of Directors on 31 October, 2011. The policy was further reviewed by BARC and reviewed and approved by the Board on 31 July, 2013. 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. We have with effect from the fourth quarter of 2013 established a mechanism to record such complaints.

Rule Number	Rule	Remarks
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
3 (6) (iii) (a)	The committee shall determine the remuneration policy	Complied
	(salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank.	Approved TOR of HRRC includes the provisions 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,	Complied
	CEO and key management personnel.	Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balanced Score Card process.
3 (6) (iii) (c)	The committee shall evaluate the performance of the	Complied
	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.	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.
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 her were discussed.
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/	Complied
	appoint new directors, CEO and key management personnel	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 considered and recommended re- election of directors in compliance with the Rule.

Rule Number	Rule	Remarks
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	Complied
	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.	Affidavits and Declarations of Directors were submitted to the Committee during 2013 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
		The Committee has met the criteria set out in the Rule. However there were no changes to the Board of Directors and KMP during the year, 2013.
3 (6) (iv) (f)	The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at the meetings by invitation.	Complied
		Chairman-Mr. M. E. Wickremesinghe is an Independent Non Executive Director and out of
		the four members, two including the Chairman are independent.
		Complied
		CEO was invited to attend when his / her presence was deemed required by the Committee.

Rule Number	Rule	Remarks
3 (6) (v)	Integrated Risk Management Committee (IRMC)	
3 (6) (v) (a)	Committee shall consist of at least three non-executive	Complied
	directors, chief executive officer and key management personnel supervising board risk categories, i.e. credit, market, liquidity, operational and strategic risks.	IRMC comprises of Four non executive directors, CEO and other relevant KMP.
	The committee shall work with key management personnel very closely and make decisions on behalf of the board	Committee function as per the Board approved TOR in close co-operation with relevant KMP.
	within the framework of the authority and responsibility	Complied
	assigned to the committee.	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.
3 (6) (v) (b)	The committee shall assess all risks, i.e, credit, market,	Complied
	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.	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.
3 (6) (v) (c)	The committee shall review the adequacy and effectiveness	Complied
	of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	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.
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	Complied
	aspects of risk management including updated business continuity plans.	The IRMC has held meetings once in two months

Rule Number	Rule	Remarks
3 (6) (v) (f)	The committee shall take appropriate actions against the	Complied
	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.	Currently the Committee monitors risk Management by Departments through the departmental risk grids. 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	Complied
	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.	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 reports to the committee periodically on Bank's compliance with laws, regulations and approved policies in all areas of business operations.

Rule Number	Rule	Remarks
3 (7)	Related Party Transactions	
3 (7) (i)	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 (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	Board procedure contains provisions on avoiding conflicts of interests. The 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. 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 reviewed at the Board meeting held
3 (7) (ii)	 The type of transactions with related parties that shall be covered by this Direction shall include the following; (a) The grant of any type of accommodation, as defined in the Monetory 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. 	Complied The Board approved related party policy contains provisions for same.

Rule Number Rule Remarks

3 (7) (iii)

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 favourable 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;

- (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 purpose of this sub- direction;
- 1. 'Accommodation' shall mean accommodation as defined in the Banking Act Direction No.7 of 2007 on Maximum Amount of Accommodation.
- 11. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.
- (b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;
- (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties;
- (d) Providing services to or receiving services from a related- party without an evaluation procedure;
- (e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.

Complied

Refer comment in 3 (7) (i) above

Board approved Related Party Transactions policy contains provisions to ensure compliance.

The Bank takes steps to identify, monitor and report the transactions to ensure that there is no favourable treatments offered to related parties.

Rule Number	Rule	Remarks
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 Monetory 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)	(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.	Complied
	(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.	
	(c) Any director who fails to comply with the above sub directions shall be deemed to have vacated the office of director and the bank shall disclose such fact to the public.	
	(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.	

Rule Number	Rule	Remarks
3(7)(vi)	A bank shall not grant any accommodation or 'more favourable 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 a bank under Direction 3(7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied No such facility has been remitted in violation of this rule.
3(8)	Disclosures	
3(8) (i)	 (a) The Board shall ensure that 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.	Complied Included in page 182 of the Annual Report of 2013.
	(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 179 and 180 of the Annual Report of 2013.

Rule Number Rule Remarks

- (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.
- (d) Details of Directors, including names, fitness and propriety transactions with the Bank the total of fees/remuneration paid by the Bank
- (e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.
- (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 broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.
- (g) The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010.
- (h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances
- (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.

Complied

Assurance Report 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 the Annual Report of 2013.

Complied

Included in pages 169 to 176 of the Annual Report of 2013.

Complied

Disclosed in the Report of the Board of Directors on the Affairs of the Bank included in page 169 and 176 of the Annual Report 2013.

Complied

Included in page 174 and 175 of the Annual Report of 2013.

Complied

All findings of the 'Factual Findings Reports' of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.

Complied

Included in the Annual Report 2013

Complied

No such matter has been specified by the Monetory Board of CBSL.

Board Integrated Risk Management Committee Report

Composition

The Board Integrated Risk Management Committee (BIRMC) comprised 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 Board 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. C. H. S. K. Piyaratna - Executive Director Mr. Ajith Akmeemana - Chief Financial Officer

Mr. Rohitha Ganegoda - Chief Operating Officer

Mr. Anura Yapa - Chief Risk Officer Mr. Indrajith Boyagoda - DGM – Treasury

Mr. Theja Silva - DGM –Legal & Compliance

Mr. Arthur Fernandez - Head of Internal Audit

In addition to the above, Mr. Damith Pallewatte, Deputy Head of Integrated Risk Management and Mr. Jerome Ratnarajah Chief Manager-Treasury Services also attended meetings of the Integrated Risk Management Committee by invitation.

Terms of Reference

The Board Integrated Risk Management Committee's mandate includes the following:

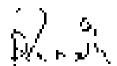
- Ensuring that the Bank has a comprehensive risk management framework in place relative to the Bank's activities and risk profile,
- Assessing the effectiveness of the Bank's risk management system and monitoring the impact to the Bank from risk types such as credit, market, liquidity, operational and strategic through appropriate risk indicators and management information,
- Ensuring that a compliance function is in place to asses 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 BIRMC

discharges its responsibilities is detailed in the Risk Management section of this annual report. During the year, the BIRMC 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 BIRMC held six (06) meetings every alternate month during the year under review. The minutes of the BIRMC Meetings were regularly forwarded to the Board. BIRMC also caused a Risk Assessement Report to be submitted to the Board within a week of every meeting. The BIRMC reviewed risk policy frameworks, risk management strategies and key risk indicators were discussed at the meetings and the BIRMC is satisfied that the risk exposures of the Bank are being appropriately managed.



A. R. Rasiah Chairman Integrated Risk Management Committee

Name	Eligibility	Attendance	Excused
Mr. A. R. Rasiah	6	6	Nil
Dr. Kemal de Soysa	6	6	Nil
Mr. D. Prasanna De Silva	6	6	Nil
Mr. K. O. V. S. M. S. Wijesinghe	6	6	Nil

Board Credit Committee Report

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

Mr. A. K. Gunaratne (Chairman) (Alternate : Mr. D.P. de Silva)

Mr. K. N. J. Balendra

(Alternate: Mr. K.O.V.S.M.S. Wijesinghe)

Mr. C. H. S. K. Piyaratna Ms. N. S. Panditaratne

The process through which the BCC discharges its responsibilities is detailed in the Risk Management section of this Annual Report.

The Board Credit Committee's mandate includes the following:

- (a) Approve/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) Approve/Decline Interest Waivers and Principal Write-offs in order to facilitate a settlement of a bad debt or to rehabilitate/restructure a had 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.



A. K. Gunaratne Chairman Board Credit Committee

Name	Eligibility	Attendance	Excused
Mr. A. K. Gunaratne	12	12	Nil
Mr. K. N. J. Balendra	12	12	Nil
Ms. N. S. Panditaratne	12	9	3
Mr. C. H. S. K. Piyaratna	12	11	1

Report of the Board Supervisory Committee

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors. The Committee comprises 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 on a monthly basis and the minutes are submitted to the Board of Directors for their review. The corporate management team along with the Director/CEO attends all meetings by invitation. This enables the BSC to obtain necessary information and confirmations from the executive management and to maintain close supervision over the management of the affairs of the Bank. 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 thirteen meetings during the year under review and the Directors attendance at such meetings were as follows:

Terms of Reference

The mandate of the Board Supervisory Committee includes the following;

- 1. Review the performance of the Bank and its business units to ensure that the Management and staff are focused towards achievement of plans approved and objectives set by the Board. The review also covers the support functions of the Bank and ensures that cost efficiencies and productivity is achieved across the Bank.
- 2. Approving expenditure within limits delegated by the Board of Directors.
- Providing input and guidance to CEO and Corporate Management on various initiatives including IT systems, products, distribution channels etc. prior to being presented to the Board of Directors for approval.

- 4. Review, provide input and make recommendations on policy papers, business plans and other such proposals impacting the operations of the Bank prior to such papers, plans and proposals being presented to the Board of Directors for approval.
- 5. Ensure that adequate policies, procedures and processes are in place to carry out the operations of the Bank and that these are reviewed periodically.



A. K. Gunaratne Chairman Board Supervisory Committee

Name	Eligibility	Attendance	Excused
Mr. A. K. Gunaratne	13	13	Nil
Mr. K. N. J. Balendra	13	09	4
Mr. K. O. V. S. M. S. Wijesinghe	13	13	Nil
Mr. Murtaza Jafferjee	13	13	Nil
Mr. C. H. S. K. Piyaratna	13	12	1

Board Nomination Committee Report

The members of the Nomination Committee are appointed by the Board and 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. Out of the other three members of the committee one is an Independent Non Executive Director and the other two are Non-Executive Directors. The proceedings of the meetings of the Committee are reported to the Board.

The Committee's main responsibilities include the following:

- Selecting and appointing new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
- Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel of the Bank and setting up criteria for their appointment or promotion.
- Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.

 Ensuring compliance with the provisions of the Articles of Association, written law, the Rules of the Colombo Stock Exchange and Directions of the Monetary Board of the Central Bank of Sri Lanka as may be applicable to the appointment of Directors, the Chief Executive Officer and Key Management Personnel.

The Committee works 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. 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 considers and determines that the Directors and the Key Management Personnel are fit and proper persons to hold their respective offices.

Composition of the Board of Directors and the Key Management Personnel were not changed during the year under review and Committee meetings were not held.



M. E. Wickremesinghe Chairman-Nomination Committee

Human Resources and Remuneration Committee Report

The Human Resources and Remuneration Committee (HRRC) comprised of Chairman Mr. A. K. Gunaratne, Independent Directors Mr.K. N. J. Balendra, Mr. A. R. Rasiah, Dr. (Mrs) D. Weerakoon and Dr. K. de Soysa. During the year under review there were four HRRC meetings held. The Chief Executive Officer and the Executive Director were present at the meetings as invitees except on matters relating to the Chief Executive Officer and Executive Director were being discussed.

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), Executive Director and other Key Management Personnel of the Bank.
- To set goals and targets for the CEO, Executive Director and other Key Management Personnel.
- To evaluate the performance of the CEO, Executive Director and other 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 2013, placed great emphasis in ensuring that the Compensation & Benefits policies of the Bank are appropriate in attracting and retaining the skills required in pursuing the short term and long term strategic objectives, of the Bank.

In June 2013 at the HRRC meeting, a comprehensive review of the Bank's performance based remuneration scheme with recommended amendments and its comparison to industry practice was presented to the Committee. Recommendations for changes to the scheme were approved and will be adopted in 2014.

In creating a performance driven culture, the Bank's performance based remuneration is based on the Bank's

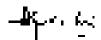
performance for the year compared to the annually agreed budgets and the peer performance. Individuals are rewarded based on their individual performance and responsibility levels.

During the year, the Bank participated in three 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 2014.

During 2013, the Committee also evaluated the performance of the CEO, Executive Director and other 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. A. K. Gunaratne	4	4	Nil
Mr. K. N. J. Balendra	4	4	Nil
Mr. A. R. Rasiah	4	4	Nil
Dr. (Ms) D. Weerakoon	4	4	Nil
Dr. Kemal de Soysa	4	4	Nil



A. K. Gunaratne Chairman Human Resources and Remuneration Committee

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 has 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 quidelines.
- 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 eleven times in the discharge of its functions and:

- Reviewed 50 internal audit reports relating to branches including 6 interim audit reports finalized by the Delivery Channel Unit.
- Reviewed 36 departmental, process audit and investigations.
- 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.

- 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 noncompliance, to mitigate risk and to familiarize the employees with the policy of the Bank that enables them to raise concerns in confidence.
- Directions were given for amendments made to the Audit Charter and the Whistle Blowing Policy and reviewed the same.

Report of The Board Audit Review Committee

Attendance at BARC meeting

Name and designation		Eligibility	Attendance	Excused
AA AA '11 'AW' 1	CI.	44	10	4
Mr. Maithri Wickremesinghe	Chairman	II	10	I
Mr. A R Rasiah	Director	11	10	1
Dr. Dushni Weerakoon	Director	11	8	3
Mr. Prasanna De Silva	Director	11	9	2
Ms. Shalini Panditaratne	Director	11	8	3
Mr. Suran Wijesinghe	Director	11	11	-

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 re-appointed as external auditors of the Bank for the financial year ending 31 December 2014 at the next Annual General Meeting.



Maithri Wickremesinghe Chairman Board Audit Review Committee

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 2013 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 24 February, 2014.

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., and Nations Insurance Brokers Ltd. are carrying out margin trading, money market operations and fund and fee based activities, property rental, and insurance broking, respectively.

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

Mercantile Leasing (Financial Services)
Limited (MLFS) which was a non operating
subsidiary of the Bank commenced
liquidation proceedings in June 2013.
MLFS was engaged in the business of
managing an operating lease portfolio.

FINANCIAL STATEMENTS

Financial Statements of the Bank and the Group are given on pages 186 to 272 of this Annual Report.

AUDITORS' REPORT

Auditors' Report on the Financial Statements is given on Page 183

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 191 to 201. The Accounting Policies have been amended in line with the new Sri Lanka Accounting Standards ("SLFRS")

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 177 to 178 of this Report.

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

 Approval of remuneration to Executive Directors by the Board – 22 March, 2013.

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

DIRECTORS' SHAREHOLDINGS

Directors' shareholding as at 31 December, 2013 and 2012 are given below.

	N	o. of Shares
Name of the Director	2013	2012
Mr. A. K. Gunaratne	19,432	19,432
Mr. A. R. Rasiah	16,304	16,304
Dr.(Ms.) D. Weerakoon	-	<u>-</u>
Mr. M. E. Wickremesinghe	-	<u>-</u> _
Mr. K. N. J. Balendra	107,700	107,700
Mr. C. H. S. K. Piyaratna	100,400	100,400
Mr. M. Jafferjee	-	<u>-</u>
Dr. Kemal de Soysa	-	<u>-</u>
Mr. D. P. De Silva	-	<u>-</u>
Ms. N. S. Panditaratne	-	
Mr. K. O. V. S. M. S. Wijesinghe	39,650	39,650
Ms. R. N. K. Fernando	68,700	68,700

DIRECTORS' REMUNERATION

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

	Bank (LKR. Mn)	Group (LKR. Mn)
Executive Directors' emoluments	39.586	39.586
Non Executive Directors' fees	11.010	11.010

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 and the designation	Eligibility	Attendance	Excused
Nie Franklin Blaster			
Non Executive Directors			
Mr. A. K. Gunaratne	13	13	Nil
Mr. K. N. J. Balendra	13	13	Nil
Mr. D. P. De Silva	13	13	Nil
Mr. K. O. V. S. M. S. Wijesinghe	13	13	Nil
Independent Non Executive Directors			
Mr. M. E. Wickremesinghe - Senior Director	13	13	Nil
Dr. (Ms.) D. Weerakoon	13	10	3
Mr. A. R. Rasiah	13	13	Nil
Mr. Murtaza Jafferjee	13	11	2
Dr. Kemal de Soysa	13	11	2
Ms. N. S. Panditaratne	13	11	2
Executive Directors			
Mr. C. H. S. K. Piyaratna	13	11	2
Ms. R. N. K. Fernando	13	13	Nil

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

Dr. Dushni Weerakoon, Mr. M. Jafferjee and Dr. K. De Soysa retire by rotation and being eligible for re-election are recommended by the Board for re-election as provided for in the Articles of Association of the Bank.

There were no new appointments to the Board after the last Annual General Meeting.

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 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.

Other services consisted of tax related work.

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

RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 187 Statement of Financial Position of the Bank and the Group are given on page 186.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors recommend a first and final dividend of LKR 2.10 per share to the holders of ordinary shares of the Bank registered on the books of the Bank as at 31 March 2014.

INFORMATION ON SHARES

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

POST- BALANCE SHEET EVENTS

No circumstances have arisen since the reporting date that would require adjustment or disclosure other than those disclosed in Note 43 to the Financial Statements contained on page 272.

CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31 December 2013 were 14.78% for Tier I and 20% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of >5% and >10% respectively.

Bank (LKR. Mn) Group (LKR. Mn)

Audit Fees	8,742	10.557
Fees for Other Services	720	720

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 including 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 have informed the Bank that they have sought an extension of time from the Central Bank of Sri Lanka in order to comply with the Directive on shareholding limits. 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 Key Management Personnel (KMP)						
Items in the Statement of Financial Position	Subsidiarų 2013	Companies * 2012	Director 2013	s of the Bank 2012	2013	of the Bank 2012
Assets	(LKR' 000)	(LKR' 000)	(LKR' 000)	(LKR' 000)	(LKR' 000)	(LKR' 000)
Accomodation Loans and Advances Credit Cards	413,365	738,757	3,687 1,424	- 115	65,667 4,470	69,144 7,087
Reverse Repurchase Agreements Derivative Financial Assets	907,271	575,347 -	-	-	-	-
Other Assets Total Accommodation	5,922 1,326,558	39,167 1,353,27 1	5,111	115	70,137	76,231
Less: Cash Collaterals against Total Accomodations	-	700,000	4,512	- 12.002	53,782	35,017
Inv. made in the Baňk's Equity and Debt instruments Total Net Accomodation	1,326,558	653,271	599	13,992 Nil	16,355	1,127 40,087
Total Net Accomodation % of Total Regulatory Capital	8.88%	5.29%	-	-	0.11%	0.32%
Liabilities Due to Customers Borrowings & Others Other Liabilities/Financial Guarantees Derivative Financial Liabilities	304,683 34,007 5,653	407,518 - - -	83,178 - - -	65,910 - - -	86,543 701 - -	123,443 900 -
Equity Dividends Paid (Net)	-	-	670	276	54	376
Committements: Undrawn Facilities Letter of Credit/ Guarantees Forwards - Foreign Exchange Contacts	- - -	1,061,243	3,935 - -	3,593 - -	22,394 - -	24,107 - -
Items in Income Statement Interest Income Earned Interest Expenses Paid	157,404 40,195	182,539 37,304	284 6,552	106 11,840	6,509 10,165	4,896 10,512
Other Income Earned Dividends Received (Gross) Expenses Paid	5,830 216,345 38,364	2,089 18,495 37,750	33 - -	52 - -	115 - -	72 - -
Compensation paid : Short Term Employee Benefits Post Employment Benefits	- -		46,953 5,418	47,942 3,811	111,262 15,860	135,351 15,263
No. of Shares of the Bank bought No. of Shares of the Bank sold	- -	-	-	-	-	8,000

^{*} Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited. A liquidator has been appointed to wind up Mercantile Leasing (Financial Services) Limited, subsidiary of 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.

^{***} Significant investor related entities include entities controlled and/or jointly controlled by the significant investors of the Bank.

	Close Relations of Shareholders owning of I Directors and a material interest in KMP the Bank **			Directors, Cl of Director share	Concerns in which ctors, Close Relations Directors or material shareholders have a substantial interest	
2013 (LKR' 000)	2012 (LKR' 000)	2013 (LKR' 000)	2012 (LKR' 000)	2013 (LKR' 000)	2012 (LKR' 000)	
10,852 148	11,659 139	2,211	192,961 1,635	47,535 13	390,757 377	
- -	-	-	- -	198 21,531	1,718	
11,000	11,798	2,211	194,596	69,277	392,852	
12,832 - Nil	9,683 134 1,981	- - 2.211	4,571,905 Ni l	- - 69.277	392,852	
INIL	1,901	۷,۷۱۱	INIL	09,277	372,032	
-	0.02%	0.01%	-	0.46%	3.18%	
28,034 - - -	23,739 - - -	1,005,166 1,978,008 89,336	1,459,981 846,229 38	3,852,195 520,051 69,838 1,294	1,861,990 712,867 449	
6	3	218,824	218,941	-	-	
5,690 - -	4,343 - -	635,476 - 114,525	529,506 36,113	753,329 292,018 741,256	385,245 - -	
1,592 1,538	1,731 1,632	27,442 123,483	43,342 316,785	30,739 144,123	43,257 283,089	
105	13	2,351	1,667	11,998	6,425	
-	-	44,164	31,178	25,002	33,749	
- -	- -			-	-	
	3,368	-	-	-	-	

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 Mr. K. N. J. Balendra

Mr. C. H. S. K. Piyaratna

Ms. R. N. K. Fernando

Nations Insurance Brokers Limited

Mr. C. H. S. K. Piyaratna Ms. R. N. K. Fernando

Allied Properties Limited

Mr. A. K. Gunaratne –Chairman Mr. K. N. J. Balendra Ms. R. N. K. Fernando

Mercantile Leasing (Financial Services) Limited- Under Liquidation

Mr. C. H. S. K. Piyaratna Ms. R. N. K. Fernando

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

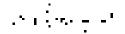
Annual General Meeting of the Bank will be held at the Auditorium of The Ceylon Chamber of Commerce at No. 50, Nawam Mawatha, Colombo 2, Sri Lanka on 31 March 2014 at 10.30 a.m.

