



**HATTON NATIONAL BANK PLC**

**Issue of 20,000,000 Senior, Listed, Unsecured, AA- Rated, Redeemable,  
Ten year (2013/2023) Debentures of LKR 100 each**

**In case of oversubscription of the initial 20,000,000 Debentures, there will be an  
option to issue a further 10,000,000, totalling up to a maximum of 30,000,000  
Debentures**

**To be listed on the Main Board of the Colombo Stock Exchange**

**Issue opens on 23 August 2013**

**This Prospectus is dated 12 August 2013.**

**The CSE has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of the Debentures issued herein.**

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

**If you are in doubt regarding the contents of this document or if you require any clarification or advice in this regard, you should consult the Managers to the issue, your stockbroker, lawyer or any other professional advisor.**

## **Responsibility for the Content of the Prospectus**

### **This Prospectus is dated 12 August 2013.**

This Prospectus has been prepared by Capital Alliance Partners Limited on behalf of Hatton National Bank PLC). Hatton National Bank PLC (hereinafter referred to as "HNB" or the "Company") and its Directors confirm that to the best of their knowledge and belief this Prospectus contains all information regarding the Company and Debentures offered herein which is material; such information is true and accurate in all material aspects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Company are honestly held or made and are not misleading in any material respect; this Prospectus contains all material facts and presents them in a clear fashion in all material respects and all proper inquiries have been made to ascertain and to verify the foregoing. The Company accepts responsibility for the information contained in this Prospectus.

No person has been sanctioned to make any representations not contained in this Prospectus in connection with this Offer for Subscription of the Company's Debentures. If such representations are made, they must not be relied upon as having been authorised. Neither the delivery of this Prospectus nor any sale made in the Offering shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this Prospectus or in the affairs of the Company since the date of this Prospectus.

Investors should be informed that the value of investments can vary and that past performance is not necessarily indicative of future performance. In making such investment decisions, prospective investors must rely on their knowledge, examination and assessments on HNB and the terms of the Debentures issued (knowledge, perception together with their own examination and assessment on HNB and the terms and conditions of the Debentures issued) including risks associated.

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

### **Registration of the Prospectus**

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

- 1) The written consent by the Managers to the Issue, Lawyers to the Issue, Bankers to the Issue, Auditors and Reporting Accountants to the Issue, Trustees to the Issue and Registrar to the Issue for the inclusion of their respective names in this Prospectus.
- 2) The written consent by the Auditors to the Issue and the lawyers to the Company to include their respective names in the Prospectus.

- 3) A declaration by each of the Directors of the Company in terms of the Companies Act and confirming that each of them have read the provisions of the Companies Act and CSE Listing Rules relating to the issue of a Prospectus and that those provisions have been complied with.
- 4) The said Managers to the Issue, Lawyers to the Issue, Bankers to the Issue, Auditors and Reporting Accountants to the Issue, Trustees to the Issue, and Registrar to the Issue have not, before the delivery of a copy of the Prospectus for registration with the Registrar General of Companies in Sri Lanka withdrawn such consent.

### **Registration of the Prospectus in Jurisdictions Outside of Sri Lanka**

This Prospectus has not been registered with any authority outside of Sri Lanka. Non-resident investors may be affected by the laws of the jurisdiction of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making the investment.

### **Investment Considerations**

It is important that this Prospectus is read carefully prior to making an investment decision. For information concerning certain risk factors, which should be considered by prospective investors, see "Investment Considerations and Associated Risks" in Section 11.0 of this Prospectus.

### **Forward Looking Statements**

Any statements included in this Prospectus that are not statements of historical fact constitute "Forward Looking Statements". These can be identified by the use of forward looking terms such as "expect", "anticipate", "intend", "may", "plan to", "believe", "could" and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all or any statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Company operates and its ability to respond to them, the Company's ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, interest rate volatilities, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Company.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

Given the risks and uncertainties that may cause the Company's actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Prospectus, investors are advised not to place sole reliance on such statements.



## ISSUE AT A GLANCE

<b>Instrument</b>	Senior, Listed, Unsecured, Redeemable, AA- Rated Debentures
<b>Rating</b>	AA- by Fitch Ratings Lanka Limited
<b>Number of Debentures to be Issued</b>	20,000,000 (Twenty Million) Debentures with an option to issue further 10,000,000 (Ten Million) Debentures totalling up to a maximum of 30,000,000 (Thirty Million) Debentures
<b>Aggregate Face Value of the Issue</b>	LKR2,000,000,000 (Rupees Two Billion) with the option to increase by a further LKR1,000,000,000 (Rupees One Billion), totalling up to a maximum of LKR3,000,000,000 (Rupees Three Billion)
<b>Total Investment Value of the Issue</b>	LKR1,354,300,000 (Rupees One Billion Three Hundred Fifty Four Million Three Hundred Thousand) with the option to raise further LKR677,150,000 (Rupees Six Hundred Seventy Seven Million One Hundred Fifty Thousand), totalling up to a maximum of LKR2,031,450,000 (Rupees Two Billion Thirty One Million Four Hundred Fifty Thousand)
<b>Face Value of each Debenture</b>	LKR100.00
<b>Issue Price of each Debenture</b>	LKR67.715
<b>Tenure of Debentures</b>	10 years (2013/2023)
<b>Interest Rates</b>	Fixed Coupon Rate of 8.00% p.a. payable Annually (AER – 14.25%)
<b>Minimum subscription amount</b>	Minimum subscription per application is 10,000 debentures (LKR677,150/-) Applications exceeding the minimum subscription should be in multiples of 10,000 debentures (LKR677,150/-).
<b>Issue Opening Date</b>	23 August 2013. However, applications may be submitted forthwith
<b>Issue Closing Date</b>	11 September 2013 or such earlier date on which the initial 20,000,000 Debentures are fully subscribed, unless otherwise the company decides to keep the subscription open until a further 10,000,000 Debentures or part thereof as may be decided by the Company are subscribed in terms of this Prospectus. (Refer section 5.15)
<b>Basis of Allotment</b>	50% of the issue value will receive preferential allotment with the remaining amount being allotted at the discretion of the Board of Directors within seven (7) market days from the date of closure
<b>Taxation</b>	Exempted from Withholding Tax and Corporate Income Tax

# Contents

<b>1.0</b>	<b>CORPORATE INFORMATION .....</b>	<b>8</b>
<b>2.0</b>	<b>RELEVANT PARTIES TO THE ISSUE .....</b>	<b>9</b>
<b>3.0</b>	<b>ABBREVIATIONS USED IN THE PROSPECTUS .....</b>	<b>10</b>
<b>4.0</b>	<b>GLOSSARY OF TERMS RELATED TO THE ISSUE.....</b>	<b>11</b>
<b>5.0</b>	<b>ISSUE DETAILS .....</b>	<b>12</b>
5.1	ISSUE SUMMARY .....	12
5.2	OBJECTIVES OF THE ISSUE .....	12
5.3	NATURE OF THE NEW DEBENTURES .....	13
5.4	SIZE OF THE ISSUE .....	13
5.5	INTEREST RATE .....	13
5.6	LISTING .....	13
5.7	PAYMENT OF PRINCIPAL AND INTEREST .....	14
5.8	REDEMPTION .....	14
5.9	TRUSTEES TO THE OFFERING.....	15
5.10	COST OF THE ISSUE .....	15
5.11	BROKERAGE.....	15
5.12	RIGHTS OF DEBENTURE HOLDERS.....	15
5.13	CREDIT RATING .....	16
5.14	TRANSFER OF DEBENTURES .....	16
5.15	SUBSCRIPTION LIST AND CLOSURE DATE .....	16
5.16	INSPECTION OF DOCUMENTS.....	17
<b>6.0</b>	<b>APPLICATION PROCEDURE.....</b>	<b>18</b>
6.1	ELIGIBLE APPLICANTS .....	18
6.2	APPLICATION METHODOLOGY.....	18
6.3	PAYMENT OF APPLICATION MONIES .....	21
6.4	REJECTION OF APPLICATIONS .....	25
6.5	BANKING OF PAYMENTS.....	25
6.6	RETURNING OF MONIES OF REJECTED APPLICATIONS.....	25
6.7	ALLOTMENT OF DEBENTURES IN ISSUE / BASIS OF ALLOTMENT.....	26
6.8	REFUNDS ON APPLICATIONS.....	26
6.9	SUCCESSFUL APPLICANTS AND CDS LODGEMENT.....	27
6.10	DECLARATION TO THE CSE AND SECONDARY MARKET TRADING .....	28
<b>7.0</b>	<b>INDUSTRY OVERVIEW –BANKING INDUSTRY .....</b>	<b>29</b>
7.1	SRI LANKA’S BANKING SECTOR IN 2012 .....	29
7.2	CHANGES TO FINANCIAL REPORTING STANDARDS .....	30
<b>8.0</b>	<b>HATTON NATIONAL BANK PLC .....</b>	<b>31</b>
8.1	THE COMPANY .....	31
8.2	GROUP STRUCTURE.....	32
8.3	BUSINESS ACTIVITIES OF HNB .....	32
8.4	AWARDS .....	33
8.5	FINANCIAL PERFORMANCE OF HNB .....	34
8.6	CAPITAL ADEQUACY.....	37
8.7	MATURITY PROFILE OF ASSETS AS AT 31 MARCH 2013 .....	37
8.8	DETAILS OF BORROWINGS AS AT 31 MARCH 2013.....	38
<b>9.0</b>	<b>OTHER INFORMATION ON HATTON NATIONAL BANK PLC .....</b>	<b>39</b>
9.1	TOP TEN SHAREHOLDERS OF THE COMPANY AS AT 30 JUNE 2013 .....	39
9.2	STATED CAPITAL .....	39
9.3	HUMAN RESOURCES .....	40