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

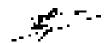


A. K. Gunaratne Chairman

Colombo 24 February 2014



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



Theja Silva Company Secretary

Directors' Interest in Contracts with the Bank

The Bank carried out transactions in the ordinary course of its business as commercial rates with the following Director-related entities: Details of the transactions carried out with Director-related entities during the year 2013.

Name of Related Party	Name of Director	Relationship	Details	Amount outstanding as at 31.12.2013
				LKR
Allied Properties Limited	A K Gunaratne Renuka Fernando	Director Director	A sum of LKR 25,303,316 was paid as Interest Expense A sum of LKR 38,863,785 was paid as Other Expenses A sum of LKR 133,999,970 was received as Dividends	NIL
Beruwala Resorts PLC	A R Rasiah	Director	A sum of LKR 2,015,856 was paid as Accomodation Expenses	NIL
Capital Suisse Asia Limited	A K Gunaratne	Director	A sum of LKR 29,272,985 was paid as Interest Expense	NIL
Central Finance Company PLC	A K Gunaratne D Prasanna De Silva	Director Director	A sum of LKR 27,441,620 was received as Interest Income A sum of LKR 10,811,096 was paid as Interest Expense	NIL
Central Hospitals (Pvt) Ltd.	K N J Balendra	Director	A sum of LKR 163,000 was paid as Medical Expenses	NIL
Ceylon Cold Stores PLC	A R Rasiah	Director	A sum of LKR 698,214 was paid as Interest Expense	NIL
CFA Sri Lanka	Murtaza Jafferjee	Director	A sum of LKR 1,534,291 was paid as Interest Expense	NIL
Colombo Stock Exchange	K N J Balendra	Director	A sum of LKR 442,766 was paid as Listing Fee & LKR 18,000 was paid as Annual Subscription Fee & LKR 114,452 as Computer Information charges	NIL
East India Holdings (Pvt) Ltd	Dr. Kemal de Soysa	Director	A sum of LKR 4,710,495 was paid as Interest Expenses	NIL
Hemas Holdings PLC	M E Wickremesinghe	Director	A sum of LKR 1,511,936 was received as Interest Income	NIL
Jaykay Marketing Services (Private) Limited	K N J Balendra	Director	A sum of LKR 7,752,113 was paid as Branch Rentals , AMEX Promotions and Branding Charges A sum of LKR 12,258 was received as Interest Income A sum of LKR 89,422 was paid as Interest Expense	NIL
JB Securities (Pvt) Ltd	Murtaza Jafferjee	Director	A sum of LKR 2,500 was paid as Debenture Placement Fee	NIL
John Keells Stock Brokers (Private) Limited	K N J Balendra	Director	A sum of LKR 75 was paid as Debenture Placement Fee	NIL
Lanka Financial Services	Renuka Fernando	Director	A sum of LKR 3,980,475 was paid as Monthly SWIFT charges	NIL
Mark Marine Services (Pvt) Limited	A K Gunaratne D Prasanna De Silva	Director Director	A sum of LKR 3,595,913 was received as Interest Income A sum of LKR 905,689 was paid as Interest Expense	NIL

Directors' Interest in Contracts with the Bank

Name of Related Party	Name of Director	Relationship	Details	Amount outstanding as at 31.12.2013
Nations Insurance Brokers Limited	C H S K Piyaratna Renuka Fernando	Director Director	A sum of LKR 14,892,065 was paid as Interest Expense A sum of LKR 330,023 was received as Other Income A sum of LKR 72,444,960 was received as Dividends	NIL
Nexus Networks (Private) Limited	K N J Balendra	Director	A sum of LKR 6,704.55 was received as Interest Income A sum of LKR 4,096,633 was paid as Interest Expense	NIL
Serendib Hotels PLC	Murtaza Jafferjee	Director	A sum of LKR 2,096 was paid as Interest Expense	NIL
South Asia Gateway Terminals (Private) Limited	K N J Balendra	Director	A sum of LKR 27,743,078 was paid as Interest Expense	NIL
Swiss Biogenics Limited	C H S K Piyaratna	Director	A sum of LKR 1,294,344 was received as Interest Income	NIL
Waldock Mackenzie Limited	A K Gunaratne C H S K Piyaratna Renuka Fernando	Director Director Director	A sum of LKR 8,809,900 was paid as Debenture Placement Fee A sum of LKR 9,900,000 was received as Dividends A sum of LKR 5,499,999 was received as Other Income	NIL

Details of Accomadation granted and balances outstanding as at 31-December-2013.

Name of Director	Relationship	Accomadation Granted	Limit	Amount outstanding as at 31.12.2013
	-		LKR	LKR
A K Gunaratne	Director	Corporate Credit Card Working Capital Financing Trade Financila Facility	5,000,000 15,000,000 18,300,000	NIL 13,244,845 18,304,944
A R Rasiah	Director	Working Capital Finance	20,000,000	1,599,761
M E Wickremesinghe	Director	Corporate Credit Card Working Capital Financing	20,000,000 30,000,000	2,127,953 NIL
K N J Balendra	Director	Factoring Facility	20,000,000	15,985,135
A K Gunaratne C H S K Piyaratna Renuka Fernando	Director Director Director	Reverse Repurchase Agreements	-	907,270,526
	A K Gunaratne A R Rasiah M E Wickremesinghe K N J Balendra A K Gunaratne C H S K Piyaratna	A K Gunaratne Director A R Rasiah Director M E Wickremesinghe Director K N J Balendra Director A K Gunaratne C H S K Piyaratna Director	A K Gunaratne Director Director A R Rasiah Director Working Capital Financing Trade Financila Facility Working Capital Finance Working Capital Finance Corporate Credit Card Working Capital Finance Working Capital Financing K N J Balendra Director Factoring Facility A K Gunaratne C H S K Piyaratna Director Reverse Repurchase Agreements	LKR A K Gunaratne Director A R Rasiah Director Working Capital Financing Trade Financila Facility A R Rasiah Director Working Capital Finance 20,000,000 M E Wickremesinghe Director K N J Balendra Director A K Gunaratne C H S K Piyaratna Director Corporate Credit Card Working Capital Financing 20,000,000 20,000,000 20,000,000 20,000,00

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 over Financial Reporting 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 over Financial Reporting 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 over Financial Reporting 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 over Financial Reporting 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 over Financial Reporting system as given in that quidance.

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 over Financial Reporting 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 over Financial Reporting issues identified by the Internal Audit Department, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes

Directors Statement on Internal Control Over Financial Reporting

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 166.

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. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made whilst, some processes as at reporting date were not fully completed. The assessment did not include subsidiaries of the Bank.

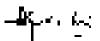
CONFIRMATION

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 2013 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

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Maithri Wickremesinghe
Chairman
Board Audit Review Committee

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

Colombo 24 February, 2014

Auditors' Report on Internal Control over Financial Reporting







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 2013.

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

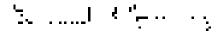
We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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.



Colombo 24 February 2014

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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 183 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:

- 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 was a non operating subsidiary of the Bank and commenced liquidation proceedings in June 2013.

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.

By order of the Board

T

Theja Silva Company Secretary

Colombo 24 February 2014

Independent Auditors' Report







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 2013, 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.

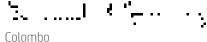
Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2013 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 2013 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.

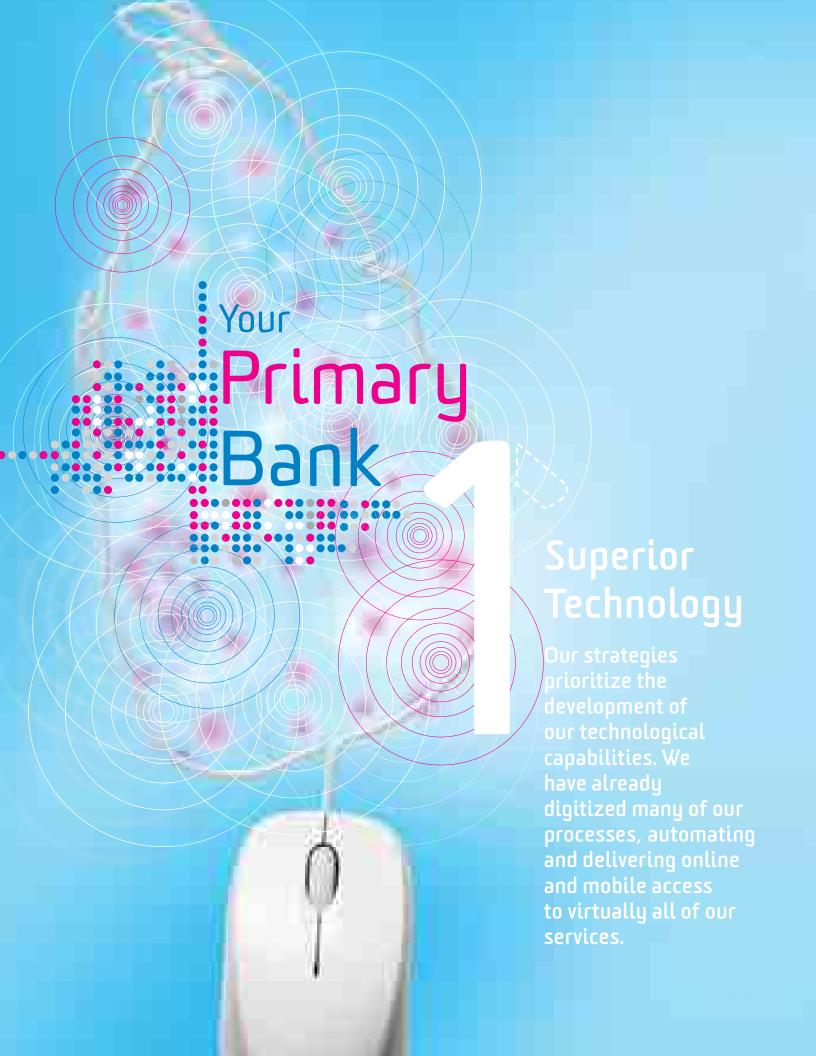


24 February 2014

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Statement of Financial Position

As at 31 December

			Bank	(Group
		2013	2012	2013	2012
	Notes	LKR '000	LKR '000	LKR '000	LKR '000
Assets Cach and Cach Fourierlants	5	3.019.735	2.534.056	3,019,774	2.534.155
Cash and Cash Equivalents Balances with Central Bank of Sri Lanka	6	4.031.763	2,534,056 5.089,342	4.031.763	2,534,155 5.089.342
Reverse Repurchase Agreements	7.1	1.459.506	3,287,274	552,236	2.711.927
Derivative Financial Instruments	8.1	121,491	327,843	121,491	327,843
Financial Assets - Held for Trading	9	23,365,388	20,253,158	24,460,493	21,087,926
Financial Assets - Held to Maturity	10	19,734,821	10,237,904	19,794,014	10,237,904
Other Financial Assets	11	2,198,582	1,892,922	2,198,582	1,892,922
Loans and Advances to Customers	12	81,128,760	72,458,357	82,327,255	73,423,951
Investments in Subsidiaries	13	678,710	678,710		
Other Assets	14	2,813,219	2,570,616	2,893,700	2,590,590
Property, Plant and Equipment	15 16	1,545,426 665,130	1,395,882 625,186	2,048,442 680.007	1,907,999 642.457
Intangible Assets	10		,		
Total Assets		140,762,531	121,351,250	142,127,757	122,447,016
Liabilities					
Due to Banks	17	1,401,473	2,712,187	1,401,473	2,712,187
Repurchase Agreements	7.2	18,101,824	11,832,692	18,067,817	11,832,692
Derivative Financial Instruments	8.2	633,625	528,472	633,625	528,472
Due to Customers	18	96,036,198	86,681,677	95,729,533	86,274,159
Debt Issued and Other Borrowed Funds	19	8,199,428	5,831,123	8,806,086	6,333,779
Current Tax Liabilities	20	332,732	510,155	383,318	544,253
Other Liabilities Deferred Tax Liabilities	20 21	4,924,811 341,763	3,811,943 280,881	5,027,146 340,596	3,846,059 280,155
	Δ1				
Total Liabilities		129,971,854	112,189,130	130,389,594	112,351,756
Equity Attributable to Equity Holders of the Parent					
Stated Capital	22	5,101,369	5,101,369	5,101,369	5,101,369
Statutory Reserve Fund	23	419,305	313,663	419,305	313,663
Retained Earnings	24	4,183,983	3,153,852	5,067,107	4,044,303
Other Reserves	25	1,086,020	593,236	1,150,382	635,925
Total Equity		10,790,677	9,162,120	11,738,163	10,095,260
Total Liabilities and Equity		140,762,531	121,351,250	142,127,757	122,447,016
Contingent Liabilities and Commitments	41.2	90,180,741	84,914,559	90,266,632	86,238,642
Net Assets Value per Ordinary Share (LKR)		46.79	39.73	50.90	43.78

Certification

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

Ajith Akmeemana Chief Financial Officer

The Notes to the Financial Statements from pages 191 to 272 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 24 February 2014

Income Statement

For the Year Ended 31 December

			Bank	G	roup
		2013	2012	2013	2012
		LKR '000	LKR '000	LKR '000	LKR '000
	Notes				
Interest Income	26	17,662,946	14,917,427	17,911,206	15,113,117
Interest Expense	27	(10,222,619)	(9,381,686)	(10,236,602)	(9,358,378)
Net Interest Income		7,440,327	5,535,741	7,674,604	5,754,739
Fees and Commission Income	28.1	2,576,568	2,110,849	2,719,371	2,220,299
Fees and Commission Expense	28.2	(215,174)	(175,665)	(215,189)	(175,756)
Net Fees and Commission Income		2,361,394	1,935,184	2,504,182	2,044,543
Net Trading Income/ (Loss)	29	(494,383)	295,944	(478,418)	287,668
Other Operating Income	30	404,356	246,278	209,655	227,809
Total Operating Income		9,711,694	8,013,147	9,910,023	8,314,759
Impairment Charge for Loans and Advances	31	449,419	430,965	450,610	431,834
Net Operating Income		9,262,275	7,582,182	9,459,413	7,882,925
Personnel Expenses	32	2,455,508	2,073,202	2,494,662	2,112,744
Depreciation of Property, Plant and Equipment		246,265	254,984	257,814	266,535
Amortization of Intangible Assets		153,682	110,962	156,515	112,816
Other Operating Expenses	33	2,876,924	2,206,597	2,869,527	2,205,321
Total Operating Expenses		5,732,379	4,645,745	5,778,518	4,697,416
Operating Profit Before Value Added Tax (VAT)		3,529,896	2,936,437	3,680,895	3,185,509
Value Added Tax (VAT) on Financial Services		508,291	416,961	529,705	435,396
Profit Before Income Tax		3,021,605	2,519,476	3,151,190	2,750,113
Income Tax Expense	34	899,622	745,138	1,014,789	815,041
Profit for the Year		2,121,983	1,774,338	2,136,401	1,935,072
Earnings per Share					
Basic Earnings per Share - LKR	35	9.16	7.76	9.22	8.46
Dividend per Share - LKR	36	2.10	2.10	2.10	2.10
1					., -

The Notes to the Financial Statements from pages 191 to 272 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the Year Ended 31 December

		Bank	G	roup
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Profit for the Year	2,121,983	1,774,338	2,136,401	1,935,072
Other Comprehensive Income Actuarial Gain / (Loss)	(9,151)	14,080	(9,223)	16,044
Total Comprehensive Income for the Year, Net of Tax	2,112,832	1,788,418	2,127,178	1,951,116
Attributable to: Equity Holders of the Parent	2,112,832	1,788,418	2,127,178	1,951,116

The Notes to the Financial Statements from pages 191 to 272 form an integral part of these Financial Statements.

Statement of Changes in Equity

Bank	Stated	Retained	Statutory	Investment	Total
	Capital	Earnings	Reserve	Fund	
	LKR '000	LKR '000	Fund LKR '000	Account LKR '000	LKR '000
As at 01 January 2012	5,101,369	2,284,243	224,242	248,123	7,857,977
Profit for the Year	-	1,774,338	-	-	1,774,338
Other Comprehensive Income	-	14,080	-	-	14,080
Total Comprehensive Income	-	1,788,418	-	-	1,788,418
Dividend Paid for 2011	-	(484,275)	-	-	(484,275)
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
Profit for the Year	-	2,121,983	-	-	2,121,983
Other Comprehensive Income	-	(9,151)	-	-	(9,151)
Total Comprehensive Income	-	2,112,832	-	-	2,112,832
Dividend Paid for 2012	-	(484,275)	-	-	(484,275)
Transfers to the Investment Fund Account	-	(492,784)	-	492,784	-
Transfers to the Reserve Fund	-	(105,642)	105,642	-	
As at 31 December 2013	5,101,369	4,183,983	419,305	1,086,020	10,790,677
Group	Stated	Retained	Statutory	Investment	Total
	Capital	Earnings	Reserve	Fund	
			Fund	Account	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2012	5,101,369	3,034,047	224,242	268,761	8,628,419
Profit for the Year	-	1,935,072	-	-	1,935,072
Other Comprehensive Income	-	16,044	-	-	16,044
Total Comprehensive Income	-	1,951,116	-	-	1,951,116
Dividend Paid for 2011	-	(484,275)	-	-	(484,275)
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
Profit for the Year	-	2,136,401	-	-	2,136,401
Other Comprehensive Income		(C 2 2 2)	_	_	(9,223)
	-	(9,223)			
Total Comprehensive Income	-	2,127,178	-	-	2,127,178
Total Comprehensive Income Dividend Paid for 2012	- - -	2,127,178 (484,275)		-	
Total Comprehensive Income Dividend Paid for 2012 Transfers to the Investment Fund Account	- - - -	2,127,178 (484,275) (514,457)	- - -	- - 514,457	2,127,178
Total Comprehensive Income Dividend Paid for 2012	- - - - - 5,101,369	2,127,178 (484,275)	-	514,457 - 1,150,382	2,127,178

The Notes to the Financial Statements from pages 191 to 272 form an integral part of these Financial Statements.

Cash Flow Statement

Year Ended 31 December

teal Eugen 31 December			Bank		Group
	Neter	2013	2012	2013	2012
Cash Flows from Operating Activities	Notes	LKR '000	LKR '000	LKR '000	LKR '000
Receipts of Interest Income Receipts of Fees and Commission Income Payments of Interest Expense Payments of Fees and Commission Expense Net Trading Income Receipts from Other Operating Income Gratuity Payments Made Payments for Operating Expenses	20.2.2	16,723,427 2,570,102 (9,741,807) (215,173) (631,759) 400,935 (26,565) (5,586,131)	15,234,777 2,093,897 (7,982,231) (175,665) 187,421 247,656 (15,911) (4,637,136)	16,960,713 2,736,421 (9,748,116) (209,673) (631,759) 222,200 (27,992) (5,642,284)	15,430,937 2,195,074 (7,957,757) (173,553) 187,421 229,161 (16,780) (4,695,761)
Net Cash Flow from Operating Activities Before Income Tax (A) Income Tax Paid		3,493,029 (668,147)	4,952,808 (211,215)	3,659,510 (738,696)	5,198,742 (247,364)
Operating Profit Before Changes in Operating Assets and Liabilities		2,824,882	4,741,593	2,920,814	4,951,378
(Increase)/Decrease in Operating Assets Increase/(Decrease) in Operating Liabilities	37.1 37.2	(19,742,779) 16,802,112	(21,685,039) 15,529,440	(20,010,563) 16,546,746	(21,429,723) 15,257,715
Net Cash Flows from Operating Activities		(115,785)	(1,414,006)	(543,003)	(1,220,630)
Cash Flows from Investing Activities Purchase of Property, Plant and Equipment Proceeds from Sale of Property, Plant and Equipment and	15.1.1	(385,544)	(283,456)	(387,993)	(283,596)
Intangiable Assets Purchase of Intangible Assets	16	2,173 (204,782)	914 (138,542)	2,173 (205,221)	914 (157,630)
		(588,153)	(421,084)	(591,041)	(440,312)
Cash Flows from Financing Activities Net Change in Debt Issued and Other Borrowed Funds Proceeds from the Issue of Debentures Repayment of Subordinated Debt Interest Paid on Subordinated Debt Dividends Paid to Equity Holders of the Parent		(670,705) 3,000,000 (1,134,650) (556,461) (484,275)	3,070,399 - (304,650) (549,342) (484,275) 1,732,132	(240,599) 3,000,000 (1,134,650) (556,461) (484,275) 584,015	2,896,308 - (304,650) (549,342) (484,275) 1,558,041
Net Increase in Cash and Cash Equivalents Cash and Cash Equivalents at the Beginning of the Year		(550,029) 7,510,041	(102,958) 7,612,999	(550,029) 7,510,080	(102,901) 7,613,041
Cash and Cash Equivalents at the End of the Year		6,960,012	7,510,041	6,960,051	7,510,140
Reconciliation of Cash and Cash Equivalents Cash on Hand Statutory Deposit with the Central Bank of Sri Lanka Balances with Banks Money at Call and Short Notice Deposits from other Banks	5	2,526,673 4,031,763 493,062 (91,486) 6,960,012	1,836,568 5,089,342 395,146 302,342 (113,357) 7,510,041	2,526,681 4,031,763 493,093 (91,486) 6,960,051	1,836,576 5,089,342 395,237 302,342 (113,357) 7,510,140
A. Reconciliation of Operating Profit					
Profit Before Income Tax (Profit) / Loss on Disposal of Property, Plant and Equipment Impairment Charge for Loans and Advances Provision for Gratuity (Increase) / Decrease in Interest Receivable Increase / (Decrease) in Interest Payable Increase / (Decrease) in Financial Gurantee Liabilities Other Receivables Other Payables Other Non Cash Items Gratuity Payments Made	37.3	3,021,605 (1,760) 449,419 70,132 (457,253) 480,812 (6,464) 8,158 59,682 (104,737) (26,565)	2,519,476 1,378 430,965 59,625 317,350 1,399,453 (16,951)	3,151,190 (1,760) 450,610 71,741 (456,426) 481,014 (6,464) 8,158 59,682 (70,243) (27,992)	2,750,113 1,378 431,834 61,239 317,626 1,399,455 (16,951) - 270,828 (16,780)
		3,493,029	4,952,808	3,659,510	5,198,742

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 2013 comprise the Bank and its subsidiaries: Waldock Mackenzie Limited, Allied Properties 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 2013 were authorized for issue in accordance with the resolution of the Board of Directors on 24 February 2014.

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, fund and fee based activities, property rental and insurance broking respectively.

A Liquidator has been appointed to wind up Mercantile Leasing (Financial Services) Limited, subsidiary of the Bank.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for derivative financial instruments and other financial assets and liabilities held for trading all of which have been measured at fair value.

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

Statement of Compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred by the term "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 39.

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 Group.

Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December each year. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as Nations Trust Bank PLC using consistent accounting policies.

All intra-group balances, transactions, income and expenses 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

The preparation of the Bank's Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

Taxation

The Group is subject to income taxes 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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Going Concern

The Bank's management has made an assessment of its 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 Bank'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, theu are determined using a varietu 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 40.

Impairment Losses on Loans and Advances

The Group reviews its individually significant loans and advances at each reporting 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 are assessed together with all individually insignificant loans and advances 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 involves 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 Changes in Accounting Policies

The accounting policies adopted by the Group are consistent with those used in the previous financial year except for the policy on retirement benefits obligations – gratuity.

The Group applied revised Sri Lanka Accounting Standards (LKAS) 19 on Employee Benefits retrospectively in accordance with the transitional provisions set out in the said standard. As per previous policy actuarial gain/loss was recognized in full in the Income Statement. As per revised LKAS 19, actuarial gain/loss is recognized in full in Other Comprehensive Income (OCI).

Accordingly, the Group changed its policy for recognizing actuarial gain/loss in OCI

This resulted in reclassifying actuarial gain/loss previously recognized in the Income Statement to the OCI. Since there were no significant impact on retirement benefit liability, the opening Statement of Financial Position of the earliest comparative period has not been presented. The transition did not have impact on the Statement of Cash Flows. There is no significant impact on the basic EPS.

2.4 Summary of Significant Accounting Policies

(1) Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lanka Rupees (LKR) 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

(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) Derivatives Recorded at Fair Value Through Profit or Loss

The Bank uses derivatives such as 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'.

(iv) 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 in fair values of financial assets or financial liabilities held for trading are recognized 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.

(v) 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. The losses arising from impairment of such investments are recognized in the Income Statement line 'Impairment Charge! 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.

(vi) Due from Banks and Loans and Advances to Customers

'Due from Banks' and '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'.

(vii) 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.

(viii) `Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately

recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Trading Income' except for loans granted to staff of the Bank at concessionary rates of interest.

(3) Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

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

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

(ii) Financial Liabilities

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

(4) Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position

Notes to the Financial Statements

Nations Trust Bank PLC

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 40.

(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 reorganisation; 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 that considers credit risk characteristics such as asset type, industry 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. 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 on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a Lessee

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

Group as a Lessor

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

(9) Property, Plant and Equipment

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

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	Over the lease
Improvements	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. Goodwill was reviewed and assessed to have been impairment and was written off in previous years.

(11) Intangible Assets

The Group's 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.

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 presented as a separate line item in the Income Statement.

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 7and 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 or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU 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.

(13) Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial quarantees 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 quarantee 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 quarantee.

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 quarantee.

(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 2013, carried out by Messers 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 contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

(15) Provisions

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

(16) Taxes

(i) Current Tax

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

Nations Trust Bank PLC

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

Subsidiary - Waldock Mackenzie Limited

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

Subsidiary - Allied Properties Limited

In terms of a BOI Agreement, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years commencing from O1 April 2007. Income tax on profit from other sources of income is calculated at 28%

Subsidiary - Nations Insurance Brokers Limited

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

(ii) Deferred Tax

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

the temporary differences can be utilized.

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

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

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

(iii) Value Added Tax (VAT)

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

(iv) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, the Bank paid ESC at the rate of 0.25%, on that relevant part of the turnover

attributable to 'Profits and Income' exempt from income tax, where such turnover per quarter exceeded LKR 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 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 credit 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 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 and have not been applied in preparing these Financial Statements. 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.

This standard was orginally effective for annual periods commencing on or after O1 January 2015. However effective date has been deferred subsequently.

(ii) SLFRS 13 -Fair Value Measurement

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

This standard will be effective for the financial period beginning on or after O1 January 2014.

However use of fair value measurement principles contained in this standards are currently recommended.

In addition to the above, following standards will also be effective for the annual periods commencing on after O1 January 2014.

SLFRS 10 -Consolidated Financial Statements

SLFRS 11 – Joint Arrangements

SLFRS 12 -Disclosure of Interests in Other Entities

The above three standards will impact the recognition, measurement and disclosure aspects currently contained in LKAS 27-Consolidated and separate Financial Statements, LKAS 28- Investments in associates, LKAS 31-Interest in joint ventures and SIC-12 and SIC-13 which are on consolidation of special purpose entities (SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of option to proportionate consolidation of Jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12, establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the ones previously captured in ealier versions of LKAS 27, LKAS 28 and LKAS 31.

The Group will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

3. 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 & credit card facilities to this segment.

Corporate Banking: Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from 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 subsidiaries of the Bank; Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

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 liablilty information regarding the bank's operating segments.

SEGMENT INFORMATION (CONTD.)

3.1 Group - 2013									
Operating Segments	Corporate	Retail, SME	Leasing	Treasury	Investment	Insurance	Property	Unallocated/	Total
	Banking	and Consumer		Functions	Banking	Broking	Management	Eliminations	Group
		Banking							
	LKR'000	LKR '000	LKR '000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Operating Income	1,377,266	6,191,202	962,238	944,946	207,512	124,837	102,816	(794)	9,910,023
Impairment Charge for Loans and Advances	(289,722)	646,496	92,637	1	1	1	1	1,199	450,610
Net Operating Income	1,666,988	5,544,706	869,601	944,946	207,512	124,837	102,816	(1,993)	9,459,413
Extracts of Results									
Interest Income	2,752,900	6,757,737	3,791,081	4,372,676	406,133	14,892	33,998	(218,211)	17,911,206
Inter Segment	(951,177)	4,221,839	(2,816,711)	(453,951)	1	1	1	•	1
Interest Expense	(817,158)	(7,139,635)	(44,820)	(2,232,091)	(219,038)	1	1	216,140	(10,236,602)
Net Interest Income	984,565	3,839,941	929,550	1,686,634	187,095	14,892	33,998	(2,071)	7,674,604
Fees and Commission Income	280.635	2,293,698	60.686	1	6.952	110,275	68.818	(104.693)	2719.37
Fees and Commission Expense		(211,942)	(36,738)	(43,191)	(5,500)	(330)		82,512	(215,189)
Net Fees and Commission Income	280,635	2,081,756	23,948	(43,191)	4,452	109,945	68,818	(22,181)	2,504,182
Net Tradi on Jorome / (Loss)	111 991	119 077	1	(705840)	15.065	1	ı	(19606)	(478.418)
Other Counting Income	75	50,711	0770	(010,001)				43.064) O'T' O'T'
סמובן סאבו שמוא אורסוווב	C/	100,455	04/0	C+C, /	1	ı	1	40,04	20%,022
Depreciation of Property, Plant and Equipment	1,856	134,500	5,147	815	ı	539	11,009	103,948	257,814
Amortization of Intangible Assets	87	60,040	1,343	11,867	ı	2,833	ı	80,345	156,515
Segment Profit Before Tax	838,837	1,151,435	257,203	550,325	158,037	73,836	51,791	92/59	3,151,190
Income Tax Expense	1	1	1	1	(55,221)	(25,360)	(10,896)	(923,312)	(1,014,789)
Profit for the Year	838,837	1,151,435	257,203	550,325	102,816	48,476	40,895	(853,586)	2,136,401
Capital Expenditures	ACC C	17 CCFC	7	1605		O C	000	220161	000700
רוטףבונטיים באמשוויבוני	5,234	147,241	1140	U 400,1	ı	500	1,930	006,161	666,100
Intangible Assets	33	45,406	62	3,506	1	440	ı	155,774	205,221
Total Assets	19,425,169	39,810,857	22,766,238	56,291,035	2,802,805	184,933	719,404	127,316	142,127,757

(1,266,871) 130,389,594

40,558

65,450

1,989,583

30,525,352

509,046

85,113,095

13,413,381

Total Liabilities

SEGMENT INFORMATION (CONTD.)

Group - 2012

1 2 2									
Operating Segments	Corporate Banking	Retail, SME and Consumer Banking	Leasing	Treasury Functions	Investment Banking	Insurance Broking	Property Management	Unallocated/ Eliminations	Total. Group
	LKR '000		LKR'000	LKR '000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Operating Income Impairment Charge for Loans and Advances	1,426,719	5,033,305	750,384	802,736	174,807	89,338	92,719	(55,249)	8,314,759 431,834
Net Operating Income	1,307,933	4,766,762	704,748	802,736	174,807	86,338	92,719	(56,118)	7,882,925
Extracts of Results Interest Income	2 999 703	5 781 587	7807846	3 651 255	378 700	6,667	77 643	(37.774)	15 113 117
Inter Segment	(381,603)		(2,104,009)	(573,805)))		
Interest Expense Net Interest Income	(1,463,176)	(5,163,988)	- 698.837	(2,571,982)	(195,370)	9.662	(1,166)	37,304	(9,358,378)
Fees and Commission Income	777 190	1 711 557	49 209	77 893	1979	79 676	66.247	(38 397)	2 220 299
Fees and Commission Expense		(109,046)	(20,063)	(46,556)	(2,180)) i	2,089	(175,756)
Net Fees and Commission Income	272,190	1,602,511	29,146	31,337	(251)	9/9/6/	66,242	(36,308)	2,044,543
Net Trading Income/ (Loss) Other Operating Income	- 105	253,783	- 22,401	295,944 (30,013)	(8,276)	1 1	1 1	- (18,471)	287,668
Depreciation of Property, Plant and Equipment Amortization of Intangible Assets	nt 1,773 825	113,689	4,721	134,800	1 1	567	10,985	1 1	266,535
Segment Profit Before Tax	679,165	1,437,049	267,649	545,692	143,690	58,412	48,413	(429,957)	2,750,113
Profit for the Year	679,165	1,437,049	267,649	545,692	98,700	42,564	39,348	(1,175,095)	1,935,072
Capital Expenditures Property, Plant and Equipment Intangible Assets	899	234,976	3,628	43,952	1 1	141	1 - 1	1 - 1	283,596
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	69,843,523	271,977	25,319,639	1,847,203	28,162	28,044	(1,740,783)	112,351,756

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

4.1 Bank - 2013

	HFT at Fair Value	Financial Derivatives at	HTM at Amortised	L&Rat Amortised	Other Financial Liabilities at	Total
	LKR'000	Fair Value LKR '000	Cost LKR '000	Cost LKR'000	Amortised Cost LKR '000	LKR'000
Assets						
Cash and Cash Equivalents	-	-	-	3,019,735	-	3,019,735
Balances with Central Bank of Sri Lanka	-	-	-	4,031,763	-	4,031,763
Reverse Repurchase Agreements	-	-	-	1,459,506	-	1,459,506
Derivative Financial Instruments	-	121,491	-	-	-	121,491
Financial Assets - Held for Trading	23,365,388	-	-	-	-	23,365,388
Financial Assets - Held to Maturity	-	-	19,734,821	-	-	19,734,821
Other Financial Assets	-	-	-	2,198,582	-	2,198,582
Loans and Advances to Customers	-	-	-	81,128,760	-	81,128,760
Total Financial Assets	23,365,388	121,491	19,734,821	91,838,346	-	135,060,046
Liabilities						
Due to Banks	-	-	-	-	1,401,473	1,401,473
Repurchase Agreements	-	-	-	-	18,101,824	18,101,824
Derivative Financial Instruments	-	633,625	-	-	-	633,625
Due to Customers	-	-	-	-	96,036,198	96,036,198
Debt Issued and Other Borrowed Funds	-	-	-	-	8,199,428	8,199,428
Total Financial Liabilities	-	633,625	-	-	123,738,923	124,372,548

4.2 Group - 2013

	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	L&Rat Amortised Cost	Liabilities at Amortised Cost	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets						
Cash and Cash Equivalents	-	-	-	3,019,774	-	3,019,774
Balances with Central Bank of Sri Lanka	-	-	-	4,031,763	-	4,031,763
Reverse Repurchase Agreements	-	-	-	552,236	-	552,236
Derivative Financial Instruments	-	121,491	-	-	-	121,491
Financial Assets - Held for Trading	24,460,493	-	-	-	-	24,460,493
Financial Assets - Held to Maturity	-	-	19,794,014	-	-	19,794,014
Other Financial Assets	-	-	-	2,198,582	-	2,198,582
Loans and Advances to Customers	-	-	-	82,327,255	-	82,327,255
Total Financial Assets	24,460,493	121,491	19,794,014	92,129,610	-	136,505,608
Liabilities						
Due to Banks	-	-	-	-	1,401,473	1,401,473
Repurchase Agreements	-	-	-	-	18,067,817	18,067,817
Derivative Financial Instruments	-	633,625	-	-	-	633,625
Due to Customers	-	-	-	-	95,729,533	95,729,533
Debt Issued and Other Borrowed Funds	-	-	-	-	8,806,086	8,806,086
Total Financial Liabilities	-	633,625	-	-	124,004,909	124,638,534

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

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

4.3 Bank - 2012

	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	L&Rat Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'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
Liabilities						
Due to Banks	-	-	-	-	2,712,187	2,712,187
Repurchase Agreements	-	-	-	-	11,832,692	11,832,692
Derivative Financial Instruments	-	528,472	-	-	-	528,472
Due to Customers	-	-	-	-	86,681,677	86,681,677
Debt Issued and Other Borrowed Funds	-	-	-	-	5,831,123	5,831,123
Total Financial Liabilities	-	528,472	-	-	107,057,679	107,586,151

4.4 Group - 2012

	HFTat	Financial	HTM at	L&Rat		Total
	Fair Value	Derivatives at	Amortised	Amortised	Liabilities at	
	LKR'000	Fair Value	Cost	Cost	Amortised Cost LKR '000	LKR '000
	LKR UUU	LKR'000	LKR'000	LKR'000	LKR 000	LKR 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
Liabilities						
Due to Banks	-	-	-	-	2,712,187	2,712,187
Repurchase Agreements	-	-	-	-	11,832,692	11,832,692
Derivative Financial Instruments	-	528,472	-	-	-	528,472
Due to Customers	-	-	-	-	86,274,159	86,274,159
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

5 CASH AND CASH EQUIVALENTS

		Bank	Group		
	2013	2012	2013	2012	
	LKR '000	LKR '000	LKR '000	LKR '000	
Cash in Hand	2,526,673	1,836,568	2,526,681	1,836,576	
Balances with Banks	493,062	395,146	493,093	395,237	
Money at Call and Short Notice	3,019,735	302,342 2,534,056	3,019,774	302,342 2,534,155	

6 BALANCES WITH CENTRAL BANK OF SRI LANKA

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Statutory Deposit with the Central Bank of Sri Lanka	4,031,763	5,089,342	4,031,763	5,089,342

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 2013, the minimum cash reserve requirement was 6% (2012 - 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		
	2013	2012	2013	2012	
	LKR '000	LKR '000	LKR '000	LKR '000	
Due from Banks Due from Other Financial Institutions Due from Other Counterparties	50,009	1,004,004	50,009	1,004,004	
	495,102	2,226,620	495,102	1,651,273	
	914,395	56,650	7,125	56,650	
·	1,459,506	3,287,274	552,236	2,711,927	

7.2 Repurchase Agreements

7.12 Reportinose rigitetiments		Bank		Group		
	2013	2012	2013	2012		
	LKR '000	LKR '000	LKR '000	LKR '000		
Due to Banks Due to Other Financial Institutions Due to Other Counterparties	7,778,432	3,578,026	7,778,432	3,578,026		
	5,816,199	4,103,732	5,808,197	4,103,732		
	4,507,193	4,150,934	4,481,188	4,150,934		
	18,101,824	11,832,692	18,067,817	11,832,692		

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 re-pledge 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 a separate asset for the collateral given.

8 DERIVATIVE FINANCIAL INSTRUMENTS

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

Forward Foreign Exchange Contracts are contractual agreements either 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.

This transaction type is exposed to market risks due to fluctuation of market rates.

The Bank may take positions with the expectation of profiting from favourable movements in rates. Derivatives entered into for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

8.1 Derivative Assets- Held for Trading At a Gain Position

	Bank / (Group	Bank / Group			
F						Contract Amount
	2013	2013	2012	2012		
	LKR '000	LKR '000	LKR '000	LKR '000		
Forward Foreign Exchange Contracts	121,491	6,878,050	327,843	14,156,216		
	121,491	6,878,050	327,843	14,156,216		

8.2 Derivative Liabilities - Held for Trading At a Loss Position

	Bank / G	roup	Bank / Group		
	Fair Value of Liabilities			Contract Amount	
	2013	2013	2012	2012	
	LKR '000	LKR '000	LKR '000	LKR '000	
Forward Foreign Exchange Contracts	633,625	20,320,463	528,472	19,874,722	
	633,625	20,320,463	528,472	19,874,722	

9 FINANCIAL ASSETS HELD FOR TRADING

		Bank		Group		
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000		
Government Treasury Bills and Bonds - Held for Trading Government Treasury Bills and Bonds - Held for Trading	15,671,076	15,334,093	15,766,053	15,468,861		
Pledged as Collateral	7,694,312	4,919,065	8,694,440	5,619,065		
	23,365,388	20,253,158	24,460,493	21,087,926		

10 FINANCIAL ASSETS HELD TO MATURITY

		Bank	Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Government Treasury Bills and Bonds- Held to Maturity Government Treasury Bills and Bonds Held to Maturity	9,119,029	2,588,450	9,178,222	2,588,450
Pledged as Collateral	10,615,792	7,649,454	10,615,792	7,649,454
	19,734,821	10,237,904	19,794,014	10,237,904

11 OTHER FINANCIAL ASSETS

			Bank	Group		
		2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	
Sri Lanka Development Bonds Quoted Debentures	*(Note 11.1) *(Note 11.2)	1,584,892 150,010	1,549,834	1,584,892 150,010	1,549,834	
Unquoted Debentures	*(Note 11.3)	458,220	337,691	458,220	337,691	
Unquoted Investments	(Note 11.4)	5,460	5,397	5,460	5,397	
		2,198,582	1,892,922	2,198,582	1,892,922	

^{*} All Other Financial Assets are measured at amortised cost and treated as Loans and Receivables.

^{11.1} The investment in Sri Lanka Development Bonds amounts to USD 12 Mn (2012 - USD 12 Mn) and mature in year 2014 and 2015.