9.4	DIVIDEND POLICY.....	40
9.5	WORKING CAPITAL .....	41
9.6	TAKEOVER OFFERS .....	41
9.7	DEGREE OF DEPENDENCE ON KEY CUSTOMERS AND SUPPLIERS.....	41
9.8	TAXATION.....	41
9.9	LITIGATION, DISPUTES AND CONTINGENT LIABILITIES .....	41
9.10	DETAILS OF PENALTIES IMPOSED BY REGULATORY AND STATE AUTHORITIES .....	41
9.11	DETAILS OF COMMISSIONS AND BENEFITS PAID .....	42
9.12	MATERIAL CONTRACTS .....	42
9.13	TRANSACTIONS RELATED TO PROPERTY .....	42
9.14	DETAILS OF MANAGEMENT AGREEMENTS .....	42
9.15	CORPORATE GOVERNANCE PRACTICES .....	42
<b>10.0</b>	<b>DIRECTORS AND KEY MANAGEMENT.....</b>	<b>44</b>
10.1	THE BOARD OF DIRECTORS OF HNB .....	44
10.2	PROFILES OF THE BOARD OF DIRECTORS .....	44
10.3	DIRECTORS' DIRECT SHAREHOLDINGS IN THE COMPANY.....	48
10.4	DIRECTORS' EMOLUMENTS .....	48
10.5	DIRECTORS' INTERESTS IN ASSETS.....	48
10.6	DIRECTORS' INTERESTS IN CONTRACTS .....	48
10.7	STATEMENT – BOARD OF DIRECTORS.....	49
10.8	KEY MANAGEMENT .....	49
10.9	KEY MANAGEMENT'S EMOLUMENTS.....	51
10.10	STATEMENT – MANAGING DIRECTOR/ CHIEF EXECUTIVE OFFICER .....	51
<b>11.0</b>	<b>INVESTMENT CONSIDERATION AND ASSOCIATED RISKS.....</b>	<b>52</b>
11.1	RISKS RELATED TO THE BUSINESS .....	52
11.2	RISKS RELATED TO THE DEBENTURES OF HNB.....	55
11.3	FUTURE PLANS OF HNB AND THE RISKS ASSOCIATED WITH THE FUTURE PLANS.....	57
11.4	ASSUMPTIONS ON FUTURE PLANS OF HNB .....	57
<b>12.0</b>	<b>FINANCIAL STATEMENTS AND AUDITORS' REPORT .....</b>	<b>58</b>
12.1	ACCOUNTANTS REPORT FOR INCLUSION IN THE PROSPECTUS .....	58
12.2	FIVE YEAR SUMMARY OF FINANCIAL STATEMENTS.....	64
12.3	INTERIM FINANCIAL STATEMENTS FOR THE 3M ENDED 31 MARCH 2013 .....	66
12.4	AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 .....	80
<b>ANNEX I – STATUTORY DECLARATIONS.....</b>		<b>199</b>
	STATUTORY DECLARATION BY THE DIRECTORS.....	199
	STATUTORY DECLARATION BY MANAGERS TO THE ISSUE.....	200
	STATUTORY DECLARATION BY THE COMPANY.....	200
<b>ANNEX II – CREDIT RATING REPORT .....</b>		<b>201</b>
<b>ANNEX III – COLLECTION POINTS.....</b>		<b>203</b>
<b>ANNEX IV – CUSTODIAN BANKS.....</b>		<b>206</b>

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## 1.0 CORPORATE INFORMATION

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<b>The Company</b>	Hatton National Bank PLC
<b>Legal Form of the Company</b>	Hatton National Bank PLC is a listed company domicile in Sri Lanka re-registered under the Companies Act No. 7 of 2007 and registered as a Licensed Commercial Bank under the Banking Act No. 30 of 1988.
<b>Year of Incorporation</b>	1970
<b>Company Registration No.</b>	PQ 82 (previous PBS 613)
<b>Registered/ Business Office</b>	Hatton National Bank PLC, HNB Towers, No.479, T.B. Jayah Mawatha, Colombo 10. T: +94 11 2664664/2662772/4764764 F: +94 11 2662814/2882832 E: <a href="mailto:moreinfo@hnb.net">moreinfo@hnb.net</a> W: <a href="http://www.hnb.net">www.hnb.net</a>
<b>Company Secretary</b>	Ms. K A L Thushari Ranaweera, Attorney-at-Law & Notary Public, No. 479, T. B. Jayah Mawatha, Colombo 10. T: +94 11 2661804 F: +94 11 2662825
<b>Auditors to the Company</b>	KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, No. 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03. T: +94 11 2426426/542 6426 F: +94 11 2445872/2446058/2541249
<b>Credit Rating Agency</b>	Fitch Ratings Lanka Ltd, 15-04, East Tower, World Trade Centre, Colombo 01. T: +94 11 2541900 F: +94 11 2541903
<b>Board of Directors</b>	Dr. Ranee Jayamaha (Chairperson) Mr. A J Alles (Managing Director/CEO) Ms. M A R C Cooray Dr. Willie W. Gamage Dr. L R Karunaratne Mr. L U D Fernando Mr. D T S H Mudalige Miss. D S C Jayawardena Mr. R S Captain

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## 2.0 RELEVANT PARTIES TO THE ISSUE

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<b>Managers to the Issue</b>	Capital Alliance Partners Limited Level 5, Millennium House 46/58, Navam Mawatha Colombo 02. Tel: +94 11 2317777 Fax: +94 11 2317788
<b>Lawyers to the Issue</b>	HNB Legal Department, HNB Towers, No.479, T.B. Jayah Mawatha, Colombo 10. T: +94 11 2664664/4764764/2661804 F: +94 11 2662831
<b>Auditors and Reporting Accountants to the Issue</b>	KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, No. 32A, Sir Mohamed Macan Markar Mawatha, Colombo 03. T: +94 11 2426426/542 6426 F: +94 11 2445872/2446058/2541249
<b>Registrar to the Issue</b>	SSP Corporate Services (Pvt) Limited, No. 101, Inner Flower Road, Colombo 03. T: +94 11 2573894 F: +94 11 2573609
<b>Trustee to the Issue</b>	Deutsche Bank AG – Colombo Branch, 86, Galle Road, Colombo 03. Tel: +94 11 2447062 Fax: +94 11 2447067
<b>Bankers to the Issue</b>	Hatton National Bank PLC, HNB Towers, No.479, T.B. Jayah Mawatha, Colombo 10. T: +94 11 2664664/2662772/4764764 F: +94 11 2662814/2882832

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### 3.0 ABBREVIATIONS USED IN THE PROSPECTUS

Abbreviation	Description
ATS	Automated Trading System
AWPLR	Average Weighted Prime Lending Rate
CAL	Capital Alliance Partners Ltd
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Private) Limited
CSE	Colombo Stock Exchange
FY	Financial Year
GDP	Gross Domestic Product
GoSL	Government of Sri Lanka
HNB	Hatton National Bank PLC
LCB	Licensed Commercial Bank
LSB	Licensed Specialised Bank
NIC	National Identity Card
NRFC	Non-resident Foreign Currency
POA	Power of Attorney
RANSI	Rupee Account for Non-resident Sri Lankan Investment
RGFCA	Resident Guest Foreign Currency Account
Rs./LKR	Sri Lankan Rupees
SAFE	South Asian Federation of Exchanges
SEC	Securities and Exchange Commission
SIA	Securities Investment Account
SLC	Specialised Leasing Company
SLIPS	Sri Lanka Inter-bank Payment System
USD	US Dollar
VAT	Value Added Tax
WFE	World Federation of Exchanges
WHT	Withholding Tax
YoY	Year on Year

## 4.0 GLOSSARY OF TERMS RELATED TO THE ISSUE

<b>Applicant/s</b>	Any investor who submits an Application Form under this Prospectus
<b>Application Form/Application</b>	The application form that constitutes part of this Prospectus through which the investors may apply for the Debentures in issue
<b>Board/Board of Directors/Directors</b>	The Board of Directors of HNB
<b>Closure Date</b>	The date of closure of the subscription list as set out in Section 5.15 of this Prospectus
<b>Debentures</b>	The, Senior, Listed, Rated, Unsecured Redeemable, 10 year (2013/2023) Debentures to be issued pursuant to this Prospectus
<b>Fitch</b>	Fitch Ratings Lanka Ltd
<b>Interest Payment Date</b>	<p>The dates on which the interest payment shall fall due in respect of the Debentures, being annually at the expiration of every Twelve (12) month period commencing from the Date of Allotment of the Debentures and thereafter annually on such date and month.</p> <p>The final interest payments shall be made with the repayment of the Principal Sum on the Date of Maturity/Redemption of the Debentures.</p>
<b>Interest Period</b>	The period between two interest payment dates, which is inclusive of the interest payment date and the date immediately preceding the next interest payment date
<b>Local Time</b>	Sri Lanka Time
<b>Market Day</b>	Any day on which CSE is open for trading
<b>Redemption</b>	The repayment of Principal at maturity together with any interest accruing up to that time
<b>Prospectus</b>	This Prospectus dated 12 August, 2013 issued by HNB
<b>Senior</b>	In relation to the Debentures means that the claims of the Debenture holders shall in the event of winding up of the company rank in priority to the subordinated creditors of the Company but after the secured creditors of the Company and the preferential claims under Section 365 of the Companies Act No.07 of 2007, and also in priority to and over the claims and rights of the shareholders of the Company
<b>Trust Deed</b>	Trust Deed dated 18 July 2013 between Hatton National Bank PLC and Trustee
<b>The Company/ Issuer/ HNB</b>	Hatton National Bank PLC
<b>Unsecured</b>	The Debentures will not be secured by any specific assets of the Company

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## 5.0 ISSUE DETAILS

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### 5.1 Issue Summary

Board of Directors of Hatton National Bank PLC (hereinafter called The Company or HNB) on 7 May 2013 resolved to borrow from the public, Rupees One Billion Three Hundred Fifty Four Million Three Hundred Thousand (LKR1,354,300,000) with the option to raise further Rupees Six Hundred Seventy Seven Million One Hundred Fifty Thousand (LKR677,150,000), totalling up to a maximum of Rupees Two Billion Thirty One Million Four Hundred Fifty Thousand (LKR2,031,450,000) by way of issuing Senior, Listed, Rated, Unsecured, Redeemable, Ten (10) year (2013/2023) Debentures as outlined in this Prospectus.

The Debentures will carry a Fixed Coupon Rate of 8.00% p.a. payable Annually, issued at a discounted price of LKR67.715 per each Debenture and redeemed at par at LKR100.00.

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

The face value shall be Rupees Two Billion (LKR2,000,000,000) with the option to raise a further Rupees One Billion (LKR1,000,000,000), which will result in a cumulative face value of a maximum of Rupees Three Billion (LKR3,000,000,000).

The investment value shall be Rupees One Billion Three Hundred Fifty Four Million Three Hundred Thousand (LKR1,354,300,000) with the option to raise a further Rupees Six Hundred Seventy Seven Million One Hundred Fifty Thousand (LKR677,150,000), which will result in a cumulative investment value of a maximum of Rupees Two Billion Thirty One Million Four Hundred Fifty Thousand (LKR2,031,450,000).

Public could subscribe for any number (subject to the minimum subscription and the maximum issue value) of Debentures mentioned below.

The minimum subscription would be Rupees Six Hundred Seventy Seven Thousand One Hundred Fifty (LKR677,150) and thereafter in multiples of Rupees Six Hundred Seventy Seven Thousand One Hundred Fifty (LKR677,150).

### 5.2 Objectives of the Issue

The funds raised by this Debenture offering will be utilized for the on-going lending activities of HNB as part of its normal course of business in the following manner:

- Reduce the mismatch between the assets and liabilities on the balance sheet and therefore reduce the interest rate risk of the Company by way of debentures carrying a fixed interest rate
- Lock in long term guaranteed funding

This issue is carried out immediately following a Five-year Unsecured, Subordinated, Redeemable Debenture issue for LKR4b, and differs from that in the following manner.

- The concluded Debenture issue involved Subordinated Debentures, issued to meet Tier II capital requirements, while this issue involved Senior Debentures



- This Debenture issue targets a different investor segment given its longer tenure and locks in funding for a longer horizon than the previous issue

### **5.3 Nature of the New Debentures**

This issue of Twenty Million (20,000,000) Senior, Listed, Rated, Unsecured, Redeemable, Ten (10) year (2013/2023) Debentures, with Fixed Coupon Rate of 8.00% p.a. payable Annually; and in the event of an over subscription a further amount of Debentures to be issued not exceeding Ten Million (10,000,000) and shall be issued at a discount at LKR67.715 per each Debenture and redeemed at par at LKR100.00 each.

### **5.4 Size of the Issue**

If the Twenty Million (20,000,000) Debentures are fully subscribed and the option of increasing it by an additional Ten Million (10,000,000) Debentures is exercised (and fully subscribed), the Issue would consist of Thirty Million (30,000,000) Debentures in total and would raise Rupees Two Billion Thirty One Million Four Hundred Fifty Thousand (LKR2,031,450,000) [Par value of Rupees Three Billion (LKR3,000,000,000)].

### **5.5 Interest Rate**

10 Year (2013/2023) Debentures with a Fixed Coupon Rate of 8.00% p.a. payable Annually (AER-14.25%). The interest payments in respect of the above Debentures will be as follows:

The annual interest payment would fall on the expiry of every twelve (12) months from the Date of Allotment of the Debentures until the Date of Redemption and will be payable within three (3) market days from the due date.

The first interest payment in respect of the Debentures shall fall due on the date of expiry of twelve (12) months from the Date of Allotment.

The final interest payment will be paid with the Principal Sum on the Date of Maturity/Redemption of the Debentures.

The interest calculation will be based upon the actual number of days in each interest payment period (Actual / Actual).

In order to accommodate the Debenture Interest cycles in the Automated Trading System (ATS), interest payments shall not include the Debenture holders holding Debentures in the ATS as at the last day of the Payment Cycle (Annually), but one day prior to the due date of interest (entitlement date). If the entitlement date is a holiday, interest shall be calculated including the entitlement date.

### **5.6 Listing**

An Application has been made to the CSE for permission to deal in and obtain a quotation on the Main Board and has been approved in principle for these Senior, Listed, Unsecured, Rated, Redeemable Debentures at a par value of LKR100/- each, all of which are offered to the public by way of this Debenture issue.

**The CSE however, assumes no responsibility for the correctness of the statements made or opinions expressed or reports included in this Prospectus. A Listing on the CSE is not to be taken as an indication of the merits of HNB or of the Debentures issued.**

## **5.7 Payment of Principal and Interest**

Payment of principal and interest will be made in Sri Lankan Rupees after deducting any taxes and charges thereon (if any) to the debenture holders registered as at the date of payment (in case of joint debenture holders, the payment will be made to the one whose name stands first in the Register of Debenture Holders) to the address registered with the CDS through register post to the debenture holder, by crossed cheques marked "Account Payee Only". Interest payable will be made only by cheques within three (3) market days from the end of each period.

At maturity/redemption, the payment of principal along with the balance interest payment due will be made by cheques only.

But if prior arrangements are made with Debenture holders, an electronic fund transfer mechanisms recognized by the banking system of Sri Lanka such as RTGS and SLIPS will be used for payment of principal and interest.

## **5.8 Redemption**

The Debentures are redeemable at the maturity on the expiry of ten (10) years from the Date of Allotment in accordance with the provisions contained in the Trust Deed.

Notwithstanding the foregoing, these Debentures may be redeemed by the Company prior to maturity in accordance with Clause 14.2 of the Trust Deed which provides for the Company to prepay the Debentures before the date of redemption of the Principal sum subject to the approval of 3/4<sup>th</sup> of the face value of the Debentures outstanding, at a price mutually agreed between the Company and the Debenture holders.

The debenture holders shall not have any right or option to call for redemption of the Debentures before the date of maturity of such debentures, except in the circumstances where the Debentures have become immediately payable in terms of Clause 11 of the Trust Deed, and shall be redeemed subject to the approval of 3/4<sup>th</sup> of the face value of the Debentures outstanding, at a price mutually agreed between the Company and the Debenture holders.

On the date of maturity/ redemption of the Debentures, the Company shall in accordance with the provisions contained in the Trust Deed pay to the Debenture holders the principal sum of the Debentures which ought to be redeemed and interest (if any) remaining unpaid up to the date of maturity/ redemption of the Debenture.

If the date of maturity/ redemption falls on a non-working day on which the Banks are closed for business in Sri Lanka and CSE holidays, then the Debentures shall be redeemed on the subsequent market day of the date of maturity/redemption, with no interest on interest payable for the interim period.

## 5.9 Trustees to the offering

Deutsche Bank AG – Colombo Branch of 86, Galle Road, Colombo 03 has agreed in writing to act as the Trustee to the debenture issue and has issued a consent letter to this effect. The Company has entered into an agreement with the Trustee (hereinafter called the “Trust Deed”). Debenture holders in their application for subscription will be required irrevocably to authorize the Trustee, subject to overriding clauses in the Trust Deed, to act as their agents in entering into such deeds, writings, instruments with the Company and to act as agents and Trustees for the debenture holders in order to facilitate the protection of the debenture holders investment and return.

The rights and obligations of the Trustee are set out in the Trust Deed, a copy of which is available for inspection as mentioned in Section 5.16 of this Prospectus. The Debentures shall be subject to the terms and conditions and confer such rights as are incorporated in the said Trust Deed.

## 5.10 Cost of the Issue

The directors estimate that the total cost of the issue including the Listing fee, Trustee fee, Brokerage, Printing, Marketing, Managers and Registrars fees and other costs connected with the issue will be approximately LKR20 Million and will be funded by Hatton National Bank PLC.

## 5.11 Brokerage

Brokerage at the rate of 0.25% per cent of the nominal value of the Debentures will be paid in respect of the number of debentures allotted on applications bearing the stamp of any member and trading member of the CSE and any agent appointed by the Company.

## 5.12 Rights of Debenture holders

### ***Debenture holders are entitled to the following rights***

- Receive principal on the date of maturity/redemption and interest on the Debentures as per Sections 5.5, 5.7 and 5.8 of this prospectus and the provisions contained in the Trust Deed.
- In accordance with the Listing rules of the CSE, receiving audited financial statements of the Company within a period not exceeding five (5) months from the close of each financial year. The Audited accounts will be sent in CD form, unless a specific request for a hard copy is received by the Company.
- In the event of liquidation, rank above the ordinary voting and non-voting shareholders and preference shareholders of the Company.
- Call, receive notice, attend and vote at the meetings of the Debenture holders in accordance with the provisions contained in the Trust Deed.
- The other rights of the holders of these Debentures are set out in the Trust Deed.

### ***Debenture holders are NOT entitled to the following rights***

- Attending and voting at meetings of holders of shares and other types of debentures
- Sharing in the profits of the Company
- Participating in any surplus in the event of liquidation

### ***Obligations on the Debentures***

- The Company shall repay the principal sum on the date of maturity/redemption and

interest on the Debentures as per Section 5.5, 5.7 and 5.8 of this Prospectus and the provisions contained in the Trust Deed and comply with all other terms and conditions stipulated in the Trust Deed in respect of these Debentures.

- When making payment of the principal sum and interest on the Debentures, the Company shall always act on the information furnished by the CDS and it shall be the responsibility/ obligation of each Debenture holder to keep all the information in respect of such Debenture holder updated in the CDS. Each Debenture Holder shall absolve the Company from any responsibility or liability in respect of any error or absence of necessary changes in the information recorded with the CDS. In addition the Debenture Holder shall absolve CDS and CSE from any responsibility or liability in respect of any error or absence of any necessary changes initiated by the Debenture Holder in the information recorded with the CDS.

### **5.13 Credit Rating**

Fitch Ratings Lanka Ltd has assigned AA- rating to the Company's Unsecured, Senior, Listed, Rated, Redeemable ten year (2013/2023) Debentures. The rating report issued by Fitch Ratings is set out in Annexure II of this Prospectus.