11 OTHER FINANCIAL ASSETS (CONTD.)

11.2 Quoted Debentures

					Banl	k / Group
Company	Туре	Par Value	No. 0	f Debentures	2013	2012
		LKR	2013	2012	LKR '000	LKR '000
Housing and Development	Secured,					
Finance Corporation	Redeemable Debentures	100/-	779,400	-	77,940	-
	Unsecured, Redeemable					
Abans Limited	Debentures	100/-	720,700	-	72,070	-
					150,010	-

11.3 Unquoted Debentures

					Bank	c / Group
Company	Туре	Par Value	No. 0	f Debentures	2013	2012
		LKR	2013	2012	LKR '000	LKR '000
Peoples' Leasing and	Unsecured,					
Finance Company PLC	Redeemable Debentures	1000/-	187,500	337,500	187,606	337,691
Senkadagala Finance PLC	Secured, Redeemable					
	Debentures	1000/-	250,000	-	270,614	-
					458,220	337,691

11.4 Unquoted Investments

·	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Lanka Clear (Private) Limited 150,000 Ordinary Shares of LKR 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau 9,000 Ordinary Shares of LKR 10/- each	90	90	90	90
Lanka Financial Services Bureau 112,500 Ordinary Shares of LKR 10/- each	1,125	1,125	1,125	1,125
SWIFT Shares (Society of Worldwide Interbank Financial Telecommunication)	2,745	2,682	2,745	2,682
	5,460	5,397	5,460	5,397

12 LOANS AND ADVANCES TO CUSTOMERS

	Bank		Group	
	2013	2012	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000
Corporate Loans	18,462,120	20,695,425	19,659,664	19,995,719
Retail, SME and Consumer Lending	39,914,774	31,823,128	39,914,774	33,486,286
Housing Loans	1,418,237	1,408,377	1,418,237	1,408,377
Leases	21,738,216	19,361,556	21,738,216	19,361,556
Less: Allowance for Impairment Losses	81,533,347	73,288,486	82,730,891	74,251,938
	(1,775,194)	(1,825,290)	(1,774,243)	(1,823,148)
	79,758,153	71,463,196	80,956,648	72,428,790
Staff Loans Less: Allowance for Day 1 Difference	2,181,943 (811,336) 1,370,607	1,861,546 (866,385) 995,161	2,181,943 (811,336) 1,370,607	1,861,546 (866,385) 995,161
	81,128,760	72,458,357	82,327,255	73,423,951

12.1 Gross Loans and Advances by Currency

		Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	
By Currency					
Sri Lanka Rupee	79,487,044	68,947,923	80,684,588	69,911,375	
United States Dollar	4,160,868	6,126,370	4,160,868	6,126,370	
Others	67,378	75,739	67,378	75,739	
	83,715,290	75,150,032	84,912,834	76,113,484	

12.1.1 Gross Loans and Advances by Product

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
By Product				
Bills of Exchange	434,973	315,600	434,973	315,600
Overdrafts	17,809,525	18,372,394	17,809,525	18,372,395
Term Loans	23,782,041	20,228,331	23,782,041	20,228,331
Staff Loans	2,181,943	1,861,546	2,181,943	1,861,546
Import Loans	1,910,080	3,226,090	1,910,080	3,226,090
Packing Loans	1,446,652	1,023,032	1,446,652	1,023,032
Leases	21,738,216	19,361,556	21,738,216	19,361,556
Credit Cards	9,997,774	7,455,077	9,997,774	7,455,077
Pawning	2,422,265	1,768,814	2,422,265	1,768,814
Corporate Debt Securities	1,578,457	798,834	1,578,457	798,834
Other Advances	413,364	738,758	1,610,908	1,702,209
	83,715,290	75,150,032	84,912,834	76,113,484

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

12.2 Impairment Allowance for Loans and Advances to Customers

12.2.1 Bank

	Corporate Loans	Retail Lending, SME and Consumer	Housing Loans	Leases	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2012	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 2012	1,024,024	525,068	115,154	161,044	1,825,290
Charge/ (Reversal) for the Year	(301,024)	655,061	(8,560)	92,637	438,114
Amounts Written Off	(159,810)	(276,273)	(17,308)	(34,819)	(488,210)
As at 31 December 2013	563,190	903,856	89,286	218,862	1,775,194
Impairment - As at O1 January 2012	7/2/02	02.70 (40.044		0.07.433
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
- Input ment attowance	1,472,030	302,002	110,377		1,005,055
Impairment - As at 31 December 2012					
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	2,400,442	()7 414	122.554	202.020	
impairment allowance	2,688,463	627,414	133,554	393,028	3,842,459
Impairment - As at 31 December 2013 Individual Impairment Collective Impairment	453,643 109,547	122,666 781,190	37,596 51,690	7,073 211,789	620,978 1,154,216
Confective impairment	563,190	903,856	89,286	218,862	1,775,194
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,503,410	2,259,702	62,374	315,825	4,141,311

12 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

12.2 Impairment Allowance for Loans and Advances to Customers (Contd.)

12.2.2 Group

2 0100p					
	Corporate Loans	Retail Lending, SME and Consumer	Housing Loans	Leases	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at O1 January 2012	903,366	342,338	97,548	143,754	1,487,006
Charge/ (Reversal) for the Year Amounts Written Off	119,654 (1,138)	248,937 (66,207)	17,606	45,636 (28,346)	431,833 (95,691)
As at 31 December 2012	1,021,882	525,068	115,154	161,044	1,823,148
Charge/ (Reversal) for the Year Amounts Written Off	(299,833) (159,810)	655,061 (276,273)	(8,560) (17,308)	92,637 (34,819)	439,305 (488,210)
As at 31 December 2013	562,239	903,856	89,286	218,862	1,774,243
Impairment - As at 01 January 2012					
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 2012					
Individual Impairment	859,037	172,278	71,797	17,390	1,120,502
Collective Impairment	162,845	352,790	43,357	143,654	702,646
	1,021,882	525,068	115,154	161,044	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
Impairment - As at 31 December 2013					
Individual Impairment	453,643	122,666	37,596	7,073	620,977
Collective Impairment	108,596	781,190	51,690	211,789	1,153,266
	562,239	903,856	89,286	218,862	1,774,243
Gross amount of loans individually determined to be impaired, before					
deducting the individually assessed impairment allowance	1,503,410	2,259,702	62.374	315,825	4,141,311
anpaament attowance	1,505,410	2,237,702	02,574	212,023	ווכ,ודו,ד

12.2.3 Movement in Individual Impairment during the Year

	Bank		Group	
	2013	2012	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	1,120,502	907,123	1,120,502	907,123
Charge/ (Reversal) for the Year	(499,524)	213,379	(499,524)	213,379
As at 31 December	620,978	1,120,502	620,978	1,1 20,502

Notes to the Financial Statements

Nations Trust Bank PLC

13 INVESTMENTS IN SUBSIDIARIES

Unquoted	Unquoted				Bank				
•		2	2013		2012				
Name of Company	Country of Incorporation	Holding %	Cost LKR '000	Holding %	Cost LKR '000				
Waldock Mackenzie Limited	Sri Lanka	99.99	-	99.99	-				
Allied Properties Limited	Sri Lanka	99.99	652,907	99.99	652,907				
Nations Insurance Brokers Limited	Sri Lanka	99.99	25,803	99.99	25,803				
Mercantile Leasing (Financial Services)									
Limited*	Sri Lanka	-	-	95	3,496				
Allowances for Impairment			-		(3,496)				
Net Carrying Amount			678,710		678,710				

^{*}A liquidator has been appointed on 3 June 2013 to wind up Mercantile Leasing (Financial Services) Limited, subsidiary of the Bank.

14 OTHER ASSETS

		Bank	Group		
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	
Deposits and Prepayments Unamortised Staff Cost	587,635 811,336	257,107 866,385	580,333 811,336	245,300 866,385	
Items in Transit	1,156,273	1,123,444	1,156,273	1,123,444	
Other Receivables	257,975	323,680	345,758	355,461	
	2,813,219	2,570,616	2,893,700	2,590,590	

15 PROPERTY, PLANT AND EQUIPMENT

15.1 Bank (LKR '000)

15.1	Balik (LKK 000)								
		Land	Buildings	Motor Vehicles	Other Equipment	Computer Hardware	Furniture and Fittings	Leasehold Improvements	Total
15.1.	1 Gross Carrying Amounts - at Cost								
	As at 01 January 2012	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
	Additions	-	-	-	83,765	186,159	68,474	47,146	385,544
	Disposals	-	-	(1,264)	(1,579)	(5,541)	(4,060)	(730)	(13,174)
	Transfers during the Year	-	-	-	(1,352)	13,430	874	-	12,952
	As at 31 December 2013	559,440	107,316	25,963	452,325	1,260,548	572,350	214,252	3,192,194
	As at 01 January 2012		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
	Charge for the Year		2,354	4,025	48,006	100,661	61,437	29,782	246,265
	Disposals		-	(1,264)	(1,480)	(5,537)	(3,746)	(730)	(12,757)
	Transfers during the Year		-	-	-	2,270	-	-	2,270
	As at 31 December 2013		30,212	18,956	233,271	951,467	275,243	137,619	1,646,768
15.1.	3 Net Book Value								
	As at 01 January 2012	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
	As at 31 December 2013	559,440	77,104	7,007	219,054	309,081	297,107	76,633	1,545,426

^{15.1.4} During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 385 Mn. (2012 - LKR 283 Mn.). Cash payments amounting to LKR 385 Mn. (2012 - LKR 283 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 LKR 1,004 Mn. (2012 - LKR 899 Mn.).

15 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

15.2 Group (LKR '000)

		Land	Buildings	Motor Vehicles	Other Equipment	Computer Hardware	Furniture and Fittings	Leasehold Improvements	Total
15.2.1	Gross Carrying Amounts - at Cost								
	As at O1 January 2012	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
	Additions	-	1,675	-	84,028	186,544	68,600	47,146	387,993
	Disposals	-	-	(1,264)	(1,579)	(5,541)	(4,062)	(730)	(13,176)
	Transfers during the Year	-	-	-	(1,352)	13,430	874	-	12,952
	As at 31 December 2013	707,440	548,373	26,133	453,828	1,268,529	573,818	214,251	3,792,372
15.2.2	2 Depreciation								
	As at O1 January 2012		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
	Charge for the Year		13,364	4,025	48,006	101,059	61,578	29,782	257,814
	Disposals		-	(1,264)	(1,480)	(5,537)	(3,747)	(730)	(12,758)
	Transfers during the Year		-	-	-	2,270	-	-	2,270
	As at 31 December 2013		118,093	19,124	234,512	958,732	275,852	137,617	1,743,930
15.23	3 Net Book Value								
	As at O1 January 2012	707,440	454,356	15,359	144,777	268,743	244,101	56,493	1,891,269
	As at 31 December 2012 As at 31 December 2013	707,440 707,440	441,969 430,280	11,034 7,009	184,745 219,316	213,156 309,797	290,385 297,966	59,270 76,634	1,907,999 2,048,442
	WZ 91 21 DECEIHOEL ZO12	/0/,440	430,200	7,009	219,310	309,/9/	297,900	/ 0,034	z,U40,44Z

^{15.24} During the financial year, the Group acquired Property, Plant, and Equipment to the aggregate value of LKR 388 Mn (2012 - LKR 283 Mn.). Cash payments amounting to LKR 388 Mn. (2012 - LKR 283 Mn.) were made during the year for purchase of Property, Plant and Equipment.

^{15.25} Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,012 Mn. (2012 - LKR 907 Mn.).

16 INTANGIBLE ASSETS

		Computer Software	Other License Fees	Total
		LKR '000	LKR '000	LKR '000
16.1	Bank			
	Cost As at O1 January 2012	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
	Additions	204,782	-	204,782
	Reclassifications*	(12,952)	-	(12,952)
	As at 31 December 2013	984,550	486,795	1,471,345
	Amortisation			
	As at 01 January 2012	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
	Charge for the Year	120,553	33,129	153,682
	Reclassifications*	(1,796)		(1,796)
	As at 31 December 2013	540,282	265,933	806,215
	Net Book Value			
	As at 01 January 2012	312,448	287,120	599,568
	As at 31 December 2012	371,195	253,991	625,186
	As at 31 December 2013	444,268	220,862	665,130
16.2	Group			
10.2	Cost			
	As at 01 January 2012	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
	Additions	205,221	-	205,221
	Disposals	(380)	-	(380)
	Reclassifications*	(12,952)	-	(12,952)
	As at 31 December 2013	1,004,079	486,794	1,490,873
	Amortisation			
	As at 01 January 2012	370,096	199.674	569,770
	Charge for the Year	79,687	33,129	112,816
	Disposals	(26,059)	-	(26,059)
	At 31 December 2012	423,724	232,803	656,527
	Charge for the Year	123,386	33,129	156,515
	Disposals	(380)	-	(380)
	Reclassifications*	(1,796)	- 245 022	(1,796)
	As at 31 December 2013	544,934	265,932	810,866
	Net Book Value;			
	As at 01 January 2012	312,821	287,120	599,941
	As at 31 December 2012	388,466	253,991	642,457
	As at 31 December 2013	459,145	220,862	680,007

^{*}Reclassification under Intangible Assets relates to the amounts classified as Property, Plant and Equipment.

17 DUE TO BANKS

17 DUE TO BANKS						
		Bank		Group		
	2013	2012	2013	2012		
	LKR '000	LKR '000	LKR '000	LKR '000		
Money Market Borrowing	1,309,987	2,598,830	1,309,987	2,598,830		
Deposits from Other Banks	91,486	113,357	91,486	113,357		
	1,401,473	2,712,187	1,401,473	2,712,187		
18 DUE TO CUSTOMERS						
		Bank		Group		
	2013	2012	2013	2012		
	LKR '000	LKR '000	LKR '000	LKR '000		
18.1 Due to Customers - By Products						
Demand Deposits	9,486,207	7,825,024	9,435,599	7,802,073		
Savings Deposits	14,878,257	11,134,759	14,878,257	11,134,759		
Call Deposits	732,078	248,146	732,078	248,146		
				,		

18.2 Due to Customers - By Currency

Certificate of Deposits

Fixed Deposits

Sri Lanka Rupee	80,200,902	71,067,623	79,894,237	70,660,105
United States Dollar	12,291,060	12,489,011	12,291,060	12,489,011
Sterling Pound	1,523,846	1,604,649	1,523,846	1,603,821
Others	2,020,390	1,520,394	2,020,390	1,521,222
	96,036,198	86,681,677	95,729,533	86,274,159

68,072,294

2,867,362

96,036,198

62,444,096

5,029,652

86,681,677

67,816,237

2,867,362

95,729,533

62,059,529

86,274,159

5,029,652

19 DEBT ISSUED AND OTHER BORROWED FUNDS

				Bank	(Group		
			2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000		
19.1	Senior Debt							
	Euro 8 Mn - Loan	(Note 19.1.a)	-	308,622	-	308,622		
	US Dollar 7.5 Mn - Loan Rated, Unsecured, Redeemable	(Note 19.1.a)	988,341	-	988,341	-		
	Debentures	(Note 19.2.a)	1,200,000	500,281	1,200,000	500,281		
			2,188,341	808,903	2,188,341	808,903		
19.2	Subordinated Debt							
	Euro 5 Mn - Loan 1	(Note 19.1.a)	71,807	208,255	71,807	208,255		
	US Dollar 13 Mn - Loan 2 Rated, Unsecured, Redeemable	(Note 19.1.a)	1,706,371	1,660,882	1,706,371	1,660,882		
	Debentures	(Note 19.2.b & 19.2.c)	3,862,959	3,152,323	3,866,583	3,152,323		
			5,641,137	5,021,460	5,644,761	5,021,460		
19.3	Other Borrowings							
	Refinance Borrowing		950	-	950	-		
	Trust Certificates	(Note 19.3.a)	-	760	-	760		
	Other Short-Term Borrowings		369,000	-	972,034	502,656		
			369,950	760	972,984	503,416		
			8,199,428	5,831,123	8,806,086	6,333,779		

19.1.a 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.

19.2.a Senior Debentures

In 2009, the Bank issued LKR 500 Mn worth of Unsecured Redeemable Debentures which matured in 2013.

In 2013, the Bank issued further LKR 1,200 Mn rated Unsecured Redeemable Debentures at an issue price of LKR 100 each which will be matured in 2018.

The debentures were listed on the Colombo Stock Exchange and have not been traded from the date of listing up to the date of maturity.

19 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

19.2.b Subordinated Debentures

In 2008, the Bank issued a LKR 1,000 Mn worth of Unsecured Subordinated Redeemable Debentures that matured in August 2013.

In 2011, the Bank issued further LKR 2,000 Mn rated, Unsecured, Subordinated Redeemable Debentures that will mature in 2016, by way of a private placement.

In 2013, the Bank issued further LKR 1,800 Mn rated Unsecured Subordinated Redeemable Debentures at an issue price of LKR 100 each which will be matured in 2018.

All the Debentures were listed on the Colombo Stock Exchange and have not been traded from the date of listing up to the date of maturity.

19.2.c Details of Debentures Issued by the Bank

Туре	Fac	e Value	Interes Rat	1 5	Issued Date	Maturity Date	Bank		G	roup
	2013	2012					2013	2012	2013	2012
	LKR '000	LKR '000					LKR '000	LKR '000	LKR '000	LKR '000
Subordinated Debentures	-	1,000,000	21.00%	Annually	19-Aug-08	19-Aug-13	-	1,077,671	-	1,077,671
Senior Debentures	-	500,000	20.53%	Semi -Annually	28-Apr-09	30-Apr-13	-	500,281	-	500,281
Subordinated Debentures	1,725,000	1,725,000	11.50%	Semi -Annually	4-Aug-11	4-Aug-16	1,793,705	1,788,851	1,797,329	1,788,851
Subordinated Debentures	275,000	275,000	11.50%	Semi -Annually	29-Aug-11	29-Aug-16	285,830	285,801	285,830	285,801
Senior Debentures	1,200,000	-	13.00%	Semi -Annually	19-Dec-13	19-Dec-18	1,200,000	-	1,200,000	-
Subordinated Debentures	1,800,000	-	13.00%	Semi -Annually	19-Dec-13	19-Dec-18	1,783,424	-	1,783,424	-
	5,000,000	3,500,000					5,062,959	3,652,604	5,066,583	3,652,604

19.3.a Trust Certificates

Trust Certificates include Bank's borrowings through securitization of lease receivables. This arrangement is facilitated through a trustee.

All Trust Certificates issued by the Bank has been matured by 31 December 2013.

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 2013.

20 OTHER LIABILITIES

			Bank	Group		
		2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	
Accounts Payable and Sundry Creditors Obligations under Financial Guarantees Margin Balances Pay Orders	(Note 20.1)	1,604,075 29,247 559,904 374,006	1,219,841 35,711 181,491 338,696	1,639,147 29,247 559,904 374,006	1,232,554 35,711 181,491 338,696	
Items in Transit Employee Benefit Liability Others	(Note 20.2)	1,129,186 303,921 924,472	1,108,125 252,600 675,479	1,129,186 310,825 984,831	1,108,125 259,250 690,232	
		4,924,811	3,811,943	5,027,146	3,846,059	

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

	2013	2012	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000
As at O1 January	35,711	52,662	35,711	52,662
Arising during the Year	(68,523)	(71,151)	(68,523)	(71,151)
Utilized	62,059	54,200	62,059	54,200
As at 31 December	29,247	35,711	29,247	35,711

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 2013, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following:

	2013	2012
Rate of Interest	11%	11%
Rate of Salary Increase	10%	10%
Retirement Age	55-60 years	55-60 years

20 OTHER LIABILITIES (CONTD.)

20.2.1 Net benefit expense categorized under personnel expenses.

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Interest Cost	27,786	22,297	28,518	23,083
Current Service Cost	42,346	37,328	43,223	38,156
	70,132	59,625	71,741	61,239

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

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 01 January Interest Cost Current Service Cost Gratuity Payable	252,600 27,786 42,346 (1,397)	222,966 22,297 37,328	259,250 28,518 43,223 (1,397)	230,835 23,083 38,156
Benefits Paid Actuarial Loss / (Gain) on Obligation	(26,565) 9,151	(15,911) (14,080)	(27,992) 9,223	(16,780) (16,044)
As at 31 December	303,921	252,600	310,825	259,250

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 assuming the above is as follows;

Group			Group				
	20)13			20	12	
Salary Escalation Rate	Discount Rate	PVDBO	Net Benefit Expense	Salary Escalation Rate	Discount Rate	PVDBO	Net Benefit Expense
		LKR '000	LKR '000			LKR '000	LKR '000
10% 10% 11% 9%	12% 10% 11% 11%	294,098 329,466 330,876 292,551	55,013 90,381 91,792 53,467	11% 9% 10% 10%	11% 11% 12% 10%	279,593 240,983 242,276 278,431	81,582 42,972 44,264 80,420

20.2.4 Average future working life time as per the assumptions made is 7.06 years as of 31 December 2013 (2012-9.33 years).