### **5.14 Transfer of Debentures**

- These Debentures shall be freely transferable and transmittable through the CDS as long as the Debentures are listed in the CSE and the registration of such transfer shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.
- Subject to provisions contained in the Trust Deed, the Company may register without assuming any liability any transfer of Debentures, which are in accordance with the statutory requirements and rules and regulations in force for the time being as laid down by the CSE, SEC and the CDS
- In the case of the death of a Debenture holder
  - The survivor where the deceased was a joint holder; and
  - The executors or administrators of the deceased (or where the administration of the estate of the deceased is in law not compulsory, the heirs of the deceased) where such Debenture holder was the sole or only surviving holder; shall be the only persons recognized by the issuer as having any title to his/her Debentures.
- Any person becoming entitled to any Debenture in consequence of bankruptcy or winding up of any Debenture holder, upon producing proper evidence that such debenture holder sustains the character in respect of which such debenture holder proposes to act or such debenture holder's title as the Board of Directors of the Company thinks sufficient, may at the discretion of the Board be substituted and accordingly, registered as a Debenture holder in respect of such Debentures subject to the applicable laws, rules and regulations of the Company, CDS, CSE and SEC.
- No change of ownership in contravention of the above conditions will be recognised by the Company.

### **5.15 Subscription List and Closure Date**

The subscription list for the Senior, Listed, Unsecured, Rated, Redeemable, Ten (10) year (2013/2023) Debentures pursuant to this Prospectus will open at 9.00 a.m. on 23 August 2013

and shall remain open for fourteen (14) market days until closure at 4.30 p.m. on 11 September 2013.

However, in the event of an over subscription of the Twenty Million (20,000,000) Debentures, the subscription list will close at 4.30 p.m. on the same day on which it is fully subscribed, with the notification of CSE, unless otherwise decided by the Company to keep the Subscription List open until subscription of a further Ten Million (10,000,000) Debentures or part thereof as may be decided by the Company.

In such event, the Subscription List will close at 4.30 p.m. on the day on which a further Ten Million (10,000,000) Debentures or part thereof as may be decided by the Company have been subscribed, with the notification of the CSE or on 11 September 2013 whichever is earlier.

Applications may however be made forthwith in the manner set out in Section 6.0 and accordingly, duly completed application forms will be accepted from (Applications available dates), by Managers to the issue, Registrars to the Issue or by any member / trading member firm of the CSE as set out in the Collection Points of Annex III of this prospectus.

#### **5.16 Inspection of Documents**

Certified copies of the Articles of Association of the Company, the Audited financial statements of the Company for the last five years ending 31st December 2008, 2009, 2010, 2011 and 2012, Rating Report, Trust Deed and all other documents pertaining to the Company to which references are made in this Prospectus could be inspected by the Public during normal business hours at the Registered Office of Hatton National Bank PLC from the date hereof, until the date of maturity of the debentures issued.

In terms of Rule 3.2.16 (b) of the CSE Listing Rules; the Prospectus, Articles of Association of the Company and the Trust Deed are also hosted in the Company's website, [www.hnb.net](http://www.hnb.net) and the CSE website, [www.cse.lk](http://www.cse.lk) from the date of opening of the subscription list until the Date of Redemption of the Debentures.

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## 6.0 APPLICATION PROCEDURE

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### 6.1 Eligible Applicants

Applications are invited from the following categories of investors:

- Citizens of Sri Lanka who are resident in Sri Lanka and above 18 years of age; or
- Companies, corporations or institutions incorporated or established within Sri Lanka; or
- Corporate bodies incorporated or established outside Sri Lanka; or
- Approved Unit Trusts licensed by SEC; or
- Approved provident funds and contributory pension schemes registered/ incorporated/ established in Sri Lanka (in this case, Applications should be in the name of the Trustee/Board of Management in order to facilitate the opening of the CDS account)
- Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas); or
- Global, regional and country funds approved by the SEC.

Please note that Applications made by **individuals under 18 years of age** or those in the names of **sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies** will be rejected.

### 6.2 Application methodology

Applicants applying for the New Debentures should submit their Applications in the manner as set out in this Prospectus.

The Prospectus will be made available free of charge from the collection points listed in Annex A. The Prospectus can also be downloaded from [www.cse.lk](http://www.cse.lk) and the Company website [www.hnb.net](http://www.hnb.net)

#### 6.2.1 How to Apply

Applications should be made on the Application Forms, issued with the Prospectus. Application Forms and Prospectuses are issued free of charge from the places / institutions covered in Section 2.0 and Annexure III of the Prospectus. Application Forms could also be downloaded from the Company's web site, [www.hnb.net](http://www.hnb.net) and CSE web site [www.cse.lk](http://www.cse.lk) (Exact size photocopies of Application Forms too would be accepted).

Care must be taken to follow the instructions given on the reverse side of the Application Form. Applications that do not strictly conform to such instructions and / or the terms and conditions set out in this Prospectus or which are incomplete or illegible may be rejected.

Applications should be made for a minimum of Ten Thousand (10,000) Debentures each (LKR677,150). Applications exceeding Ten Thousand (10,000) Debentures should be in multiples of Ten Thousand (10,000) Debentures (LKR677,150). Applications for less than Ten Thousand (10,000) Debentures will be rejected.

In the case of Corporate Applicants, the common seal of the company should be affixed and attested if required by the Articles of Association or such other constitutional documents of such Applicants or as per the statutes governing them. In case of approved provident funds, trust funds and approved contributory pension schemes, the Applications should be in the name of the Trustees / Board of Management.

### 6.2.2 Minimum Subscription and Underwriting

The minimum subscription required to meet the objectives of the issue would be Rupees One Billion Three Hundred Fifty Four Million Three Hundred Thousand (LKR1,354,300,000). The Company has not entered into any underwriting arrangement with regards to this Issue.

In the event the issue is under subscribed, the subscribers shall be allotted in full and funds raised shall be utilized to meet the objectives of the issue as stipulated in Section 5.2 of the Prospectus.

### 6.2.3 Identification Information

All Applicants should disclose their identification/registration information by filling in the space provided in the Application Form for this purpose.

**Applicants are requested to state their residency and nationality in the appropriate spaces provided in the Application Form.**

**The NIC, passport, or company registration number as the case may be, must be stated in the Application Form and any Application Form which does not provide the appropriate identification information will be rejected.**

Resident Applicants may use the Passport for purposes of identification only if they do not have a NIC number.

Tabulated below is the relevant identification information that a prospective investor should provide depending on the legal status:

Citizenship/Legal Form	Identification Information			
	NIC Number	Passport Number	Company Registration Number	Common Seal or Rubber Stamp
Sri Lankan Citizens	✓			
Sri Lankan Citizens with no NIC Number – <b>Note I</b>		✓		
Foreign Citizens – <b>Note II</b>		✓		
Corporate Entities – <b>Note III</b>			✓	✓

**Note I:** *In the case of Sri Lankan citizens, the passport number will be accepted only when the NIC number is not available. The CDS account must be for the same passport number.*

**Note II:** *Foreign citizens must state the passport number in the space provided.*

**Note III:** *The company registration number must be provided. The common seal or rubber stamp should be affixed and the Application Form duly signed as stipulated in the constitutional documents of such Applicants.*

Non-resident investors may be affected by the laws of the jurisdiction of their residence. If the non-resident investors wish to apply for the Debentures, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

#### **6.2.4 Margin Trading**

Applicants who wish to apply through their margin trading account, should submit the Application in the name of the "margin provider/Applicant's name" signed by the margin provider. The Applicants should state the relevant CDS account number relating to the margin trading account in the space provided for the CDS account number in the Application Form.

**The NIC, passport, or company registration number of the Applicant as the case may be, must be stated in the Application Form.**

Resident Applicants may use the Passport for purposes of identification, only if they do not have a NIC number.

A photocopy of the margin trading agreement must be submitted along with the Application.

Please note that the margin provider can apply under its own name and such Applications will not be construed as multiple Applications. Multiple applications will not be entertained. The Issuer reserves the right to reject all multiple applications or suspected multiple applications.

#### **6.2.5 Applications Made Under Power of Attorney**

In the case of Applications made under Power of Attorney (POA), a copy of the said POA, **certified by a Notary Public** to be a true copy of the original, should be lodged with the Registrar to the Issue along with the Application Form. **The original POA should not be attached.**

#### **6.2.6 Joint Applications**

Joint Applications may be made. However, an applicant of a joint application will not be eligible to send a separate application individually or jointly. The interest and capital payments / repayments (if any) will be drawn in favour of the principal applicant as given in the Application Form.

#### **6.2.7 Submission of Applications**

Application Forms properly and legibly filled in accordance with the instructions thereof, along with the applicable remittance (cheque or bank draft or bank guarantee only) for the full amount payable on Application should be enclosed in a sealed envelope marked "**Hatton National Bank PLC – Debenture Issue**" on the top left-hand corner and be addressed and



**dispatched** by post or courier or delivered by hand to the Registrar to the Issue at the following address **prior to 4.30 p.m. Local Time on the Closure Date.**

**SSP Corporate Services (Pvt) Limited,  
No. 101, Inner Flower Road,  
Colombo 03.**

Applications may also be handed over to the Managers to the Issue, Bankers to the Issue and their designated branches, members and trading members of the CSE as set out in Annex III prior to 4.30 p.m. Local Time on the Closure Date.

In the case of Applications dispatched by courier or post, such Applications should **reach** the Registrar to the Issue no later than 4.30 p.m. Local Time on the Market Day immediately following the Closure Date. Any Applications received after the above deadline shall be rejected even though the courier or postmark is dated prior to the Closure Date.

### **6.3 Payment of Application Monies**

#### **6.3.1 Mode of Remittance**

Payment should be made separately in respect of each Application by cheque/s or bank draft/s or bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the below (a) through (d).