21 DEFERRED TAXATION

	Bank		Group	
	2013	2012	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	280,881	235,711	280,155	235,711
Net Charge during the Year	60,882	45,170	60,441	44,444
As at 31 December	341,763	280,881	340,596	280,155

21.1.1 Deferred Tax Liability

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Accelerated Depreciation Allowances for				
Tax Purposes- Lease Rentals Receivable Accelerated Depreciation Allowances for	362,158	330,454	362,157	330,454
Tax Purposes- Property, Plant and Equipment	135.004	400.350	435.043	100 500
and Intangible Assets	135,981	109,358	135,912	109,508
	498,139	439,812	498,069	439,962
21.1.2 Deferred Tax Assets				
Adjustment Due to Change in Accounting				
Base and Tax Base	(71,278)	(88,203)	(71,278)	(88,203)
Retirement Benefit Plan -Gratuity	(85,098)	(70,728)	(86,195)	(71,604)
	(156,376)	(158,931)	(157,473)	(159,807)
Net Deferred Tax Liability	341,763	280,881	340,596	280,155

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

22 STATED CAPITAL

Ordinary Shares	Bank /Group		Bank /Group	
Issued and Fully Paid	2013 Number	2013 LKR '000	2012 Number	2012 LKR '000
As at 01 January	230,607,283	5,101,369	230,607,283	5,101,369
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.

23.2

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 01 laguage	313,663	224.242	313,663	224,242
As at 01 January Transfers during the Year	105,642	89,421	105,642	89,421
As at 31 December	419,305	313,663	419,305	313,663

24 RETAINED EARNINGS

		Bank		Group	
		2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 01 January Total Comprehensive Income Dividend Paid Transfers to Investment Fund Account Transfers to Reserve Fund	(Note 25.1.2) (Note 23.2)	3,153,852 2,112,832 (484,275) (492,784) (105,642)	2,284,243 1,788,418 (484,275) (345,113) (89,421)	4,044,303 2,127,178 (484,275) (514,457) (105,642)	3,034,047 1,951,116 (484,275) (367,164) (89,421)
As at 31 December		4,183,983	3,153,852	5,067,107	4,044,303

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 LKR 821 Mn (2012 LKR 533 Mn) were granted under this scheme.

	Bank		Group	
	2013	2012	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	593,236	248,123	635,925	268,761
Transfers during the Year	492,784	345,113	514,457	367,164
As at 31 December	1,086,020	593,236	1,150,382	635,925

25 OTHER RESERVES (CONTD.)

25.1.3 Utilization of Investment Fund Account (IFA Reserve)

				Bank 2013 LKR '000	Group 2013 LKR '000
A) Total Transferred to IFA				1,086,020	1,150,382
B) Total Loans Granted					
Sector Description	No of Loans	Interest Rate	Tenure	Disbursed Amount LKR '000	Disbursed Amount LKR '000
Long-term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and					
spices and for livestock and fisheries	6	13.00-15.00 %	5-7 Years	246,000	246,000
b. Factory/mills modernization/ establishme expansion	nt/ 5	11.00 -16.00 %	5-7 Years	113,200	113,200
c. Small and medium enterprises: loans up to LKR200 Mn to enterprises with anr turnover less than LKR 600 Mn	iual 14	9.50-16.00 %	5-8 Years	273,500	273,500
d. Infrastructure development	1	15.00%	7 Years	5,000	5,000
e. Education: vocational training and tertiary education	2	16.00%	7 Years	19,300	19,300
f Construction of hotels and for related purpo	oses 6	14.49-16.00 %	5-7 Years	73,962	73,962
g. Restructuring of loans extended for above purposes	9	9.50-16.00 %	5-7 Years	90,258	90,258
				821,220	821,220
C) Total Investments in Government Securit Total Investments in Government Securiti				131,510 133,290	136,679 192,483
Total Granted				1,086,020	1,150,382
D) Balance Available for Utilization				-	-

25 OTHER RESERVES (CONTD.)

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25.1.4 Utilization of Investment Fund Account (IFA Reserve)

				Bank 2012	Grou 201
				LKR '000	LKR '00
A) Total Transferred to IFA B) Total Loans Granted				593,236	635,92
Sector Description	No of Loans	Interest Rate	Tenure	Disbursed Amount LKR '000	Disburse Amou LKR '00
(a) Agriculture	6	11.00% to 15.57%	5-7 Years	270,000	270,00
(b) Small and Medium Enterprises	18	9.50% to 16.00%	5-7 Years	204,989	204,98
(c) Infrastructure Development	1	16.00%	5 Years	15,000	15,00
(d) Restructuring of Loans Extended					
for Above Purposes	1	9.50%	7 Years	42,769	42,76
				532,758	532,75
C) Total Investments in Government Se	curities - Short T	erm		60,478	103,10
				593,236	635,92

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26 INTEREST INCOME

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Reverse Repurchase Agreements	192,131	237,618	129,795	198,338
Due from Banks	34,030	63,207	34,030	63,207
Loans and Advances to Customers	13,059,271	10,929,686	13,256,133	11,063,125
Financial Assets - Held to Maturity	967,658	1,007,437	974,404	1,055,225
Financial Assets - Held for Trading	3,062,815	2,203,985	3,170,273	2,258,198
Other Financial Assets	161,920	230,312	161,450	229,842
Interest Income Accrued on Impaired Financial Assets	185,121	245,182	185,121	245,182
	17,662,946	14,917,427	17,911,206	15,113,117

Interest Income from Government Securities earned during the year 2013 amounts to LKR 4,098 Mn (2012 - LKR 3,290 Mn) and the Group LKR 4,213 Mn (2012 - LKR 3,392 Mn) .The Government Securities represents; Treasury Bills, Treasury Bonds, Sri Lanka Sovereign Bonds and Sri Lanka Development Bonds.

27 INTEREST EXPENSE				
Due to Banks	29,712	69,449	29,712	69,449
Repurchase Agreements	1,320,462	1,698,434	1,311,919	1,677,387
Due to Customers	8,111,961	6,847,590	8,080,309	6,831,333
Debt Issued and Other Borrowed Funds	756,633	765,842	809,572	778,672
Others	3,851	371	5,090	1,537
	10,222,619	9,381,686	10,236,602	9,358,378
20 NET FEES AND COMMISSION INCOME				
28 NET FEES AND COMMISSION INCOME				
28.1 Fees and Commission Income				
Portfolio and Other Management Fees	43,528	34,350	53,480	36,279
Credit Related Fees and Commissions	1,658,732	1,271,217	1,658,402	1,271,217
Commission on Trade Finance Facilities	317,856	328,697	317,856	328,697
Commission on Services-Loans	338,468	297,919	338,468	297,919
Commission on Services-Deposits	189,041	163,679	189,041	163,679
Other Fees	28,943	14,987	162,124	122,508
	2,576,568	2,110,849	2,719,371	2,220,299
28.2 Fees and Commission Expenses				
Brokerage Fees	(40,436)	(41,196)	(40,436)	(41,283)
Credit Related Fees	(174,738)	(134,469)	(174,753)	(134,473)
	(215,174)	(175,665)	(215,189)	(175,756)
	2,361,394	1,935,184	2,504,182	2,044,543

29 NET TRADING INCOME / (LOSS)

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Interest Rate Instruments	-	(6,856)	-	(6,856)
Foreign Exchange (Loss) /Gain-Net	(763,688)	197,651	(763,688)	197,651
Profit /(Loss) on Sale of Securities	131,929	(3,374)	132,302	(3,374)
Other Trading Income	137,376	108,523	152,968	100,247
	(494,383)	295,944	(478,418)	287,668

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

30 OTHER OPERATING INCOME

-	OTTER OF ERWING INCOME				
	Dividend Income	195,252	19,404	537	908
	Non-Trading Foreign Exchange	23,893	(32,170)	23,893	(32,148)
	Recovery of Loans Written-Off	133,414	178,032	133,414	178,032
	Others	51,797	81,012	51,811	81,017
		404,356	246,278	209,655	227,809

31 IMPAIRMENT CHARGE / (REVERSAL) FOR LOANS AND ADVANCES

Add. Direct Write-Off	449,419	430.965	450.610	431,834
Add: Direct Write-Off	438,114 11.305	430,965	439,305 11,305	431,834
Leases	92,637	45,636	92,637	45,636
Housing Loans	(8,560)	17,606	(8,560)	17,606
Retail SME and Consumer Lending	655,061	248,937	655,061	248,937
Corporate Loans	(301,024)	118,786	(299,833)	119,655
Loans and Advances to Lustomers				

32 PERSONNEL EXPENSES

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Salaries	1,288,388	1,160,699	1,312,716	1,186,224
Employee Benefits - Defined Contribution Plan	192,263	171,615	195,756	175,242
Employee Benefits - Defined Benefit Plan	70,132	59,625	71,741	61,239
Amortisation of Staff Loan Day One Difference	113,644	64,940	113,644	64,940
Other Allowances	791,081	616,323	800,805	625,099
	2,455,508	2,073,202	2,494,662	2,112,744

33 OTHER OPERATING EXPENSES

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Business Promotion and Advertising Administrative Expenses	303,083 509,766	290,856 417.966	303,083 539,298	290,856 449,136
Operating Lease Expenses Professional Fees	234,452 283,006	201,360 120,509	193,553 282.891	164,562 120,597
Directors Fees* Auditors Fees and Expenses	11,115	10,840	11,115	10,840 8,168
Non Audit Fees and Expenses to Auditors Legal Fees	720 16.441	2,841 13,900	720 16.441	3,389 13,900
Penalty Charges Transport	188 123,140	107,603	188 124,470	108,591
Loss on Disposal of Property Plant and Equipment Credit Related Operating Expenses	451,277	1,378 288.156	- 451,277	1,378 288.156
Other	934,994	745,021 2,206,597	935,934	745,748 2,205,321

^{*}The emoluments of Directors of the Bank / Group for the year ended 31 December 2013 amounts to LKR 50.59 Mn (2012 - LKR 51.55 Mn). This includes the amount paid to Executive Directors including CEO which is recorded under Personnel Expenses in Note 32 above.

34 INCOME TAX EXPENSE

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
The component of Income Tax expense				
for Years ended 31 December 2013 and 2012 are;				
Current Tax				
- Current Income Tax on Profit for the Year (Note 34.1)	875,665	765,968	967,583	836,597
- 10% Withholding Tax on Subsidiary Dividend	-	-	23,690	-
- Adjustments of Taxes in Respect of Prior Years	(36,925)	(66,000)	(36,925)	(66,000)
Deferred Tax				
- Adjustments of Taxes in Respect of Prior Years - Deferred Tax	16,925	-	16,925	-
- Charge for Deferred Tax	43,957	45,170	43,516	44,444
	899,622	745,138	1,014,789	815,041

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 2013 and 2012 is as follows.

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Accounting Profit (Profit Before Taxation) Add: Disallowable Expenses	3,021,605 8,181,690	2,519,476 6,955,223	3,151,190 8,216,711	2,750,113 6,995,583
	11,203,295	9,474,699	11,367,901	9,745,696
Less: Allowable Expenses Exempt Income	(7,796,822) (279,096)	(6,532,898) (206,201)	(7,799,414) (279,096)	(6,536,193) (206,201)
Statutory Income	3,127,377	2,735,600	3,289,391	3,003,302
Taxable Income	3,127,377	2,735,600	3,289,391	3,003,302
Income Tax expenses for the Year is made up of ;				
Current Income Tax Expense 10% Withholding Tax on Subsidiary Dividend Adjustments of Taxes in Respect of Prior Years	875,665 - (36,925)	765,968 - (66,000)	967,583 23,690 (36,925)	836,597 - (66,000)
Adjustments of Taxes in Respect of Prior Years - Deffered Tax	16,925	(00,000)	16,925	(00,000)
Charge for Deferred Tax	43,957 899,622	45,170 745,138	43,516 1,014,789	44,444 815,041
	077,022	, 13,130	1,011,707	313,041
Effective Income Tax Rate	29.77%	29.58%	32.20%	29.64%

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

35 EARNINGS PER SHARE

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

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

	Bank		(Cronb
Amount Used as the Numerator:	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Net Profit Attributable to Ordinary Shareholders	2,112,832	1,788,418	2,127,178	1,951,116
Number of Ordinary Shares Used as the Denominator:				
Ordinary Shares at the Beginning of the Year	230,607,283	230,607,283	230,607,283	230,607,283
Weighted Average Number of Ordinary Shares in Issue	230,607,283	230,607,283	230,607,283	230,607,283
at the End of the Year				
Basic Earnings per Ordinary Share - Basic (LKR)	9.16	7.76	9.22	8.46

36 DIVIDENDS PAID AND PROPOSED

	Bank		Group	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
36.1 Declared and Paid During the Year				
Dividends on Ordinary shares: First and Final Dividend for 2012 - LKR 2.10 per Share (2011 - LKR 2.10 per Share)	484,275	484,275	484,275	484,275
	484,275	484,275	484,275	484,275

36.2 Proposed for Approval at Annual General Meeting (not recognized as a liability as at 31 December)

Dividends on Ordinary Shares:

E'				
First and Final Dividend for 2013 - LKR 2.10 per Share				
(2012 - LKR 2.10 per share)	484,275	484,275	484,275	484,275

37 CASH FLOW INFORMATION

		Bank		Group	
		2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
37.1	(**************************************				
	Reverse Repurchase Agreements Derivative Financial Instruments Financial Assets-Held for Trading Financial Assets-Held to Maturity	1,820,332 206,351 (2,984,245) (9,493,298)	3,951,384 (73,148) (14,053,822) 514,886	2,152,222 206,351 (3,244,583) (9,552,491)	4,158,536 (73,148) (14,610,988) 1,136,229
	Other Financial Assets Loans and Advances to Customers Other Assets	(285,833) (8,755,328) (250,758)	1,005,536 (12,682,952) (346,923)	(319,781) (9,006,277) (246,004)	1,005,081 (12,699,644) (345,789)
37.2	Increase/(Decrease) in Operating Liabilities	(19,742,779)	(21,685,039)	(20,010,563)	(21,429,723)
	Repurchase Agreements Due to Customers Derivative Financial Instruments Other Liabilities	6,412,144 9,303,949 105,153 980,866 16,802,112	(2,733,376) 18,059,496 212,752 (9,432) 15,529,440	6,080,254 9,404,235 105,153 957,104 16,546,746	(2,660,127) 17,711,228 212,752 (6,138) 15,257,715
37.3	Other Non-cash items included in Profit Before Tax				
	Depreciation of Property, Plant and Equipment Amortisation of Intangible Assets Provision for Fair Valuation of Trading Portfolio Amortisation of Income Generated from Governemnt Securities Interest Income Accrued on Impaired Financial Assets Others	246,265 153,682 (137,376) (182,188) (185,120) - (104,737)	254,984 110,962 (108,523) - - - 257,423	257,814 156,515 (137,376) (182,188) (185,121) 20,113 (70,243)	266,535 112,816 (108,523) - - - - - - 270,828

38 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:

38.1 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 in subsidiary companies and corporate management of the Bank.

(a) Compensation to Key Management Personnel

	2013 LKR '000	2012 LKR '000
Short Term Employee Benefits Post Employment Benefits	158,290 21,279	183,294 19,074
	179,569	202,368

In addition to the salaries the Group also has arranged non cash benefits such as vehicle & insurance to Key Management Personnel in line with approved benefits plan of the Group.

(b) Transactions, Arrangements and Agreements involving Key Management Personnel

Key I	Management Per	sonnel (KMP) & thei	•	Nembers (CFM) Jum Balances	Entities	in which KMPs and		ol or joint control imum Balances
Items in the Statement of Financial Position	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Assets Loans & Advances Credit Cards Reverse Repurchase Agreements	80,207 6,042	80,804 7,341	87,992 7,559	81,209 7,341 1,850	- - -	- - -	- - -	- - -
Liabilities Due to Customers Borrowing	197,755 701	213,093 900	256,710 2,818	243,660 60,884	62,980 42,062	2,239	337,136 241,407	9,407
Equity Dividends Paid (Net)	730	655	-	-	-	-	-	-
Commitment Undrawn Facilities	32,020	32,044	-	-	-	-	-	-
Items in Income Statement Interest Income Earned Interest Expenses Paid Other Income Earned	8,385 18,255 253	6,733 23,985 137	-	- - -	4,817 4	707 1	-	- - -

38.2 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 has contributed a sum of LKR 155.6 Mn (2012 - LKR 139.30 Mn) to the fund during the year. As at 31 December 2013, the Fund has invested a sum of LKR 214.69 Mn (2012 - LKR 567.01 Mn) with the Bank.

During the year, the Bank has incurred a sum of LKR 19.68 Mn (2012 - LKR 125.91 Mn) as interest expense to the fund out of which a sum of LKR 1.5 Mn (2012 - LKR 26.30 Mn) is payable as of 31 December 2013.

38 RELATED PARTY DISCLOSURES (CONTD.)

38.3 Transactions with Related Entities

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		Subsic	Subsidiaries *			Significan	Significant Investors **	*	Signif	Significant Investor Related Entities ***	. Related Ent	ities ***
			Maximur	Maximum Balances			Maximu	Maximum Balances			Maximum Balances	Balances
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Items in the Statement of Financial Position	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR 000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets												
Loans & Advances	413,365	738,757	1,286,375	1,446,881	ı	192,961	698,642	699,469	47,535	390,757	319,126	400,058
Corporate Credit Cards	ı	1	ı	ı	2,211	1,635	2,317	1,897	13	377	71	086
Reverse Repurchase Agreements	907,271	575,347	907,271	682,076	1	1	1	1	1	1	1	1,715
Derivative Financial Assets	ı		1	1	1	1	1	1	198	1,718	1	1
Other Assets	5,922	39,167	5,922	37,167	1	1	1	,	21,531	1	25,470	ı
Liabilities												
Due to Customers	304,683	407,518	500,147	407,518	1,005,166	1,459,981	1,926,588	4,044,045	3,789,215	1,858,077	3,789,215	4,085,504
Borrowing & Others	34,007	ı	435,637	333,000	1,978,008	846,229	1,978,008	1,895,800	477,989	712,867	734,317	1,559,550
Other Liabilities/Financial Guarantees	5,653	ı	ı	ı	89,336	ı	114,614	1	72,052	449	72,052	
Derivative Financial Liabilities	1	1	ī	1	ı	1	ı	ı	1,294	1	Г	1
Equity												
Dividends Paid (Net)	ı	1	ı	1	218,824	218,941	ı	,	1	ı	1	1
Committements												
Undrawn Facilities	1,386,747	1,061,243	1	1	635,476	529,506	1	1	753,329	385,245	1	
Letter of Credit/ Guarantees	1	1	1	1	114,525	36,113	ı	1	292,018	284,898	I	1
Forward Foreign Exchange Contracts	ı	1	ī	ı	ı	1	ı	ı	741,256	55,106	Г	1
Items in Income Statement												
Interest Income Earned	157,404	182,539	ı	1	27,442	43,342	ı	1	30,739	43,187	Г	
Interest Expenses Paid	40,195	37,304	1	1	123,483	316,785	1	1	139,306	267,558	1	,
Other Income Earned	5,830	2,089	1	1	2,351	1,667	ı	,	11,994	6,423	ı	,
Dividend Received (Gross)	216,345	18,495	1	1	1	1	1	,	1	,		
Expenses Paid	38,364	37,750	1	1	44,164	31,178	1	•	25,002	33,749	1	1

Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited. A Liquidator has been appointed to wind up the Mercantile Leasing

⁽Financial Services) Limited, subsidiary of the Bank.

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)Limited. Significant investor related entities include entities controlled and/or jointly controlled by the significant investors of the Bank and private provided funds of such significant investors. * *

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

39.1 As at 31 December 2013

		Bank			Group	
	Within	After	Total	Within	After	Total
	12 Months	12 Months	11/0/000	12 Months	12 Months	11/2/000
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets						
Cash and Cash Equivalents	3,019,735	-	3,019,735	3,019,774	-	3,019,774
Balances with Central Bank of Sri Lanka	4,031,763	-	4,031,763	4,031,763	-	4,031,763
Reverse Repurchase Agreements	1,459,506	-	1,459,506	552,236	-	552,236
Derivative Financial Instruments	121,491	-	121,491	121,491	-	121,491
Financial Assets - Held for Trading	23,365,388	-	23,365,388	24,460,493	-	24,460,493
Financial Assets - Held to Maturity	15,492,821	4,242,000	19,734,821	15,483,514	4,310,500	19,794,014
Other Financial Assets	820,932	1,377,650	2,198,582	820,932	1,377,650	2,198,582
Loans and Advances to Customers	50,951,139	30,177,621	81,128,760	52,150,825	30,176,430	82,327,255
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Other Assets	2,780,014	33,205	2,813,219	2,860,495	33,205	2,893,700
Property, Plant and Equipment	-	1,545,426	1,545,426	-	2,048,442	2,048,442
Intangible Assets	-	665,130	665,130	-	680,007	680,007
Total Assets	102,042,789	38,719,742	140,762,531	103,501,523	38,626,234	142,127,757
Liabilities						
Due to Banks	1,401,473	-	1,401,473	1,401,473	-	1,401,473
Repurchase Agreements	18,101,496	328	18,101,824	18,067,489	328	18,067,817
Derivative Financial Instruments	633,625	-	633,625	633,625	-	633,625
Due to Customers	90,098,025	5,938,173	96,036,198	89,791,359	5,938,174	95,729,533
Debt Issued and Other Borrowed Funds	542,017	7,657,411	8,199,428	1,148,675	7,657,411	8,806,086
Current Tax Liabilities	332,732	-	332,732	383,318	-	383,318
Other Liabilities	4,620,891	303,920	4,924,811	4,723,225	303,921	5,027,146
Deferred Tax Liabilities	-	341,763	341,763	-	340,596	340,596
Total Liabilities	115,730,259	14,241,595	129,971,854	116,149,164	14,240,430	130,389,594
Net	(13,687,470)	24,478,147	10,790,677	(12,647,641)	24,385,804	11,738,163

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

39.2 As at 31 December 2012

		Bank			Group	
	Within	After	Total	Within	After	Total
	12 Months	12 Months		12 Months	12 Months	
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'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	20,253,158	-	20,253,158	21,087,926	-	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	86,190,043	35,161,207	121,351,250	87,432,990	35,014,026	122,447,016
Liabilities						
Due to Banks	2,712,187	-	2,712,187	2,712,187	-	2,712,187
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	83,252,121	3,429,556	86,681,677	82,844,603	3,429,556	86,274,159
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	3,586,808	259,251	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	104,678,173	7,673,583	112,351,756
Net	(18,331,429)	27,493,549	9,162,120	(17,245,183)	27,340,443	10,095,260

40. 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 (Foreign Currency Swaps and Forward Exchange Contracts) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial Assets Held for Trading

Financial assets held for trading are valued using a valuation technique 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.