- a) Remittances on Applications will be deposited in a separate bank account in the name of **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"**.
- b) **Payment for Applications for Debentures of a value of below LKR100,000,000/-** could be supported by a cheque or bank draft or bank guarantee. In such instances, Application Form should be accompanied by only one cheque or bank draft or bank guarantee and should be issued for the full amount indicated in the Application Form. An Application for Debentures of a value of below LKR100,000,000/- accompanied by two multiple cheques/ bank drafts/ bank guarantees or RTGS transfers will be rejected at the outset.
- c) **Applicants making Applications for Debentures of a value of above LKR100,000,000/-** will be permitted to submit;
  - I. multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR100,000,000/-.
  - II. Bank guarantee issues by a licensed commercial bank
  - III. RTGS transfer with value on the date of the issue Opening Date

**CASH WILL NOT BE ACCEPTED. ANYONE WISHING TO PAY CASH SHOULD OBTAIN A BANK DRAFT FROM ANY LCB IN SRI LANKA.**

## RTGS Transfers

In case of RTGS transfers (only for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR100,000,000/-) such transfer should be made to the credit of **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"** bearing account number **00301500216** at Hatton National Bank PLC with value on the Issue Opening Date (i.e. the funds to be made to the above account on the issue opening date).

The Applicant should obtain a confirmation from the Applicant's bank, to the effect that arrangement have been made to transfer payment in full for the total value of Debentures applied for the credits of **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"** bearing account number **00301500216** at Hatton National Bank PLC with value on the Issue Opening Date (i.e. the funds to be made to the above account on the issue opening date) and should be attached with the Application Form.

For such RTGS transfers, interest will be paid from the date of such transfer up to the Date of Allotment, at HNB's Money Market Saving Rate on the date of allotment.

If any transfers are affected prior to the Issue Opening Date, no interest will be paid prior to the Issue Opening Date.

No interest will be paid if the RTGS transfers are not realised before of the Closure Date.

### 6.3.2 Cheques or Bank Drafts – Resident Sri Lankan Investors

Cheques or bank drafts should be drawn on any LCB in Sri Lanka and crossed **"Account Payee Only"** and made payable to **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"**.

Cheques or bank drafts accompanying Application Forms made for less than ten thousand (10,000) Debentures or for a number which is not in multiples of ten thousand (10,000) Debentures (as mentioned in Section 6.2.2) will not be sent for clearing and shall be returned via ordinary post at the risk of the Applicant, or in the case of joint Applicants, to the first named Applicant.

In the event that cheques are not realised within two (02) Market Days from the day of presenting the same to the bank for clearing, the cheques will be returned and no allocation of Debentures will be made to the Applicants.

Cheques must be honoured on first presentation to the bank for the Application to be valid. Applications supported by cheques which are not honoured on the first presentation will be rejected.

### 6.3.3 Foreign Currency Remittance

This section is applicable to citizens of Sri Lanka who are above 18 years of age and resident overseas, corporate bodies incorporated or established outside Sri Lanka, global, regional or country funds approved by the SEC and foreign citizens (irrespective of whether they are resident in Sri Lanka or overseas) who are above 18 years of age.

The abovementioned Applicants should make their payments using one of the following methods as the case may be.

- A Foreign Investor may invest through a SIA maintained with any LCB in Sri Lanka. The procedure for arranging payments through a SIA is presented below;
  - A Foreign Investor may use the services of a custodian bank as an intermediary when investing in the Sri Lankan securities market.
  - The intermediary may open a SIA, on the investor's behalf.
  - In conjunction with the SIA, an account with the CDS must be opened.
  - In respect of global, regional or country funds investing for the first time in Sri Lanka, the intermediary will facilitate the approval process regulated by the SEC.
  - Payment for New Debentures should be made through a cheque or bank draft or bank guarantee issued by a LCB against the funds arranged through the SIA and made payable to **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"**.
- A Foreign Investor may invest through inward remittances of foreign currency held in a FCBU account of the Applicant maintained with any LCB in Sri Lanka. The Applicant should forward the Application Form supported by a bank guarantee drawn on the Applicant's FCBU account pending allotment of New Debentures.
  - Upon allotment of New Debentures, foreign currency to the extent of the Sri Lanka Rupee equivalent value of New Debentures allotted would be called on the bank guarantee drawn on the Applicant's FCBU account. The requisite funds would then be credited to a SIA opened in favour of the Applicant via the aforementioned FCBU account.
  - This procedure would protect a prospective investor from any losses accruing due to fluctuating exchange rates.
- In addition to the payments made through SIA and FCBU mentioned above, a foreign citizen resident in Sri Lanka under the Resident Guest Scheme may invest through the RGFCFA maintained with any LCBs in Sri Lanka. An investor who wishes to avail him/herself of this facility should make the payment for New Debentures through a bank draft or a bank guarantee against the funds arranged through the RGFCFA and made payable to **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"**.
- Non-resident Sri Lankans can remit money for investment purposes in Sri Lankan companies through RANSI maintained with authorised dealers.
  - Sri Lankan citizens who have left the country to take up employment, business or a profession and continue to reside abroad and those citizens of Sri Lanka who have made their permanent place of abode outside Sri Lanka are eligible to operate a RANSI with authorised dealers.
  - Remittances by non-resident Sri Lankans in connection with this Issue could be made via cheques or bank drafts purchased out of funds arranged through the RANSI. There are no exchange control restrictions on remittance of funds that may be available in a RANSI.
  - Where a RANSI holder is also the holder of a NRFC account, movement of funds between a RANSI and a NRFC account of the holder is freely permitted, so long as the account

holder continues to reside abroad and does not cease to be a citizen of Sri Lanka. Therefore, funds in the NRFC account could be transferred to a RANSI through which investment in New Debentures could be made.

**Cheques or bank drafts or bank guarantees should be endorsed by the issuing custodian bank, to the effect that, arrangements have been made to facilitate such payment to be made against funds available in the individual's SIA/FCBU/RGFCFA account. The endorsement must be clearly indicated on the cheque or bank draft or the bank guarantee. Alternatively, a document detailing the endorsement could be submitted along with the payment and Application.**

**Bank drafts drawn on a RANSI account should also be endorsed in line with the above.**

**Applications supported by foreign currency remittances should be made in conformity with requisite declarations accompanied by the documentation stipulated by the Controller of Exchange.**

#### **6.3.4 Restrictions Applicable to Foreign Citizens Resident in Sri Lanka**

Foreign citizens resident in Sri Lanka **may make payments through Sri Lanka Rupee accounts only if they possess dual citizenship where one such citizenship is Sri Lankan.** Foreign citizens having Sri Lankan citizenship should attach a certified copy of the citizenship certificate with the Application Form.

Foreign citizens residing in Sri Lanka having valid residency visas should note that they cannot make remittances via cheques or bank drafts or bank guarantees drawn on Sri Lanka Rupee accounts maintained with any LCBs in Sri Lanka but may do so via SIA/FCBU/RGFCFA account as detailed in Section 6.3.3 above. **Applications made by foreign citizens not in accordance to the foregoing shall be rejected.**

#### **6.3.5 Bank Guarantees**

Applications made by Sri Lankan investors backed by bank guarantees presented in line with the requirements set out in Section 6.3.1, will be accepted. Bank guarantees will be presented to the respective banks only after the New Debentures have been allotted. Bank guarantees should be issued by any LCB in Sri Lanka and in favour of **"HATTON NATIONAL BANK PLC – DEBENTURE ISSUE ACCOUNT 2013"** in a manner acceptable to the Company and be payable on demand.

**Bank guarantees should be valid for a minimum of one (1) month from the date of the Issue.**

Investors are encouraged to discuss with their relevant bankers with regard to the issuance of bank guarantees and all related charges that would be incurred by the investors.

#### **6.4 Rejection of Applications**

- Application Forms which are incomplete in any way and/or are not in accordance with the terms and conditions set out in Section 6.0 of this Prospectus will be rejected at the absolute discretion of the Company.
- Any Application Form which does not provide the NIC, passport (where NIC is not available) or company registration number as the case may be, will be rejected.
- Applications delivered by hand after 4.30 p.m. Local Time on the Closure Date of the Issue will be rejected. Applications **received** by courier/post after 4.30 p.m. Local Time on the succeeding Market Day immediately following the Closure Date of the Issue, will also be rejected even if they carry a courier acceptance date/postmark date earlier than the Closure Date.
- Applications made for less than ten thousand (10,000) Debentures or for a number which is not in multiples of ten hundred (10,000) Debentures will be rejected.
- Applications which do not carry a valid CDS account number, or which indicate an inaccurate or incorrect CDS account number, shall be rejected and no allotment will be made.
- The Company reserves the right to reject multiple Applications and suspected multiple Applications which are not allowed, as mentioned in Section 6.0 or to accept only one Application Form at their discretion, in such instance.
- Payment for Applications of Debentures of a value of below LKR100,000,000/- accompanying two or more cheques or bank drafts or bank guarantees as mentioned in 6.3, will be rejected at the outset.
- Applications made by individuals below 18 years of age or those in the names of sole proprietorships, partnerships, unincorporated trusts and non-corporate bodies will be rejected.

**Notwithstanding any provision contained herein, the Board of Directors shall reserve the right to refuse any Application or to accept any Application in full or part.**

#### **6.5 Banking of Payments**

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Market Day after the Closure Date of the subscription list, in terms of the CSE Listing Rules.

#### **6.6 Returning of Monies of Rejected Applications**

Where an Application Form is rejected, the cheque or bank draft or bank guarantee received in respect of the Application will be returned via ordinary post at the risk of the Applicant. In the case of joint Applicants, the cheque or bank draft or bank guarantee received in respect of the Application will be returned to the first named Applicant.

Where the Application Form is accepted and the cheque or bank draft or bank guarantee is not honoured at the first presentation, the Application will also be rejected and the dishonoured cheque or bank draft or bank guarantee will be returned via ordinary post at the risk of the Applicant. In the case of joint Applicants, the dishonoured cheque or bank draft or bank guarantee will be returned to the first named Applicant.

## **6.7 Allotment of Debentures in Issue / Basis of Allotment**

In the case of an oversubscription, the Board of Directors of the Company will endeavour to decide and announce to the CSE the basis of allotments within seven (07) Market Days from the Closure Date. Further, the Board reserves the right to allocate up to 50% of the issue value on a preferential basis, to investor/s of strategic importance with who they might partner with in future endeavours.