40.1 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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

40.1 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 2013	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts	-	121,491	-	121,491
Financial Assets Held for Trading				
Government Treasury Bills & Bonds	23,365,388	-	-	23,365,388
Total Financial Assets	23,365,388	121,491	-	23,486,879
Financial Liabilities				
Derivative Financial Instruments				
Forward Foreign Exchange Contracts	-	633,625	-	633,625
Total Financial Liabilities	-	633,625	-	633,625
At 31 December 2012	Level 1	Level 2	Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

40.1 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.

	2013 Carrying Amount LKR '000	2013 Fair Value LKR ′000	2012 Carrying Amount LKR '000	2012 Fair Value LKR '000
Financial Assets				
Cash and Cash Equivalents	3,019,735	3,019,735	2,534,056	2,534,056
Balances with Central Bank of Sri Lanka	4,031,763	4,031,763	5,089,342	5,089,342
Reverse Repurchase Agreements	1,459,506	1,459,506	3,287,274	3,287,274
Financial Assets - Held to Maturity	19,734,821	20,179,141	10,237,904	10,318,065
Other Financial Assets	2,198,582	2,198,582	1,892,922	1,892,922
Total	30,444,407	30,888,727	23,041,498	23,121,659
Loans and Advances to Customers				
Corporate Loans	18,462,120	18.313.495	20,695,425	20,686,504
Retail and SME Loans	39,914,775	39,745,694	31,823,128	31,583,112
Housing Loans	1,418,237	1,266,520	1,408,377	1,367,001
Leases	21,738,216	21,523,007	19,361,556	18,104,782
	81,533,348	80,848,716	73,288,486	71,741,399
Less: Allowance for Impairment Losses	(1,775,194)	(1,775,194)	(1,825,290)	(1,825,290)
·	79,758,154	79,073,522	71,463,196	69,916,109
Staff Loans	1,370,606	864,895	995,161	1,078,978
Total Loans and Advances	81,128,760	79,938,417	72,458,357	70,995,087
Total Financial Assets	111,573,167	110,827,144	95,499,855	94,116,746
				<u> </u>
Financial Liabilities	4 404 477	4 404 477	2742407	2701250
Due to Banks	1,401,473	1,401,473	2,712,187	2,796,350
Repurchase Agreements	18,101,824	18,104,300	11,832,692	11,830,999
Due to Customers	96,036,198	96,720,079	86,681,677	86,326,441
Debt Issued and Other Borrowed Funds	8,199,428	7,977,001	5,831,123	5,661,810
Total Financial Liabilities	123,738,923	124,202,853	107,057,679	106,615,600

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

40.1 Determination of Fair Value and Fair Value Hierarchy (contd.)

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 with and adjustment for premium have been used to arrive at the fair value of Debentures Issued.

41. FINANCIAL RISK MANAGEMENT

41.1 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. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks.

The objective of the Risk Management Framework at the Bank is to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank by ensuring that risks: -

- are communicated to those who make risk-taking decisions and more broadly to all Business Units as appropriate
- remain within the approved Risk Appetite of the Bank as articulated by the Board of Directors
- are monitored to ensure returns are maximized for the risks taken
- are taken in the long-term interest to protect and preserve capital of the bank, and in the interest of all stake holders particularly depositors.

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 developing and implementing the Bank's risk management framework. Responsibilities of the IRMD include the following:

- Draft risk policies and procedures and regularly update the same
- Develop risk management standards and measurement tools
- Monitors the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions
- Monitors compliance with risk policies and procedures
- Compiles risk across business units and escalates risk and control issues to senior management
- Develops and presents reports on aggregate risk profile of the Bank on half-yearly basis. These reports to be submitted to Board via BIRMC
- Supports the organization risk culture through development of a common risk language and Bank-wide risk training and support
- Provides interpretation of risk-related regulations/ leading practices and disseminates to business units

41. FINANCIAL RISK MANAGEMENT (CONTD.)

Risk Measurement and Reporting Systems

The Bank's risks are measured using methods that reflect incurred loss model for financial reporting and the expected loss likely to arise in normal circumstances which are supported by statistical models for financial reporting and regulatory purposes. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment.

Managing of risks are 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 relevant departments is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the members of Board Supervisory Committee, BIRMC and the heads of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The BIRMC receives a 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.

The Head of Treasury Middle Office provides the details on the utilization of market limits, liquidity and any other market risk developments to the Chief Executive Officer and other relevant members of the Bank on a daily basis.

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 also accepts various types of collateral as a credit risk mitigant.

Excessive Risk Concentration

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.

41.2 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 and by taking appropriate collateral.

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 covering various types of customer segments of the bank excluding consumer products is being implemented. Such 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.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

Impairment Assessment

For financial reporting 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 Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer faces bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. 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 if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Ten Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). If the Bank finds such customers having OEIL, those customers are individually impaired taking in to account the estimated value of future cash flows.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance 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.

The Bank generally bases its analyzes on historical experience. However, when there are significant market developments, the Bank also 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 available consumer data. The Bank uses the aforementioned factors as appropriate to adjust the impairment allowances.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

Description of approaches and statistical methods followed for impairment is given below.

Business Segment	Further Segmentation	Default Point	PD Represents	Statistical Method	Classification for Financial Reporting Purposes
Corporate Banking	Based on Internal Risk Rating	"Loss" Category	Probability of Loan moving into "Loss" category	Rating Migration Matrix	Corporate Loans
SME & Retail Banking	Based on Internal Risk Rating	"Loss" Category	Probability of Loan moving into "Loss" category	Rating Migration Matrix	Retail SME and Consumer
Factoring	Based on Internal Risk Rating	"Loss" Category	Probability of Loan moving into "Loss" category	Rating Migration Matrix	Classified as "Corporate Loans" or "Retail, SME and Consumer" as per customer type
Leasing	Based on Time Buckets indicating Days Past Due (DPD)	Number Down 6.0	Probability of Lease moving into No. Down "6.01 - 7.00"	Net Flow Rate Method	Leases
Housing Loans	Based on Time Buckets indicating Days Past Due (DPD)	360 DPD	Probability of Loan moving into "361-390 DPD" Bucket	Net Flow Rate Method	Housing Loans
Personal Loans	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240-269 DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Vehicle Loans	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240-269 DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Credit Cards	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240-269 DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Pawning	Based on Time Buckets indicating Days Past Due (DPD)	03 Months Overdue	Probability of advance moving into more than 03 months overdue.	Net Flow Rate Method	Classified as "Retail, SME and Consumer" or "Housing Loans" as per purpose of the borrower

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME and factoring customers through a credit rating mechanism and a credit rating system for the leasing portfolio is currently being implemented. Customers in the consumer lending portfolio have not been rated.

Quality of Financial Assets are categorized in to four categories as described below.

Credit Quality Category	Definition	Description
High Grade	Very High Safety	The exposure to the government banks and reverse repurchase transactions backed by government securities are identified as 'High grade'. The external rating of the Banks have not been considered in this regard as these exposures are highly liquid and are of the self liquidating nature. 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 (A+& B-)	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 (C+ and C)	Moderate Safety	The ability to honour the terms of trade is strong, but not as strong as in the 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 (C- and D)	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.
Customers whose credit quality is not yet finalized	Safe	The ability to honour the terms of trade is assumed acceptable but yet to be confirmed by way of a finalized rating.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

Credit Risk exposure for each internal credit risk rating

Bank's Internal Credit Rating	Historical Default Rates	Total	Bank's Internal Credit Rating	Historical Default Rates	Total
		2013			2012
	%	LKR 000'		%	LKR 000'
l			l		
Investment Grade			Investment Grade		
A	Less than 1%	11,098,235	A	Less than 1%	13,370,408
В	Less than 4.5%	7,816,742	В	Less than 4%	4,931,303
Intermediary Grade			Intermediary Grade		
C + and C	Less than 6.5%	1,891,248	C + and C	Less than 4%	1,309,712
Speculative Grade			Speculative Grade		
C-	Less than 7.5%	4,350,208	C-	Less than 5%	2,491,549
D	Minimum of 23%	22,357	D	Minimum of 20%	4,058
Past Due - Rated		8,175,288	Past Due - Rated		9,788,675
Portfolio			Portfolio		
Individually		3,611,800	Individually		3,306,199
Impaired - Rated			Impaired - Rated		
Portfolio			Portfolio		
Sum of Amortized		36,965,879	Sum of Amortized		35,201,904
Cost of Rated			Cost of Rated		
Customers			Customers		

Note: Past Due Loans include any loan that is in arrears for more than one day.

It is the Bank policy to maintain accurate and consistant 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. All such segment specific models are then mapped in to a single common scale across the Bank based on the underlying probability of default. The attributable risk ratings are assessed and updated regularly.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on above credit quality descriptions. The amounts presented are gross of impairment allowances.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME and factoring customers through a credit rating mechanism and a credit rating system for the leasing portfolio is currently being implemented. Customers in consumer lending portfolio have not been rated.

Quality of Financial Assets are categorized in to four categories as described below.

			Neither Pa	ast Due Nor I	mpaired				
		High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose Credit Rating is not	Past due but not Impaired	Individually Impaired	Total
E	3ank - 31 December 2013	LKR '000	LKR '000	LKR '000	LKR '000	yet Finalized LKR '000	LKR '000	LKR '000	LKR '000
	Cash and Cash Equivalents	3,019,735	-	-	-	-	_	-	3,019,735
E	Balances with Central Bank of Sri Lanka	4,031,763	-	-	-	-	-	-	4,031,763
F	Reverse Repurchase Agreements	1,455,060	-	-	4,447	-	-	-	1,459,506
	Derivative Financial Instruments Forward Foreign Exchange Contracts	102,553	18,917	-	21	-	-	-	121,491
	Financial Assets - Held for Trading Government Treasury Bills and Bonds	23,365,388	-	-	-	-	-	-	23,365,388
	Financial Assets - Held to Maturity Government Treasury Bills and Bonds	19,734,821	-	-	-	-	-	-	19,734,821
	Other Financial Assets	4.50.4.000							4.50.4.003
	Gri Lanka Development Bonds	1,584,892	-	-	-	-	-	-	1,584,892
	Unquoted Debentures	-	608,230	-		-	-	-	608,230
l	Jnquoted Equity Instruments	1,584,892	608,230		5,460 5.460		-		5,460 2,198,582
L	Loans and Advances to Customers (Gross)	1,30 1,072	000,230		3,100				2,170,302
	Corporate Loans	-	14,041,413	77,561	1,325,741	-	1,520,282	1,503,410	18,468,407
	Retail, SME and Consumer	-	4,873,564	1,813,687	3,046,824	17,795,489	10,125,509	2,259,702	39,914,775
	Housing Loans	-	-	-	-	812,506	543,357	62,374	1,418,237
	Leases	-	-	-	-	12,014,028	9,408,363	315,825	21,738,216
	Staff Loans	-	-	-	-	2,157,334	24,608	-	2,181,943
		-	18,914,978	1,891,248	4,372,565	32,779,357	21,622,120	4,141,310	83,721,578
٦	Total .	53,294,211	19,542,125	1,891,248	4,382,493	32,779,357	21,622,120	4,141,310 1	137,652,864

Note: Past Due Loans include any loan that is in arrears for more than one day. Out of LKR 21.6Bn categorized under the "past due but not impaired "category LKR 10.5Bn (49%) is in arrears for less than 30 days, LKR 9.3Bn (43%) is in arrears for more than 30 days but less than 90 days & LKR 1.8Bn (8%) is in arrears for more than 90 Days.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

		Neither P	ast Due Nor I	mpaired				
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose Credit Rating is not	Past due but not Impaired	Individually Impaired	Total
Bank - 31 December 2012	LKR '000	LKR'000	LKR '000	LKR '000	yet Finalized LKR '000	LKR '000	LKR '000	LKR '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	1,579,351	-	1,707,924	-	-	-	-	3,287,274
Derivative Financial Instruments Forward Foreign Exchange Contracts	303,378	24,067	-	398	-	-	-	327,854
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	1.5.40.00.4							1.540.034
Sri Lanka Development Bonds	1,549,834	-		-	-	-	-	1,549,834
Unquoted Debentures Unquoted Equity Instruments	-	337,691	-	5.397	-	-	-	337,691 5,397
Onquoted Equity instruments	1,549,834	337,691	-	5,397	-	-	-	1,892,922
Loans and Advances to Customers (Gross)								
Corporate Loans	_	14,022,125	625,852	176,030	102,644	3,080,311	2,688,463	20,695,425
Retail, SME and Consumer	-	4,279,586	683,860	2,319,577	15,247,679	8,665,012	627,414	31,823,128
Housing Loans	-	-	-	-	740,365	534,458	133,554	1,408,377
Leases	-	-	-	-	11,869,623	7,098,905	393,028	19,361,556
Staff Loans	-	-	-	-	1,798,238	63,308	-	1,861,546
	-	18,301,711	1,309,712	2,495,607	29,758,549	19,441,994	3,842,460	75,150,033
Total	41,547,022	18,663,470	3,017,635	2,501,402	29,758,549	19,441,994	3,842,460	118,772,544

Note: Past Due Loans include any loan that is in arrears for more than one day. Out of LKR 19.4Bn categorized under the "past due but not impaired "category LKR 12.9Bn (68%) is in arrears for less than 30 days, LKR 5.6Bn (28%) is in arrears for more than 30 days but less than 90 days & LKR 0.8Bn (4%) is in arrears for more than 90 Days.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

	Neither Past Due Nor Impaired							
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose Credit Rating is not	Past due but not Impaired	Individually Impaired	Total
Group - 31 December 2013	LKR '000	LKR '000	LKR '000	LKR '000	yet Finalized LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	3,019,774	-	-	-	-	-	-	3,019,774
Balances with Central Bank of Sri Lanka	4,031,763	-	-	-	-	-	-	4,031,763
Reverse Repurchase Agreements	547,789	-	-	4,447	-	-	-	552,236
Derivative Financial Instruments Forward Foreign Exchange Contracts	102,553	18,917	-	21	-	-	-	121,491
Financial Assets - Held for Trading Government Treasury Bills and Bonds	24,460,493	-	-	-	-	-	-	24,460,493
Financial Assets - Held to Maturity Government Treasury Bills and Bonds	19,794,014	-	-	-	-	-	-	19,794,014
Other Financial Assets	1.504.003							1.50.4.002
Sri Lanka Development Bonds	1,584,892	608,230	-	-	-	-	-	1,584,892
Unquoted Debentures	-	008,230	-	5.460	-	-	-	608,230 5,460
Unquoted Equity Instruments	1,584,892	608,230	-	5,460	-	-	-	2,198,582
Loans and Advances to Customers (Gross)								
Corporate Loans	_	13,628,049	77,561	1,843,152		1,520,282	1,503,410	18,572,454
Retail, SME and Consumer	-	4,873,564	1,813,687	4,140,322	17,795,489	10,125,509	2,259,702	41,008,273
Housing Loans	-	-	-	-	812,506	543,357	62,374	1,418,237
Leases	-	-	-	-	12,014,028	9,408,363	315,825	21,738,216
Staff Loans	-	-	-	-	2,157,334	24,608	-	2,181,943
	-	18,501,613	1,891,248	5,983,475	32,779,357	21,622,120	4,141,310	84,919,123
Total	53,541,277	19,128,760	1,891,248	5,993,402	32,779,357	21,622,120	4,141,310	139,097,475

Note: Past Due Loans include any loan that is in arrears for more than one day. Out of LKR 21.6Bn categorized under the "past due but not impaired "category LKR 10.5Bn (49%) is in arrears for less than 30 days, LKR 9.3Bn (43%) is in arrears for more than 30 days but less than 90 days & LKR 1.8Bn (8%) is in arrears for more than 90 Days.

41.2 Credit Risk (Contd.)

		Neither F	Past Due Nor I	mpaired				
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose Credit Rating is not	Past due but not Impaired	Individually Impaired	Total
Group - 31 December 2012	LKR '000	LKR '000	LKR '000	LKR '000	yet Finalized LKR '000	LKR '000	LKR '000	LKR '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	1,004,004	-	1,707,924	-	-	-	-	2,711,928
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	303,378	24,067	-	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
	1,549,834	337,691	-	5,397	-	-	-	1,892,922
Loans and Advances to Customers (Gross)								
Corporate Loans	_	12.772.281	625.852	726,169	102.644	3.080.311	2.688.463	19.995.719
Retail, SME and Consumer	_	4,279,586	683,860	3,471,648	15,758,766	8,665,012	627,414	33,486,286
Housing Loans	-	-	-	-	740,365	534,458	133,554	1,408,377
Leases	-	-	-	-	11,869,623	7,098,905	393,028	19,361,556
Staff Loans	-	-	-	-	1,798,238	63,308		1,861,546
	-	17,051,867	1,309,712	4,197,816	30,269,636	19,441,994	3,842,460	76,113,484
Total	41,806,543	17,413,626	3,017,635	4,203,611	30,269,636	19,441,994	3,842,460	119,995,505

Note: Past Due Loans include any loan that is in arrears for more than one day. Out of LKR 19.4Bn categorized under the "past due but not impaired "category LKR 12.9Bn (68%) is in arrears for less than 30 days, LKR 5.6Bn (28%) is in arrears for more than 30 days but less than 90 days & LKR 0.8Bn (4%) is in arrears for more than 90 Days.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

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.

Management monitors the market value of collateral, and requests 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.

Bank - 31 December 2013	Maximum Exposure to Credit Risk	Net Collateral	Net Exposure
	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	3,019,735	-	3,019,735
Balances with Central Bank of Sri lanka	4,031,763	-	4,031,763
Reverse Repurchase Agreements	1,459,506	1,459,506	-
Derivative Financial Instruments	121,491	-	121,491
Financial Assets - Held for Trading	23,365,388	-	23,365,388
Financial Assets - Held to Maturity	19,734,821	-	19,734,821
Other Financial Assets	2,198,582	-	2,198,582
Loans and Advances to Customers (Gross)	83,721,578	49,263,145	34,479,949
Financial Guarantees	245,100	28,620	216,480
Letters of Credit	2,922,428	467,779	2,454,649
Other Commitments	87,013,216	6,330,484	80,682,732
	227,833,608	57,549,534	170,305,590

41.2 Credit Risk (Contd.)

Group - 31 December 2013	Maximum Exposure to Credit Risk	Net Collateral	Net Exposure
	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	3,019,774	-	3,019,774
Balances with Central Bank of Srilanka	4,031,763	-	4,031,763
Reverse Repurchase Agreements	552,236	552,236	-
Derivative Financial Instruments	121,491	-	121,491
Financial Assets - Held for Trading	24,460,493	-	24,460,493
Financial Assets - Held to Maturity	19,794,014	-	19,794,014
Other Financial Assets	2,198,582	-	2,198,582
Loans and Advances to Customers (Gross)	84,919,123	50,874,055	34,066,584
Financial Guarantees	245,100	28,620	216,480
Letters of Credit	2,922,428	467,779	2,454,649
Other Commitments	87,099,106	6,330,484	80,768,622
	229,364,109	58,253,174	171,132,452

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by the industry sector. The following table shows the risk concentration by industry for the components of the Statement of Financial Position. Assets concentrated as "Other" include Consumer Loans, Credit Cards and Leases. A 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".