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

A written confirmation informing successful Applicants on their allotment of New Debentures will be dispatched as required by the CSE within ten (10) market days of the closure of the subscription list.

## **6.8 Refunds on Applications**

Where an Application is accepted only in part, the balance of the monies received on Application will be refunded. Refunds on New Debentures that have not been allotted will be refunded on or before the expiry of ten (10) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules. Applicants would be entitled to receive interest at the last quoted AWPLR published by the CBSL plus 5%, on any refunds not made by the expiry of the abovementioned period.

### **6.8.1 Refunds via SLIPS**

The refund payment will be made to the bank account specified by the Applicant through the SLIPS on or before the expiry of ten (10) Market Days from the Closure Date (excluding the Closure Date) as required by the CSE Listing Rules and a payment advice shall be issued to the Applicant provided that the Applicant has submitted accurate and complete details of his bank account in the Application Form.

However, SLIPS transfers are subject to a maximum limit of Rupees Five Million (LKR5,000,000.00) imposed by the CBSL with effect from October 29, 2010 as per Operating Instruction Circular No. 11/2010 dated October 25, 2010.

Even though the Applicant has requested for SLIPS transfer for refund amounts and submitted accurate and complete details of the bank account in the Application Form, refund amounts exceeding Rupees Five Million (LKR5,000,000.00) will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant.

In the case of a joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.

In the event the refund payment is effected via SLIPS based on the bank account details provided by the Applicant in the Application Form, but is rejected by the Applicant's bank due to inaccurate or incomplete information, such refund payments would be made via a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In such instances, the Company together with the Registrar to the Issue will send the refund cheques to such Applicants at the earliest possible and the Applicant should not hold the Company or the Registrar to the Issue accountable for such delays.

In order to get accurate details on bank and branch codes, please follow the web link given below.

[http://www.lankaclear.com/products\\_and\\_services/sl\\_interbank\\_payment\\_system\\_guideline.php](http://www.lankaclear.com/products_and_services/sl_interbank_payment_system_guideline.php)

#### **6.8.2 Refunds via Crossed Cheque**

If the Applicant has not provided details of the bank account in the Application Form or has provided inaccurate or incomplete details of the bank account with respect to refunds via SLIPS, the refund payment will be made by a crossed cheque in favour of the Applicant and sent by ordinary post at the risk of the Applicant. In the case of a joint Application, a crossed cheque will be drawn in favour of the Applicant whose name appears first in the Application Form.

A request for cancellation of crossing on the refund cheque, in instances where the Applicant does not maintain a current account, should be addressed to the Registrar to the Issue in writing, stating the cheque number and the fact that the Applicant does not maintain a current account. The refund cheque and a clear photocopy of the Applicant's NIC should accompany the letter.

In the event of a refund cheque being delivered by hand by a third party to the Registrar to the Issue for cancellation of crossing, a letter of authorisation signed by the Applicant stating the NIC number of such third party should also be presented with the refund cheque.

Refund cheques on which the crossings have been cancelled by the Registrar to the Issue should preferably be collected in person or by a third party authorised by the Applicant. Where an Applicant has requested the delivery of the cheque on which the crossing has been cancelled via post, such cheque will be sent at the risk of the Applicant.

#### **6.9 Successful Applicants and CDS Lodgement**

The New Debentures allotted will be directly uploaded to the respective CDS account given in the Application Form before the expiry of eighteen (18) Market Days from the Closure Date of the Issue as required by the CSE Listing Rules.

All Applicants should indicate in the Application for Debentures, their NIC number or the company registration number as the case may be. The passport number may be indicated only if the Applicant does not have a NIC number.

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

Applicants who wish to open a CDS Account, may do so through any member/ trading member of the CSE as set out in the Annex III or through any Custodian Bank as set out in Annex IV of this Prospectus

Please note that upon the allotment of Debentures under this Issue, for Applicants who have indicated their CDS account details in the Application Form, **THE ALLOTTED DEBENTURES WOULD BE CREDITED TO THE APPLICANT'S CDS ACCOUNT** so indicated.

**PLEASE NOTE THAT DEBENTURE CERTIFICATES SHALL NOT BE ISSUED.**

Applications which do not carry the CDS account number, which is not opened at the time of the closure of the subscription list or which indicate an inaccurate/incorrect CDS account number, shall be rejected and no allotment will be made.

Written confirmation, upon the completion of crediting the respective CDS account will be sent to the Debenture holder within two (02) Market Days of crediting the CDS accounts by ordinary post to the address provided by each Debenture holder in their respective Applications.

#### **6.10 Declaration to the CSE and Secondary Market Trading**

The Company will submit to the CSE a declaration on the Market Day immediately following the day on which Applicants' CDS accounts are credited with the New Debentures. Trading of the New Debentures on the secondary market will commence on or before the third (3<sup>rd</sup>) Market Day from the receipt of the declaration by the CSE as per the CSE Listing Rules.



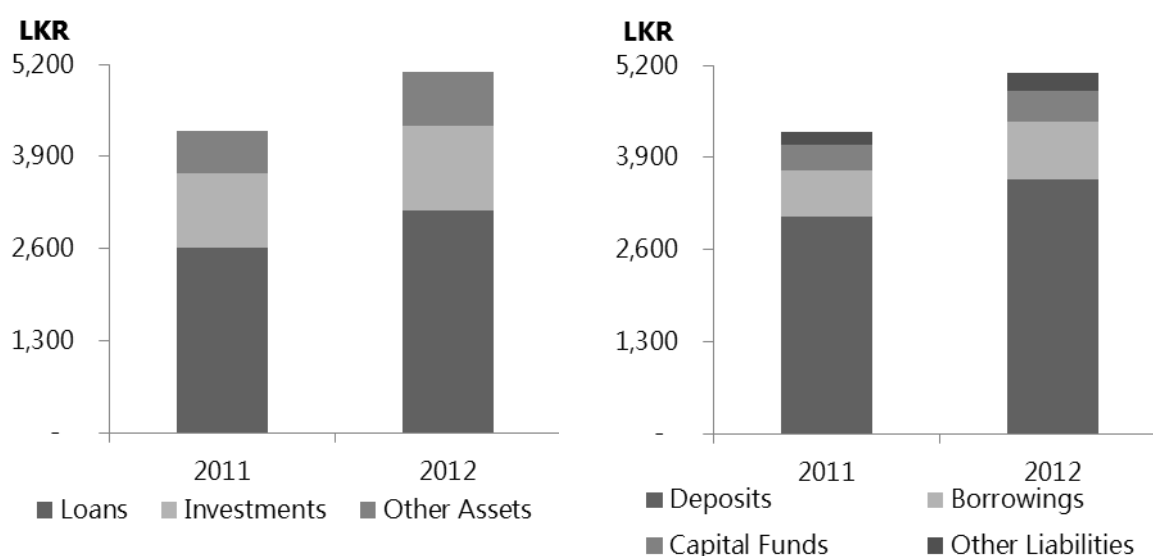
## 7.0 INDUSTRY OVERVIEW –BANKING INDUSTRY

### 7.1 Sri Lanka's Banking Sector in 2012

During 2012, significant fluctuations in key economic variables, most notably the exchange and local interest rates, remained the norm. Over the course of the reporting period, the LKR peaked to LKR134/USD, reflecting a depreciation of over 17% compared to the beginning of the year. Likewise, interest rates maintained an upward momentum throughout the year with the Average Weighted Prime Lending Rate (AWPLR) increasing from 10.8% at the start of 2012 to reach 14.4% by year end.

Nevertheless, the Banking sector benefited from these fluctuations, with notable gains from foreign exchange movements and improved interest margins. In early 2012, CBSL issued a directive to restrict overall LKR loan growth to 18% with a leeway to increase the credit growth to 23%, applicable for those banking establishments that support such an increase by securing foreign funding over the course of the year. Consequently, banking sector credit growth contracted from 31.7% in 2011 to 20.9% in 2012 in line with the reduced GDP growth rates.

**Banking Sector assets and liabilities (in LKRb)**



*Source: CBSL Annual Report 2012*

The total assets in the banking sector grew by 20.0% during 2012 to LKR5,102b from LKR4,252b in 2011. The loan book grew by 20.8% to LKR3,143b in 2012 from LKR2,602b in 2011 while the deposits grew by 17.1% to LKR3,598b from LKR3,073b during the same period.

The net non-performing loans (NPLs) increased by 15.2% to LKR114b (Net NPL ratio of 2.1%) during 2012 from LKR99b (Net NPL ratio of 2.1%) in 2011.

The banking sector continued to generate sustained earnings during 2012 despite the increase in market interest rates and the slowdown in credit growth. The net interest income increased by 19.2% to LKR197b in 2012 from LKR165b in 2011, while the PBIT increased by 23.6% to

LKR116b from LKR94b during the same period, backed by improved sector cost-to-income ratio.

<b>Banking sector income (in LKRb)</b>			
	<b>2011</b>	<b>2012</b>	<b>Growth</b>
Interest Income	358	495	38.3%
Interest Expenses	193	298	54.6%
<b>Net Interest Income</b>	<b>165</b>	<b>197</b>	<b>19.2%</b>
Non-Interest Income	61	79	29.9%
Foreign Exchange Income	15	27	79.2%
Non-Interest Expenses	117	135	16.0%
Staff Cost	59	66	12.2%
Loan Loss Provisions	(3)	6	nm
<b>Profit before Income Tax</b>	<b>94</b>	<b>116</b>	<b>23.6%</b>
<b>Profit after Tax</b>	<b>66</b>	<b>82</b>	<b>25.5%</b>

*Source: CBSL Annual Report 2012*

## **7.2 Changes to Financial Reporting Standards**

With the new Sri Lanka Accounting Standards (SLFRS/LKAS) issued in line with the International Financial Reporting Standards becoming effective from 1 January 2012, business entities were required to apply these standards retrospectively, with all adjustments to equity up to the transitional date of 1 January 2011, recognised under Statement of Changes in Equity.