	Agriculture and Fishing	Financial Services	Government	Trading	Construction and Housing	Manufacturing	Services	Other	Total
Bank-31 December 2013	LKR '000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	-	3,019,735	-	-	-	-	-	-	3,019,735
Balances with Central Bank of Sri Lanka	-	-	4,031,763	-	-	-	-	-	4,031,763
Reverse Repurchase Agreements	-	1,402,373	50,009	-	-	-	-	7,125	1,459,506
Derivative Financial Instruments									
Forward Foreign Exchange Contratcs	-	121,271	-	199	-	-	-	20,797	121,491
Financial Assets - Held for Trading									
Covernment Treasury Bills and Bonds	-	-	23,365,388	-	-	-	-	-	23,365,388
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	19,734,821	-	-	-	-	-	19,734,821
Other Financial Assets									
Sri Lanka Development Bonds	-	-	1,584,892	-	-	-	-	-	1,584,892
Unquoted Debentures	-	536,160	-	72,070	-	-	-	-	608,230
Unquoted Equity Instruments	-	-	-	-	-	-	5,460	-	5,460
	-	536,160	1,584,892	72,070	-	-	5,460	-	2,198,582
Loans and Advances to Customers									
Corporate Loans	5,814,171	3,099,329	-	4,662,579	196,075	3,766,342	929,912	-	18,468,407
Retail, SME and Consumer	1,675,550	2,640,383	-	7,715,762	1,274,424	901,645	3,534,281	22,172,729	39,914,775
Housing Loans	-	-	-	-	1,418,237	-	-	-	1,418,237
Leases	1,480,769	57,702	-	994,003	718,196	544,629	3,104,930	14,837,988	21,738,216
Staff loans	-	2,181,943	-	-	-	-	-	-	2,181,943
	8,970,489	7,979,356	-	13,372,344	3,606,931	5,212,616	7,569,123	37,010,717	83,721,578
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,775,194)
Staff Loan Day 1 Difference	-	(811,336)	-	-	-	-	-	-	(811,336)
EIR Adjustment for Trust Certificate	-	(6,228)	-	-	-	-	-	-	(6,228)
Net Loans and Advances	-	-	-	-	-	-	-	-	81,128,760
	8,970,489	13,058,894	48,766,873	13,444,613	3,606,931	5,212,616	7,574,583	37,017,863	135,060,046

41.2 Credit Risk (Contd.)

Bank-31 December 2012 Cash and Cash Equivalents Balances with Central Bank of Sri Lanka	Fishing LKR '000	L I/D (000			Housing				
•		LKR '000	LKR'000	LKR'000	LKR'000	LKR '000	LKR'000	LKR'000	LKR'000
Balances with Central Bank of Sri Lanka	-	2,534,056		-	-	-	-	-	2,534,056
	-	-	5,089,342	-	-	-	-	-	5,089,342
Reverse Repurchase Agreements	-	3,230,624	-	-	-	-	-	56,650	3,287,274
Derivative Financial Instruments									
Forward Foreign Exchange Contratcs	-	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	31,918,856	75,150,032
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,825,290
Staff Loan Day 1 Difference	-	(866,385)	-	-	-	-	-	-	(866,385
EIR Adjustment for Trust Certificate	-	(2,564)	-	-	-	-	-	-	(2,564
Net Loans and Advances	-	-	-	-	-	-	-	-	72,455,793
	8,126,138	12,093,277	37,130,238	11,979,084	3,487,514	4,693,028	8,418,798	31,975,506	116,078,293

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

	Agriculture and Fishing	Financial Services	Government	Trading	Construction and Housing	Manufacturing	Services	Other	Total
Group-31 December 2013	LKR '000	LKR '000	LKR'000	LKR'000	LKR '000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	-	3,019,774	-	-	-	-	-	-	3,019,774
Balances with Central Bank of Sri Lanka	-	-	4,031,763	-	-	-	-	-	4,031,763
Reverse Repurchase Agreements	-	495,102	50,009	-	-	-	-	7,125	552,236
Derivative Financial Instruments									
Forward Foreign Exchange Contratcs	-	121,271	-	199	-	-	-	20,797	121,491
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	24,460,493	-	-	-	-	-	24,460,493
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	19,794,014	-	-	-	-	-	19,794,014
Other Financial Assets									
Sri Lanka Development Bonds	-	-	1,584,892	-	-	-	-	-	1,584,892
Unquoted Debentures	-	536,160	-	72,070	-	-	-	-	608,230
Unquoted Equity Instruments	-	-	-	-	-	-	5,460	-	5,460
	-	536,160	1,584,892	72,070	-	-	5,460	-	2,198,582
Loans and Advances to Customers									
Corporate Loans	5,814,171	2,709,831	-	5,042,529	196,075	3,766,342	1,043,506	-	18,572,454
Retail, SME and Consumer	1,675,550	2,650,905	-	7,755,705	1,289,604	1,163,167	3,534,827	22,938,516	41,008,273
Housing Loans	-	-	-	-	1,418,237	-	-	-	1,418,237
Leases	1,480,769	57,702	-	994,003	718,196	544,629	3,104,930	14,837,988	21,738,216
Staff loans	-	2,181,943	-	-	-	-	-	-	2,181,943
	8,970,489	7,600,380	-	13,792,237	3,622,111	5,474,138	7,683,263	37,776,504	84,919,123
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,774,243)
Staff Loan Day 1 Difference	-	(811,336)	-	-	-	-	-	-	(811,336)
EIR Adjustment for Trust Certificate	-	(6,288)	-	-	-	-	-	-	(6,288)
Net Loans and Advances	-	-	-	-	-	-	-	-	82,327,255
	8,970,489	11,772,687	49,921,170	13,864,507	3,622,111	5,474,138	7,688,723	37,783,650	136,505,608

41.2 Credit Risk (Contd.)

	Agriculture and Fishing	Financial Services	Government	Trading	Construction and Housing	Manufacturing	Services	Other	To
Group-31 December 2012	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'00
Cash and Cash Equivalents	-	2,534,155		-	-	-	-	-	2,534,1
Balances with Central Bank of Sri Lanka			5,089,342						5,089,3
Reverse Repurchase Agreements	-	2,655,277	-	-	-	-	-	56,650	2,711,9
Derivative Financial Instruments									
Forward Foreign Exchange Contratcs	-	326,126	-	1,320	-	-	398	-	327,8
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	21,087,926	-	-	-	-	-	21,087,9
Financial Assets - Held to Maturity									
Covernment Treasury Bills and Bonds	-	-	10,237,904	-	-	-	-	-	10,237,9
Other Financial Assets									
Sri Lanka Development Bonds	-	-	1,549,834	-	-	-	-	-	1,549,8
Unquoted Debentures	-	337,691	-	-	-	-	-	-	337,
Unquoted Equity Instruments							5,397		5,
	-	337,691	1,549,834	-	-	-	5,397	-	1,892,9
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
Retail ,SME and Consumer	1,007,773	526,279	-	6,447,964	1,208,263	976,471	4,999,076	18,320,460	33,486,
Housing Loans	-	-	-	-	1,408,377	-	-	-	1,408,
Leases	950,805	89,580	-	1,028,354	576,838	558,245	2,599,522	13,558,212	19,361,
Staff loans	-	1,861,546	-	-	-	-	-	-	1,861,
	8,126,138	5,850,474	-	12,359,632	3,624,379	4,980,877	9,225,746	31,946,237	76,113,4
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,823,
Staff Loan Day 1 Difference	-	(866,385)	-	-	-	-	-	-	(866,
EIR Adjustment for Trust Certificate	-	(2,564)	-	-	-	-	-	-	(2,
Net Loans and Advances	-	-	-	-	-	-	-	-	73,421,3
	8,126,138	10,834,774	37,965,006	12,360,952	3,624,379	4,980,877	9,231,541	32,002,887	117,303,4

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.2 Credit Risk (Contd.)

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 quarantees.

		2013		2012
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Bonds & Warranties Acceptance	4,633,534 1,540,076	4,633,534 1,540,076	4,819,125 1,250,876	4,819,125 1,250,876
Guarantees Letters of Credit	245,100 2.922.426	245,100 2.922.426	219,070 2.596,995	219,070 2.596,995
Forwards / Swaps**	27,198,512	27,198,512	34,030,938	34,030,938
Forward on Government Securities Undrawn Commitments	244,712	244,712	-	-
Credit Cards	18,255,940	18,255,940	16,192,459	16,192,459
Other	35,140,441	35,226,332	25,805,096	27,129,179
	53,396,381	53,482,272	41,997,555	43,321,638
Total Commitments and Guarantees	90,180,741	90,266,632	84,914,559	86,238,642

^{**}Forward/ Swap amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 350Mn as at end of 2013 and LKR 481Mn as at end of 2012 based on a 2.5% price premium on 6 month forward exchange rate as at end of each year.

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.

41.3 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 and 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 Asset Ratio-As at 31 December	2013		2012	2	
	DBU	FCBU	DBU	FCBU	
	25.3%	41.9%	27.5%	25.3%	

Liquid assets mainly consist of cash, short-term Bank deposits and government securities.

In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% (compared to 8% last year) of Sri Lanka Rupee customer deposits.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.3 Liquidity Risk and Funding Management (Contd.)

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 2013 under the flow approach.

	On demand (Less than 15 days)	16 days - 3 Months	3 to 12 months	1to 5 years	Over 5 years	Total
Bank-As at 31 December 2013	LKR'000	LKR '000	LKR '000	LKR '000	LKR '000	LKR'000
Financial Assets						
Cash and Cash Equivalents	3,019,735	-	-	-	-	3,019,735
Balances with Central Bank of Sri Lanka	4,031,763	-	-	-	-	4,031,763
Reverse Repurchase Agreements	1,452,559	7,123	-	-	-	1,459,682
Financial Assets - Held for Trading	2,342,875	9,948,700	8,234,778	3,862,202	-	24,388,555
Financial Assets - Held to Maturity	53,380	22,500	17,242,455	4,793,490	177,910	22,289,735
Other Financial Assets	21,375	149,548	747,567	1,504,050	5,460	2,428,000
Loans & Advances to Customers	34,184,893	10,570,479	16,231,355	33,610,724	4,061,966	98,659,418
Total Undiscounted Financial Assets	45,127,954	20,847,899	43,203,721	45,274,517	4,250,796	158,704,888
Financial Liabilities						
Due to Banks	1,401,864	-	-	-	_	1,401,864
Repurchase Agreements	11,676,717	4,319,118	2,255,962	451	-	18,252,248
Due to Customers	32,746,095	26,325,996	32,768,483	8,105,971	_	99,946,545
Debt Issued and Other Borrowed Funds	369,000	136,755	682,528	10,088,997	-	11,277,280
Total Undiscounted Financial Liabilities	46,193,676	30,781,870	35,706,972	18,195,418	-	130,877,936
Net Undiscounted Financial Assets/ (Liabilities)	(1,065,721)	(9,933,971)	7,496,749	27,079,099	4,250,796	27,826,952
Gross Settled Derivatives Held for Trading Financial Assets						
Contractual Amounts Receivable	4,440,566	2,100,999	336,485	-	-	6,878,050
Contractual Amounts Payable	(4,440,566)	(2,100,999)	(336,485)	-	-	(6,878,050)
Financial Liabilities	-	-	-	-	-	-
Contractual Amounts Receivable	7,077,747	4,562,627	8,680,089			20.320.463
Contractual Amounts Payable	7,077,747 (7,077,747)	4,562,627 (4,562,627)	(8,680,089)	-	-	(20,320,463)
Contraction of the state of the	(/,0//,/4/)	(4,502,027)	(0,000,009)			(∠∪,∋∠∪,+∪∋)
Total Gross Settled Derivative Assets/(Liabilities)						
Held for Trading		-				
Total Net Financial Assets/(Liabilities)	(1,065,721)	(9,933,971)	7,496,749	27,079,099	4,250,796	27,826,952

41.3 Liquidity Risk and Funding Management (Contd.)

	On demand (Less than 15 days)	16 days - 3 Months	3 to 12 months	1to 5 years	Over 5 years	Total
Bank-As at 31 December 2012	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '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 Assets - Held for Trading	1,982,050	9,612,690	7,965,951	1,868,030	-	21,428,721
Financial Assets - Held to Maturity	795,125	2,641,438	2,969,313	5,343,188	-	11,749,064
Other Financial Assets	-	-	-	-	5,397	5,397
Loans & Advances to Customers	29,030,721	12,468,659	15,446,807	30,272,572	4,189,884	91,408,643
Total Undiscounted Financial Assets	41,461,567	24,950,265	27,479,986	37,483,790	4,195,281	135,570,890
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 Held for Trading						
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) 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

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.3 Liquidity Risk and Funding Management (Contd.)

	On demand (Less than 15 days)	16 days - 3 Months	3 to 12 months	1 to 5 years	Over 5 years	Total
Group-As at 31 December 2013	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Cash and Cash Equivalents	3,019,774	-	-	-	-	3,019,774
Balances with Central Bank of Sri Lanka	4,031,763	-	-	-	-	4,031,763
Reverse Repurchase Agreements	545,288	7,123	-	-	-	552,412
Financial Assets - Held for Trading	2,344,500	9,948,700	9,342,278	3,915,452	-	25,550,930
Financial Assets - Held to Maturity	53,380	22,717	17,247,707	4,815,366	255,866	22,395,035
Other Financial Assets	21,375	149,548	747,567	1,504,050	5,460	2,428,000
Loans & Advances to Customers	35,382,438	10,570,479	16,231,355	33,610,724	4,061,966	99,856,963
Total Undiscounted Financial Assets	45,419,893	20,848,116	44,316,473	45,349,643	4,328,752	160,262,877
Financial Liabilities						
Due to Banks	1.401.864	_	_	_	_	1.401.864
Repurchase Agreements	11,676,717	4,284,909	2,255,962	451	-	18,218,038
Due to Customers	35,382,438	10,570,479	16,231,355	33,610,724	4,061,966	99,856,963
Debt Issued and Other Borrowed Funds	973,011	136,755	682,528	10,088,997	-	11,881,290
Total Undiscounted Financial Liabilities	49,434,029	14,992,144	19,169,844	43,700,172	4,061,966	131,358,155
Net Undiscounted Financial Assets/ (Liabilities)	(4,014,136)	5,855,972	25,146,629	1,649,471	266,785	28,904,722
Gross Settled Derivatives Held for Trading Financial Assets						
Contractual Amounts Receivable	4,440,566	2,100,999	336,485	-	-	6,878,050
Contractual Amounts Payable	(4,440,566)	(2,100,999)	(336,485)	-	-	(6,878,050)
Financial Liabilities	-	-	-	-	-	-
Contractual Amounts Receivable	7,077,747	4,562,627	8,680,089	_	_	20,320,463
Contractual Amounts Payable	(7,077,747)	(4,562,627)	(8,680,089)	_	_	(20,320,463)
CONTRACTOR INTOUTION AGAINST	(7,077,747)	(7,302,027)	(0,000,007)	_	_	(20,320,703)
Total Gross Settled Derivative Assets/						
(Liabilities) Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/(Liabilities)	(4,014,136)	5,855,972	25,146,629	1,649,471	266,785	28,904,722

41.3 Liquidity Risk and Funding Management (Contd.)

	On demand (Less than 15 days)	16 days - 3 Months	3 to 12 months	1 to 5 years	Over 5 years	Total
Group-As at 31 December 2012	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '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	1,983,675	9,618,783	8,681,868	2,075,897	-	22,360,223
Financial Assets - Held to Maturity	795,125	2,641,438	2,969,313	5,343,188	-	11,749,064
Other Financial Assets	-	-	-	-	5,397	5,397
Loans & Advances to Customers	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	6,767,992	1,711,777	3,991,282	3,188	_	12,174,239
Due to Customers	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	34,643,786	32,758,139	37,887,243	10,013,884	32,600	115,035,652
Net Undiscounted Financial Assets/ (Liabilities)	7,207,608	(7,801,780)	(9,691,340)	27,677,773	4,162,682	21,854,942
Gross Settled Derivatives 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
consideration agoste	-	-	-	_	_	-
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)
<u> </u>	-	-	-	-	-	-
Total Gross Settled Derivative Assets/						
(Liabilities) Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/(Liabilities)	5,646,314	(8,422,708)	(7,357,766)	27,680,510	4,162,682	21,709,031

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.3 Liquidity Risk and Funding Management (Contd.)

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioral nature of these cash flows when managing the overall liquidity profile. 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.

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. 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 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	1to 5 years	Over 5 years	Total
31 December 2013	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds and Warranties	852,764	761,214	2,138,433	881,123	-	4,633,534
Acceptance	243,265	868,117	428,694	-	-	1,540,076
Guarantees	170,167	74,933	-	-	-	245,100
Letters of Credit	478,785	1,975,851	467,790	-	-	2,922,426
Forward Foreign Exchange Contracts	3,998,883	9,794,585	13,405,044	-	-	27,198,512
Forward on Government Securities	244,712	-	-	-	-	244,712
Undrawn Commitments	53,396,381	-	-	-	-	53,396,381
Total Commitments and Guarantees	59,384,957	13,474,700	16,439,961	881,123	-	90,180,741

	On demand	Less than 3 Months	3 to 12 months	1to 5 years	Over 5 years	Total
Bank						
31 December 2012	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'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
Forward Foreign Exchange Contracts	10,741,576	14,486,327	8,803,034	-	-	34,030,938
Undrawn Commitments	41,997,555	-	-	-	-	41,997,555
Total Commitments and Guarantees	53,601,695	18,216,500	12,663,718	432,646	-	84,914,559

41.3 Liquidity Risk and Funding Management (Contd.)

	On demand	Less than 3 Months	3 to 12 months	1to 5 years	Over 5 years	Total
Group						
31 December 2013	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds and Warranties	852,764	761,214	2,138,433	881,123	-	4,633,534
Acceptance	243,265	868,117	428,694	-	-	1,540,076
Guarantees	170,167	74,933	-	-	-	245,100
Letters of Credit	478,785	1,975,851	467,790	-	-	2,922,426
Forward Foreign Exchange Contracts	3,998,883	9,794,585	13,405,044	-	-	27,198,512
Forward on Government Securities	244,712	-	-	-	-	244,712
Undrawn Commitments	53,482,272	-	-	-	-	53,482,272
Total Commitments and Guarantees	59,470,848	13,474,700	16,439,961	881,123	-	90,266,632
			_			
	On demand	Less than	3 to	1 to	Over	Total
	On demand	Less than 3 Months	3 to 12 months	1 to 5 years	Over 5 years	Total
Group	On demand					Total
Group 31 December 2012	On demand LKR'000					Total
•		3 Months	12 months	5 years	5 years	
31 December 2012 Bonds and Warranties	LKR'000	3 Months LKR '000	12 months LKR'000	5 years	5 years	LKR'000
31 December 2012	LKR'000 357,571	3 Months LKR'000 1,182,815	12 months LKR'000 2,849,782	5 years	5 years	LKR'000 4,819,125
31 December 2012 Bonds and Warranties Acceptance	LKR'000 357,571 245,185	3 Months LKR'000 1,182,815 614,283	12 months LKR'000 2,849,782	5 years	5 years	LKR'000 4,819,125 1,250,876
31 December 2012 Bonds and Warranties Acceptance Guarantees	LKR'000 357,571 245,185 58,502	3 Months LKR '000 1,182,815 614,283 160,568	12 months LKR'000 2,849,782 391,408	5 years LKR '000 428,956	5 years	LKR'000 4,819,125 1,250,876 219,070
31 December 2012 Bonds and Warranties Acceptance Guarantees Letters of Credit	LKR'000 357,571 245,185 58,502 201,306	3 Months LKR '000 1,182,815 614,283 160,568 1,772,506	12 months LKR'000 2,849,782 391,408 - 619,493	5 years LKR '000 428,956	5 years	LKR'000 4,819,125 1,250,876 219,070 2,596,995

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.4 Market Risk

Market risk arises from changes in interest rates, foreign currency, credit spread and risk related factors such as market volatilities. The Bank manages market risk both on trading and non trading portfolios through a comprehensive market risk management framework. The framework includes limits based on but not limits to trading limits and stress testing.

The objective of the Bank's market risk management strategy is to reduce exposure to these risks and minimize volatility in economic income and cash flows.

The Board of Directors approves market risk appetite for trading and non trading activities. A daily report summarizes the Bank's market risk exposure against approved limits. The daily report is sent to Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, and DGM Treasury and Head of Trading Desks.

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 the Banks' Net Interest Income to variations. The Board has established limits on the interest rate gaps. The Bank's policy is to monitor positions on a mounthly basis and to ensure positions are maintained within the established limits.

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 for their next re-pricing (floating rate).