As required by these standards, the banks were required to prepare opening Statement of Financial Position as at 1 January 2011 based on the assumption that the banks had applied these standards retrospectively with all the adjustments to equity being recognised directly on the Statement of Changes in Equity.

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## 8.0 HATTON NATIONAL BANK PLC

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### 8.1 The Company

Hatton National Bank PLC commenced operations in 1888 and was incorporated as a limited liability in 1970. It operates as a Licensed Commercial Bank and is registered under the provisions of the Banking Act No. 30 of 1988. HNB is listed on the Colombo Stock Exchange with a market capitalisation of LKR62b (USD495m).

With a history 125 years, HNB is one of the largest private-sector commercial banks in Sri Lanka in terms of assets, deposits, branches and employees. As at 31 March 2013, the Bank and its subsidiaries had total consolidated assets of LKR465b and total customer deposits of LKR348b. As of now, the group also has 4,668 employees working via the 250 branches island wide.

#### **Vision**

"To be the acknowledged leader and chosen partner in providing financial solutions through inspired people."

#### **Mission of the Company**

"Combining entrepreneurial spirit with empowered people and leading edge technology to constantly exceed stakeholder expectations."

#### **Values**

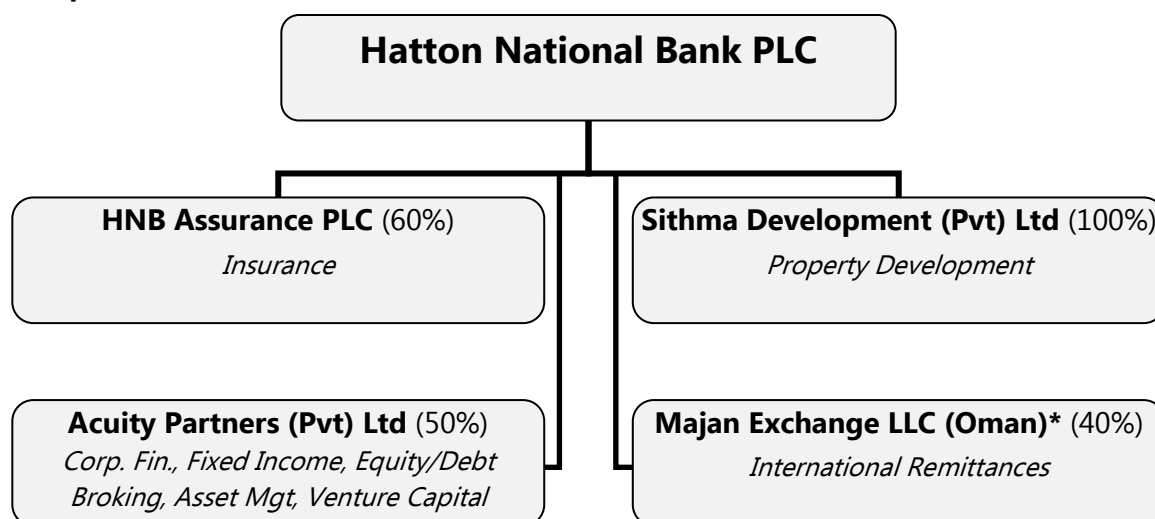
- Treasure professional & personal integrity at all times
- Demonstrate mutual respect in all our interactions
- Passionate in everything we do
- Committed to being customer centric
- Courage to change, challenge and be different
- Demonstrate unity in diversity

The principal lines of business for the Bank consist of personal banking, corporate banking, treasury operations and development banking. The Bank is also involved in insurance, property development, corporate finance, stock brokering, asset management and international remittances through its subsidiaries/joint venture partners; HNB Assurance PLC, Sithma Development (Pvt) Ltd and Acuity Partners (Pvt) Ltd.

Fitch Ratings Lanka Ltd affirms an AA- credit rating for the Company.

The Board of Directors of Hatton National Bank PLC comprises of nine (9) members, and is headed by the Non-Executive Chairperson, Dr. Ranee Jayamaha. The Corporate Management team is led by the Managing Director / Chief Executive Officer - Mr. Jonathan Alles.

## 8.2 Group Structure



\* The Bank has entered in to a sale and purchase agreement to sell the investment in Majan Exchange LLC subject to certain conditions being fulfilled.

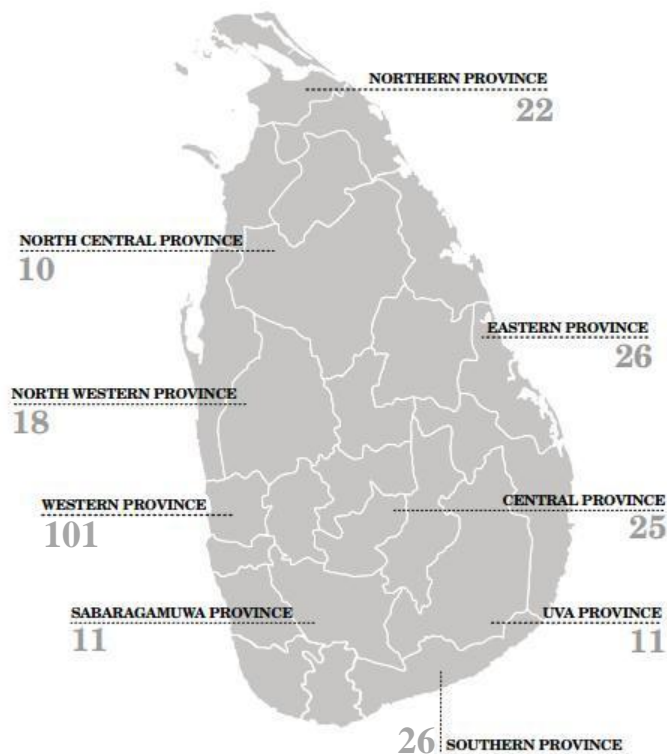
## 8.3 Business Activities of HNB

Principal lines of business of the HNB Group involve;

- **Personal Banking**
  - Saving Accounts
  - Minor Savings Accounts
  - Youth Savings Accounts
  - Senior Savings Accounts
  - Current Accounts
  - Term Deposits
  - Loans (Vehicle, Personal, Housing, Education)
  - Leasing
  - Foreign currency accounts
- **Corporate Banking**
  - Working capital/operational finance
  - Trade/commodity finance
  - Project financing
  - Lead financing for syndicate loans
  - Standby letter of credit/ bank guarantees
  - Property finance
  - Structured finance
  - Custodian services
  - Foreign exchange/treasury products
  - Foreign currency accounts
- **Treasury Operations**
  - Government security dealing
  - Foreign exchange
  - Inward remittances
  - Derivatives

- **Insurance**
  - Life insurance
  - General insurance (Motor, Fire, Marine etc.)
- **Investment Banking**
  - Corporate Finance
  - Equity/debt brokering
  - Asset management
  - Venture capital financing
- **Property Development**
- **International Remittances**
- **Branch network**

Hatton National Bank PLC has an extensive branch network of 250 Customer Service Centres covering the island, and caters to a wider clientele.



*Source: HNB Annual Report 2012*

#### 8.4 Awards

Hatton National Bank PLC has won the title 'Best Retail Bank in Sri Lanka', awarded by the Asian Bank Magazine for 6 consecutive years. The Bracken Award for 'The Bank of The Year 2012' in Sri Lanka, awarded by the Banker Magazine and 'Best Bank in Sri Lanka 2009', awarded by the Euromoney Magazine are few of awards amongst several other awards. These awards are true endorsements of the quality of HNB's services to the banking industry in Sri Lanka.



## 8.5 Financial performance of HNB

The following section will discuss in detail the performance of HNB.

### 8.5.1 Snapshot of key ratios for HNB

	31 Dec 2011	31 Dec 2012
<b>Profitability</b>		
Net Interest Margin	6.2%	6.3%
Cost To Income	55.3%	52.3%
Return On Assets	1.8%	1.9%
Return On Equity	18.2%	18.2%
EPS (LKR)	15.75	19.36
DPS (LKR)	7.50	8.50
<b>Liquidity &amp; Funding</b>		
Liquid Asset Ratio	22.0%	22.4%
<b>Capital Adequacy</b>		
Shareholders' Funds To Total Assets	10.0%	10.4%
Tier 1 Risk Weighted Capital Adequacy Ratio	12.8%	13.9%
Overall Risk Weighted Capital Adequacy Ratio	14.5%	16.6%

### **8.5.2 Assets**

The Bank's asset growth slowed down to 17.3% in 2012, as a result of a slowdown in demand for credit. In totality, net loans and advances grew by 18.0% and other interest earning assets by 15.6%. The domestic currency loan book grew at a faster pace equating to 19.0%. The leasing portfolio witnessed a slowdown in 2012 due to an increase in import duty for vehicles while pawning continued to demonstrate the strong growth momentum witnessed in previous years. Other term loans and overdrafts too witnessed robust growth during the year.

### **8.5.3 Non-performing loans**

With the rise in interest rates, the Bank witnessed a concurrent increase in impaired loans and advances during the first half of 2012. However, the rigorous recovery and risk management efforts have assisted towards the contraction in impaired loans and advances in December resulting in an improvement in impaired assets (loans and advances) ratio to 3.32% from 3.60% in 2011. Even under the previous accounting standards, the Gross Non Performing Advances ratio of the Bank improved from 3.92% in 2011 to 3.66% in 2012.

With the transition from "time based" provisioning method for loans and advances, to "incurred loss" based impairment provisioning method under LKAS 32 and 39 the Bank made a provision of approximately LKR1b against impairment losses for 2012 which included an additional provision of LKR571m against individually significant unimpaired loans. However in 2011, the Bank made a reversal of LKR500m due to decrease in provision on account of both individually significant and individually insignificant loans. Accordingly, the net impaired asset ratio of the Bank improved to 0.86% from 1.06% in 2011 while the provision cover remained strong at 74.0% as at end of the reporting period.