	Total	On demand (Less than 15 days)	16 days- 3 Months	3 to 12 months	1to 5 years	Over 5 years	Non- interest bearing
Bank-As at 31 December 2013	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and balances with Central Bank of Sri Lanka	6,558,495	-	-	-	-	-	6,558,495
Loans and Advances	80,815,080	33,151,726	17,120,547	9,565,361	16,703,125	1,199,401	3,074,918
Investments	47,196,575	3,834,877	10,763,054	25,093,482	9,045,590	144,745	(1,685,173)
Other	33,119,868	4,452,473	9,788,333	12,770,042	-	-	6,109,020
Total Assets	167,690,017	41,439,076	37,671,934	47,428,885	25,748,715	1,344,146	14,057,261
Liabilities							
Deposits	94,753,329	23,329,532	25,026,644	30,237,184	5,743,922	-	10,416,048
Borrowings	27,502,372	13,400,223	5,190,407	3,896,631	5,000,328	-	14,784
Other	47,390,505	4,001,478	7,022,706	13,440,116	-	-	22,926,205
Total Shareholder Funds and Liabilities	169,646,206	40,731,232	37,239,757	47,573,930	10,744,250	-	33,357,037
Total Interest Sensitivity Gap	-	707,844	432,177	(145,045)	15,004,465	1,344,146	(19,299,776)

^{**} The Classifications are based on the way that ALCO monitors repricing gaps

41.4 Market Risk (Contd.)

	Total	On demand (Less than 15 days)	16 days- 3 Months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing
Bank-As at 31 December 2012	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and balances with Central Bank of Sri Lanka	6,925,859	-	-	-	-	-	6,925,859
Loans and 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	10,334,611	15,367,528	8,857,505	-	-	6,147,520
Total Assets	156,715,304	45,294,006	45,233,823	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	51,134,724	8,829,223	15,547,981	9,090,698	-	-	17,427,673
Total Shareholder Funds and Liabilities	156,715,304	34,157,348	46,620,726	44,725,231	5,389,173	15,050	25,568,628
Total Interest Sensitivity Gap	-	11,136,658	(1,386,903)	(15,950,250)	16,337,724	1,321,001	(11,602,481)

 $[\]ensuremath{^{**}}$ The Classifications are based on the way that ALCO monitors repricing gaps

	Total	On demand (Less than 15 days)	16 days- 3 Months	3 to 12 months	1to 5 years	Over 5 years	Non- interest bearing
Group-As at 31 December 2013	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and balances with Central Bank of Sri Lanka	6,558,560	-	-	-	-	-	6,558,560
Loans and Advances	82,012,736	34,349,383	17,120,547	9,565,361	16,703,125	1,199,401	3,074,918
Investments	48,350,872	4,834,877	10,763,054	25,193,482	9,095,590	213,245	(1,749,375)
Other	33,135,049	4,452,473	9,788,333	12,770,042	-	-	6,124,201
Total Assets	170,057,217	43,636,732	37,671,934	47,528,885	25,798,715	1,412,646	14,008,304
Liabilities							
Deposits	94,753,329	23,329,532	25,026,644	30,237,184	5,743,922	-	10,416,048
Borrowings	29,009,459	14,907,309	5,190,407	3,896,631	5,000,328	-	14,784
Other	48,247,473	4,001,478	7,022,706	13,440,116	-	-	23,783,173
Total Shareholder Funds and Liabilities	172,010,261	42,238,319	37,239,757	47,573,930	10,744,250	-	34,214,005
Total Interest Sensitivity Gap	-	1,398,413	432,177	(45,045)	15,054,465	1,412,646	(20,205,701)

 $[\]ensuremath{^{**}}$ The Classifications are based on the way that ALCO monitors repricing gaps

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.4 Market Risk (Contd.)

	Total	On demand (Less than 15 days)	16 days- 3 Months	3 to 12 months	1to 5 years	Over 5 years	Non- interest bearing
Group-As at 31 December 2012	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and balances with Central Bank of Sri Lanka	6,925,930	-	-	-	-	-	6,925,930
Loans and Advances	74,283,021	31,373,642	16,459,908	8,373,817	14,968,487	1,336,051	146,794,927
Investments	36,952,847	5,292,973	13,406,386	12,243,659	6,947,000	-	74,842,865
Other	41,070,736	10,462,411	15,367,528	8,857,505	-	-	75,758,180
Total Assets	159,232,534	47,129,026	45,233,823	29,474,981	21,915,487	1,336,051	304,321,902
Liabilities							
Deposits	84,694,556	17,535,840	27,601,696	28,148,170	3,387,220	15,050	161,382,532
Borrowings	22,699,655	9,105,916	3,971,049	7,486,363	2,001,953	-	45,264,936
Other	51,838,323	8,829,223	15,547,981	9,090,698	-	-	85,306,225
Total Shareholder Funds and Liabilities	159,232,534	35,470,979	47,120,726	44,725,231	5,389,173	15,050	291,953,693
Total Interest Sensitivity Gap	-	11,658,047	(1,886,903)	(15,250,250)	16,526,314	1,321,001	12,368,209

^{**} The Classifications are based on the way that ALCO monitors repricing gaps

The ALCO monitors the above gaps and the sensitivity on the income statement and equity for Sri Lanka Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the income statement and equity 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 Asset/ Liabilities	Increase / (Decrease) in basis points 2013	Sensitivity to Profit after Tax 2013 LKR '000	Bank Asset/ Liabilities	Increase / (Decrease) in basis points 2012	Sensitivity to Profit after Tax 2012 LKR '000
LKR	+100/-100	-6,424/+107	LKR	+100/-100	+32,067/-32,400
USD	+50/-50	-14,540/+14,658	USD	+50/-50	+1,187/-1,198

41.4 Market Risk (Contd.)

Group Asset/ Liabilities	Increase / (Decrease) in basis points 2013	Sensitivity to Profit after Tax 2013 LKR '000	Group Asset/ Liabilities	Increase / (Decrease) in basis points 2012	Sensitivity to Profit after Tax 2012 LKR '000
LKR	+100/-100	-6,819/+7,170	LKR	+100/-100	+28,540/-28,812
USD	+50/-50	-14,539/+14,658	USD	+50/-50	+1,187/-1,198

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 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
- Stop-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis and to ensure positions are maintained within established limits.

41. FINANCIAL RISK MANAGEMENT (CONTD.)

41.4 Market Risk (Contd.)

The table below indicates the currencies to which the Bank had material exposures at 31 December 2013. 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 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. The given below is the sensitivity related to trading position in the Domestic Banking Unit.

Currency	Change in Cur Rate in %	rency Change in Currency Rate in %	Effect on Profit tax	after Effect on Profit after tax
	2013	2012	2013 LKR 000'	2012 LKR 000'
USD	+5	+5	(6,030.8)	652.8
GBP	+5	+5	(120.0)	192.0
EUR	+5	+5	230.2	(117.8)
AUD	+5	+5	(141.4)	(130.2)
JPY	+5	+5	(14.6)	(25.3)
Other	+5	+5	154.6	75.5

In addition to above trading exposures, the Bank carries a structural position arising from the negative US dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to income statement from this exposure is as follows;

Currency	Change in Currency Rate in %	Change in Currency Rate in %	Effect on Profit after tax	Effect on Profit after tax
	2013	2012	2013 LKR 000'	2012 LKR 000'
USD	+5	+5	(13,819.5)	(14,261.8)

42 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 41)

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.

42.1 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.

42.2 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	
	2013 LKR '000	2012 LKR '000	2013 LKR. '000	2012 LKR '000
Capital Commitments for Property, Plant and Equipment				
Approved and Contracted for	83,763	106,027	83,763	107,613
Approved but not Contracted for	41,979	26,868	41,979	26,868
	125,742	132,895	125,742	134,481
Capital Commitments for Intangiable Assets				
Approved and Contracted for	10,348	120,930	10,348	124,764
Approved but not Contracted for	295,463	-	295,463	-
	305,811	120,930	305,811	124,764
	431,553	253,825	431,553	259,245

42 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (CONTD.)

42.3 Lease Arrangements

42.3.1 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	Bank	
	2013	2012	
	LKR '000	LKR '000	
Within One Year	165,627	123,172	
After One Year but not more than Five Years	437,654	399,566	
More than Five Years	14,622	19,099	
	617,903	541,837	

43 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2013 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 recommended the payment of a first and final dividend of LKR 2.10 per share for the year ended 31 December 2013.

44 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.

44.1 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.

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

Akkaraipathu

No. 210, Main Street, Akkaraipathu

Akuressa

No. 73, Matara Road, Akuressa

Aluthgama

No. 156, Galle Road, Aluthgama

Ambalangoda

No. 20, 5th Cross Street, Ambalangoda

Ambalantota

No 61, Main Street, Ambalantota

Anuradhapura

No. 249A, Maithripala Senanayaka Mawatha, Anuradhapura

Badulla

No. 10 Bank Road, Badulla

Balangoda

No. 86/A, Bans Ratwatte Mawatha, Balangoda

Bandaragama

No 18/2, Kalutara Road, Bandaragama

Bandarawela

No. 326, Badulla Road, Bandarawela

Battaramulla

No. 103 A, Pannipitiya Road, Battaramulla

Batticaloa

No. 29, Bar Road, Baticoloa

Boralesgamuwa

No. 36, Lake Road, Boralesgamuwa

Borella

No. 67, D.S. Senanayake Mawatha, Borella Colombo 8

Chillaw

No. 43, Kurunegala Road, Chillaw

Cinnamon Gardens

No. 4 A Independence Avenue, Colombo 07

City

No. 76 York Street, Colombo 01

Corporate

No. 242. Union Place. Colombo O2

Crescat

B 14, Basement, Crescat Boulevard, Galle Road, Colombo O3

Dehiwala

No. 163, Galle Road, Dehiwala

Deniyaya

No. 11, Main Street, Deniyaya

Embilipitiya

No. 70, New Town Road, Embilipitiya

Galle

No.16, Matara Road, Galle

Gampaha

No.112, Bauddhaloka Mawatha, Gampaha

Hambantota

No. 39, Main Road, Hambantota

Havelock Town

No. 100, Havelock Road, Colombo 05

Homagama

No. 113/A, High Level Road, Homagama

Horana

No. 192B, Ratnapura Road, Horana

Ja-ela

No. 176, Colombo Road, Ja-ela

Jaffna

No. 35, Stanley Road, Jaffna

Kadawatha

No. 25, Kandy Road, Kadawatha

Kaduruwela

No. 292, Sawmill Junction, Kaduruwela, Polonnaruwa

Kalmunai

No. 174, Baticaloa Road, Kalmunai

Service Network

Kandy

No. 147, Kotugodella Street, Kandy

Karapitiya

No 241, Hirimbura Road, Karapitiya

Katugastota

No. 146, Kurunegala Road, Katugastota

Kiribathgoda

No.69, Makola Road, Kiribathqoda

Kohuwala

No. 96/B, Dutugemunu Street, Kohuwela

Kollupitiya

No 314 RADe Mel Mawatha Colombo 03

Kotahena

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

Kuliyapitiya

No. 72 A, Hettipola Road, Kuliyapitiya

Kurunegala

No. 37, Puttalam Road, Kurunegala

Mahabage

No. 590, Negombo Road, Mahabage

Maharagama

No. 129, High Level Road, Maharagama

Malabe

No. 410/4, Athuruqiriya Road, Malabe

Matara

No. 56, Esplanade Road, Matara

Mathugama

No. 123/1, Agalawatta Road, Matugama

Millennium

No. 46/58, Nawam Mawatha, Colombo

Monaragala

No. 150, Wellawaya Road, Monaragala

Moratuwa

No. 89, New Galle Road, Moratuwa

Mt. Lavinia

No. 269, Galle Road, Mount Lavinia

Nawala

No. 267A, Nawala Road, Nawala

Negombo

No. 72A, Old Chilaw Road, Negombo

Nelliady

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

Nugegoda

No. 128, High Level Road, Nugegoda

Nuwara Elilya

No. 86, Kandy Road, Nuwara Eliya

Old Moor Street

No. 360, Old Moor Street, Colombo 12

Panadura

No. 229, Galle Road, Panadura

Peradeniya

No. 903/18, Royal Mall Shopping Complex,

William Gopallawa Mawatha, Kandy

Pettah

No. 244, Main Street, Pettah

Pettah 2

No. 54A, Bankshall Street, Colombo 11

Piliyandala

No. 30, Moratuwa Road, Piliyandala

Ratnapura

No. 189, Main Street, Ratnapura

Sri Sangaraja

No. 545 A, Sri Sangaraja Mawatha , Colombo 10

Thalawathuqoda

No. 755, Madiwela Road, Thalawathugoda

Trincomalee

No. 96, Main Street, Trincomalee

Vavuniya

No. 222, Kandy Road, Vavuniya

Ward Place (ODEL)

ODEL, No. 10, Ward Place, Colombo 07

Wattala

No. 492, Negombo Road, Wattala

Wellawatte

No. 292, Galle Road, Wellawatte

Wennappuwa

No. 289, Chilaw Road, Wennappuwa

OFF SITE ATMS

	No	Location	Address
	1	Hyde Park Corner	Arpico Super Centre, No. 69, Hyde Park Corner,Colombo 02
	2	Navinna	Arpico Super Centre, No. 310, High Level Road, Navinna, Maharagama
	3	Asiri Surgical Hospital	No. 21, Kirimandala Mawatha , Narahenpita
	4	Asiri Hospital Ltd	No. 181, Kirula Road, Narahenpita
	5	Attidiya	L & S Engineering (Pvt) Ltd, No. 208, Main Road, Attidiya
_	6	Borella Keells Super	No. 85, Dr N.M. Perera Mawatha, Colombo 08
_	7	Cinnamon Lakeside	No. 115, Sir Chitthampalam A Gardiner Mawatha, Colombo O2
	8	Dankotuwa	Dankotuwa Industrial Park, Bujjampola Road, Dankotuwa
_	9	Kaduwela	The Main Bus Stand, Awissawella Road, Kaduwela
	10	Ragama	Leesons Hospital, No. 32, Thewatta Road, Ragama
	11	Liberty Arcade	Liberty Arcade, Ground Floor, R.A. De Mel Mawatha, Colombo 03
	12	Miriswatta	Lanka Filling Station, No. 144, Kandy Road, Miriswatte, Mudungoda
	13	Moratumulla	Laughfs Sun-up Super Market, No. 289, De Zoyza Road, Molpe, Moratuwa
	14	Nadimala	Laughfs Sun-up Super Market, No. 288, Hill Sreet, Dehiwala
_	15	National Hospital of Sri Lanka	National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 10
_	16	Orion City	Orion Management Consortium Ltd, No. 752/1, Base Line Road, Colombo 09
_	17	Pitakotte	No. 338, Kotte Road, Pitakotte
	18	Rathmalana	Lanka Sathosa Ltd, Rathmalana Mega, Police trans Camp, No. 650/A, Galle Road, Rathmalana
_	19	Seeduwa	Laughfs Sun-up Super Market, No. 10, Kotugoda Road, Seeduwa
	20	Southern Express Way A	Canowin Arcade A, Southern Highway, Welipenna
	21	Southern Express Way B	Canowin Arcade B, Southern Highway, Welipenna
	22	World Trade Centre	Level 3, Westblock, World trade Centre, Echelon Square, Colombo O1
	23	Negombo	Keells Super, No. 41, Arch Bishop Nicholous Marcus Fernando Mawatha, Negombo
_	24	Kandana	Keells Super, No.176, Negombo Road, Nagoda, Kandana
_	25	Mount Lavinia	Keells Super, No. 388, Galle Road, Mount Lavinia
	26	Wattala	Keells Super, No. 385, Negombo Road, Wattala
	27	Rajagiriya	Keells Super, No. 475, Sri Jayawardenepura Road, Rajagiriya
	28	Processing Centre	No. 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15

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ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words a bill of exchange that has been accepted.

ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

AMORTIZATION

The systematic allocation of the depreciable amount of an asset over its useful life.

AMORTISED COST

The amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

AVAILABLE –FOR –SALE FINANCIAL ASSETS

Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

BILLS FOR COLL ECTION

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.

COMPOUNDED ANNUAL GROWTH RATE (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CAPITAL GAIN (CAPITAL PROFIT)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

CAPITAL RESERVES

Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act, No 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

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.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Consumer Banking business (Housing, personal, vehicle loans etc) are assessed on a portfolio basis.

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 expressed as a percentage of net Income

CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CORRESPONDENT BANK

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/ equity securities.

COST METHOD

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

COLLECTIVELY ASSESSED IMPAIRMENT

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

COMMERCIAL PAPER ('CP')

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

DEBT RESTRUCTURING / RESCHEDULING

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when

Glossary

consecutive payments are missed. Also known as 'Arrears'.

DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

DEFERRED TAXATION

Sum set aside for income tax in the Financial Statements that may become payable/receivable 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 (EPS)

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.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EQUITY RISK

The risk arising from positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or equity instruments.

EXPECTED LOSS ('EL')

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

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.

FINANCIAL ASSET

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

FINANCIAL LIABILITY

Is a contractual obligation to deliver cash or another financial asset to another entity

FINANCIAL GUARANTEE CONTRACT

Is a contract that requires the issuer to make specified payments toreimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

FINANCIAL INSTRUMENT

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FOREIGN EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

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.

GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfill 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.

GROUP

A group is a parent and all its subsidiaries.

HELD TO MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

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.

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.

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IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

INDIVIDUALLY ASSESSED IMPAIRMENT

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST IN SUSPENSE

Interest suspended on non-performing loans and advances.

INVESTMENT PROPERTIES

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITIES

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Corporate Banking business of the Group are assessed individually.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

KEY MANAGEMENT PERSONNEL

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

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.

LOAN LOSSES AND PROVISIONS

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

LOSS GIVEN DEFAULT ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

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.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

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 (NII)

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.

NON-PERFORMING ADVANCES (NPA)

All loans are classified as nonperforming when a payment is 90 days in arrears.

NON-PERFORMING ADVANCES COVER (NPA COVER)

Cumulative loan loss provision as a percentage of total Non-Performing Advances (net of Interest in Suspense).

NPA RATIO

Total non-performing advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

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.

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

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.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

PROBABILITY OF DEFAULT ('PD')

The probability that an obligor will default within a one-year time horizon.

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.

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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.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different qeographical 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).

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

SWAPS (CURRENCY)

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

SHARE PREMIUM

Amount paid by a shareholder, over and above the par value of a share.

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.

TOTAL CAPITAL

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

VALUE ADDED

Value of wealth created by providing banking and other related services less the cost of providing such services.

YIELD TO MATURITY

Discount rate at which the present value of future payments would equal the security's current price.

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

21st 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 (lka) 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

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

Ms. R. N. K. Fernando

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. I. 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

	Notes		
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Notice of Meeting

Notice is hereby given that the Fifteenth Annual General Meeting of Nations Trust Bank PLC will be held on 31st March, 2014 at 10.30 a.m. at the Auditorium of the Ceylon Chamber of Commerce, No. 50 Nawam Mawatha, Colombo 2.

The business to be brought before the meeting will be:

- 1. To read the notice convening the Meeting.
- 2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December, 2013 with the Report of the Auditors thereon.
- 3. To declare a first and final dividend of LKR 2.10 per share on the ordinary shares of the Company.
- To re-elect Dr. Dushni Weerakoon who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
- To re-elect Mr. Murtaza Jafferjee who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
- To re-elect Dr. Kemal de Soysa, who
 retires by rotation at the Annual
 General Meeting as a Director
 pursuant to Article 27 of the Articles of
 Association of the Company.

- 7. To reappoint Auditors and to authorise the Directors to determine their remuneration.
- 8. To authorise the Directors to determine and make donations
- 9. 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 24 February 2014

Form of Proxy

1/	We			0
		be	ring a membe	er/members o
Ν	ations Trust Bank PLC., hereby appoint	of	or1	failing him/he
	Mr. A. K. Gunaratne	orfailir	ng him	
	Mr. M. E. Wickremesinghe	or failir	-	
	Mr. A. R. Rasiah	or failir	-	
	Dr. Dushni Weerakoon	or failir	ng her	
	Mr. K. N. J. Balendra	or failir	-	
	Mr. M. Jafferjee	or failir	-	
	Dr. Kemal De Soysa	or failir	-	
	Mr. D. P. De Silva	or failir	9	
	Ms. N. S. Panditaratne	or failir	9	
	Mr. K. O. V. S. M. S. Wijesinghe Mr. C. H. S. K. Piyaratna	or failir or failir	-	
	Ms. R. N. K. Fernando	UI Tallii	iy iluli	
	he Proxy may vote as he/she thinks fit on any other resolution brought before the meeting an witness I/we placed my/our hand/s hereto on this		behalf at the	meeting.
Si	gnature/s			
Pl	lease indicate with a (\checkmark) 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 Statem for the period ended 31st December 2013 with the Report of the Auditors thereon.	nent of Accounts		
2.	To declare a first and final dividend of LKR 2.10 per share on the ordinary shares of	f the Company.		
3.	To re-elect Dr. Dushni Weerakoon, who retires by rotation at the Annual General Mas a Director pursuant to Article 27 of the Articles of Association of the Company .	eeting		
4.	To re-elect Mr. Murtaza Jafferjee , who retires by rotation at the Annual General M as a Director pursuant to Article 27 of the Articles of Association of the Company.	leeting		
5.	. To re-elect Dr. Kemal de Soysa , who retires by rotation as a Director of the Compar pursuant to Article 27 of the Articles of Association of the Company.	ny		
6.	. To reappoint Auditors and to authorise the Directors to determine their remunerati	ion.		
7.	To authorise the Directors to determine and make donations.			

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			