### **8.5.4 Income**

The Bank's interest income for the reporting period grew by 42.7%, prompted by increase in yields coupled with growth in interest earning assets. Interest cost mirrored this upward movement with a perceptible increase of 53.5%. Higher deposit rates, deposit growth as well as conversion of low cost deposits to fixed deposits at higher rates pushed the interest costs upwards. Nevertheless, the Bank witnessed a growth of 32.0% in net interest income amounting to LKR22.0b during the financial year.

Increase in fee income remained a key strategic priority during the year, as per the Bank's 3 year strategic plan. Efforts in this regard yielded positive results with the Bank increasing its commission income by 37.8% in 2012 against that of the previous financial year. Income from card centre and current accounts contributed towards the growth whilst fee income from trade remained static in the face of diminished foreign trade.

With the change in accounting standards, the cost of interest rate swaps for the conversion of dollars to rupees (for lending), which was accounted for as an interest expense under the previous accounting method, is recorded as a foreign exchange loss under trading income reflecting a corresponding increase in net interest income. As a result of same and the revaluation of swaps and forward exchange contracts, the Bank recorded a book loss of LKR1.5b

in 2012. Further due to bearish sentiments at the Colombo Stock Exchange that prevailed throughout the year, the Bank's total net trading loss increased to LKR1.6b in 2012.

Nevertheless, Other Income of the Bank recorded a growth of 73.9% to LKR2.0b mainly on account of the increase in foreign exchange gains by an impressive 79.9% to LKR1.8b in 2012. The growth in forex gains reflected under other income was largely due to the increase in foreign exchange transactions and the volatile exchange rate scenario witnessed during the year. The improvement in exchange gains was recorded, despite the Bank recording a marginal exchange loss culminating from accumulated losses in the Foreign Currency Banking Unit (FCBU) due to rupee depreciation.

The total operating income of the Bank stood at LKR26.1b for 2012, which is a significant growth of 27.5% over the previous year.

#### **8.5.5 Profitability**

The Bank's pre-tax profits recorded a strong growth of 19.8% to LKR10.0b compared to 2011 while Group pre-tax profits also improved by 18.1% to LKR10.7b. The net profit after tax for the Bank recorded a growth of 23.0% to stand at LKR7.7b while the Group net profit after tax recorded a year on year growth of 19.9% to LKR8.3b for the year ended 31st December 2012.

The Return On Assets (ROA) for the Bank in 2012 improved to 1.86% compared to 1.79% in the previous year, with improved margins, higher non-interest income to net income and reduction in cost to income ratios positively contributing towards same while Return on Equity was maintained at 18.24%.

#### **8.5.6 Financing**

Growth in assets was predominantly funded by deposits, which grew by a healthy 17.2%, while this was also supplemented by borrowings originating mainly from foreign sources. During the year, the Bank borrowed USD75m from two reputed international lenders. The first was an USD50m senior debt from China Development Bank whilst the second was an USD25m subordinated loan from DEG.

Due to the rising interest rates the growth in deposits was predominantly from fixed deposits while the Bank witnessed a conversion of high cost savings to high yielding fixed deposits. However, the Bank managed to defend its low cost saving base maintaining it to a virtual flat during the year. On the whole, higher growth in fixed deposits resulted in the CASA ratio declining from 45.6% to 38.8% by December 2012.

As at 31 March 2013, the Interest Coverage Ratio stood at 9.75x and the Net Debt to EBITDA Ratio stood at 1.14x.

#### **8.5.7 Shareholder's funds**

Net increase in net assets of the Bank with the implementation of SLFRS/LKAS amounted to approximately LKR2.5b as at end of December 2012, including the impact from fair valuation of available for sale portfolio, revaluation of land and building, net impact from change in



provisioning for impairment and recognition of a liability against the Employee Share Benefit Trust.

Therefore including the above SLFRS/LKAS impact and after making a payment of LKR1.2b as final cash dividend for the year ended 31st December 2011 as well as an interim dividend of LKR596m for 2012, total shareholders' funds of the Bank recorded an increase of LKR8.5b to LKR46.5b as at 31st December 2012.

Accordingly, the net book value of the Bank improved from LKR97.75 per share to LKR116.99 per share while the net book value of the Group improved from LKR106.99 per share in 2011 to LKR129.96 per share in 2012.

#### 8.5.8 Dividends

The Bank proposed a final cash dividend of LKR7.00 per share in addition to the interim dividend of LKR1.50 per share declared in December 2012 resulting in a total cash dividend of LKR8.50 per share for the year amounting to a gross dividend payment of approximately LKR3.4b.

### 8.6 Capital Adequacy

Capital adequacy position of the Bank further strengthened during the year with tier I capital ratio improving from 12.76% to 13.85% through internal generation of funds while total capital adequacy ratio improved from 14.51% to 16.63% through retained earnings and tier II funding raised through foreign sources.

### 8.7 Maturity profile of assets as at 31 March 2013

Amounts in LKRm	Less than 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Total
Cash and cash equivalents	2,258	-	-	-	2,258
Placements with banks	5,391	-	-	-	5,391
Other financial assets held for trading	9	-	-	-	9
Loans and receivables to other customers	101,906	47,484	85,211	33,783	268,384
Financial investments - Available-for-sale	21,892	29,054	1,288	-	52,234
Financial investments - Loans and receivables	182	483	24,189	489	25,343
<b>Total interest bearing assets</b>	<b>131,639</b>	<b>77,021</b>	<b>110,689</b>	<b>34,272</b>	<b>353,620</b>
Cash and cash equivalents	7,614	-	-	-	7,614
Balances with Central Banks	20,465	-	-	-	20,465
Derivative financial instruments	188	17	-	-	205
Other financial assets held for trading	431	-	-	-	431
Deferred tax assets	-	-	-	443	443
Other assets	4,254	751	2,413	499	7,917
<b>Total non-interest bearing assets</b>	<b>32,952</b>	<b>768</b>	<b>2,413</b>	<b>942</b>	<b>37,075</b>
Due to banks	5,297	3,881	6,653	7,668	23,499

Due to other customers	219,900	95,518	7,690	1,733	324,842
Other borrowings	3,591	241	-	-	3,832
Subordinated debentures	340	300	-	500	1,140
<b>Total interest bearing liabilities</b>	<b>229,128</b>	<b>99,940</b>	<b>14,344</b>	<b>9,901</b>	<b>353,313</b>

Derivative financial instruments	1,217	528	-	-	1,745
Due to other customers	22,720	-	-	-	22,720
Current tax liabilities	-	1,867	-	-	1,867
Other provisions	1,155	-	2,450	-	3,605
Other liabilities	12,861	-	-	-	12,861
<b>Total non-interest bearing liabilities</b>	<b>37,954</b>	<b>2,394</b>	<b>2,450</b>	<b>-</b>	<b>42,798</b>

### 8.8 Details of borrowings as at 31 March 2013

Type of Loan	Year of Issue	Face Value (LKRm)	Tenure (years)	Interest Rate (%)	Outstanding Balance (LKRm)
Subordinated Debenture	2006	300	8	6m net TB + 2.25%	309
Subordinated Debenture	2006	223	15	11.00%	223
Subordinated Debenture	2006	422	18	11.25%	422
Subordinated Debenture	2007	500	10	16.00%	560
Subordinated Debenture	2007	700	15	16.75%	787
Subordinated Debenture	2008	90	5	12m net TB + 1.00%	99
Subordinated Debenture	2011	2,000	10	11.50%	2,057

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

*Note: The Bank issued of 40,000,000 Debentures to raise LKR4b, by way of Unsecured, Subordinated, Redeemable 5 year Debentures. These Debentures were allotted on 6 June 2013 and listed on the Main Board of the CSE on 24 June 2013.*

## 9.0 OTHER INFORMATION ON HATTON NATIONAL BANK PLC

### 9.1 Top Ten Shareholders of the Company as at 30 June 2013

Voting Shareholder		Number of Shares	
1	Sri Lanka Insurance Corporation Ltd.(General Fund)	47,635,487	14.95%
2	Employees Provident Fund	30,436,612	9.55%
3	Milford Exports (Ceylon) Limited	25,828,280	*8.11%
4	Mr. Sohli Edelji Captain	23,705,220	7.44%
5	Stassen Exports Ltd	22,387,096	*7.03%
6	Brown & Company PLC	15,688,156	4.92%
7	Sonetto Holdings Limited	14,697,921	4.61%
8	HSBC Int'l Nominees Ltd-JPMLU-Franklin Templeton Investment	13,876,398	4.36%
9	Distilleries Company of Sri Lanka PLC	10,016,272	*3.14%
10	National Savings Bank	9,371,940	2.94%

\*\*Pursuant to the provisions of the Banking Act Directions No. 1 of 2007, the total collective voting rights in the Bank, of Milford Exports (Ceylon) Limited, Stassen Exports Limited and Distilleries Company of Sri Lanka (who collectively hold 18.33% of the voting shares of the Bank) are limited to 10% of the total voting rights of the Bank with effect from 15th March 2012 as the voting rights in excess of such percentage is deemed invalid from that date.

Non-voting Shareholder		Number of Shares	
1	LegalInc Trustee Services (Pvt) Ltd	15,500,925	19.39%
2	HSBC Intl nominees Ltd-JPMLU-Franklin Templeton Invest	4,525,980	5.66%
3	The Bank of New York Mellon SA/NV-CF Ruffer Total Return Fund	2,557,103	3.20%
4	Employees Trust Fund Board	2,220,644	2.78%
5	HINL-JPMCB-Butterfield Trust (Bermuda) LTD	1,985,885	2.48%
6	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return	1,703,364	2.13%
7	Mr. Sohli Edelji Captain	1,442,839	1.80%
8	Northern Trust Company S/A Polar Capital Funds PLC	1,430,681	1.79%
9	Pershing LLC S/A Averbach Grauson & Co.	1,190,438	1.49%
10	CITI Bank NY S/A Forward International Dividend Fund	1,137,294	1.42%

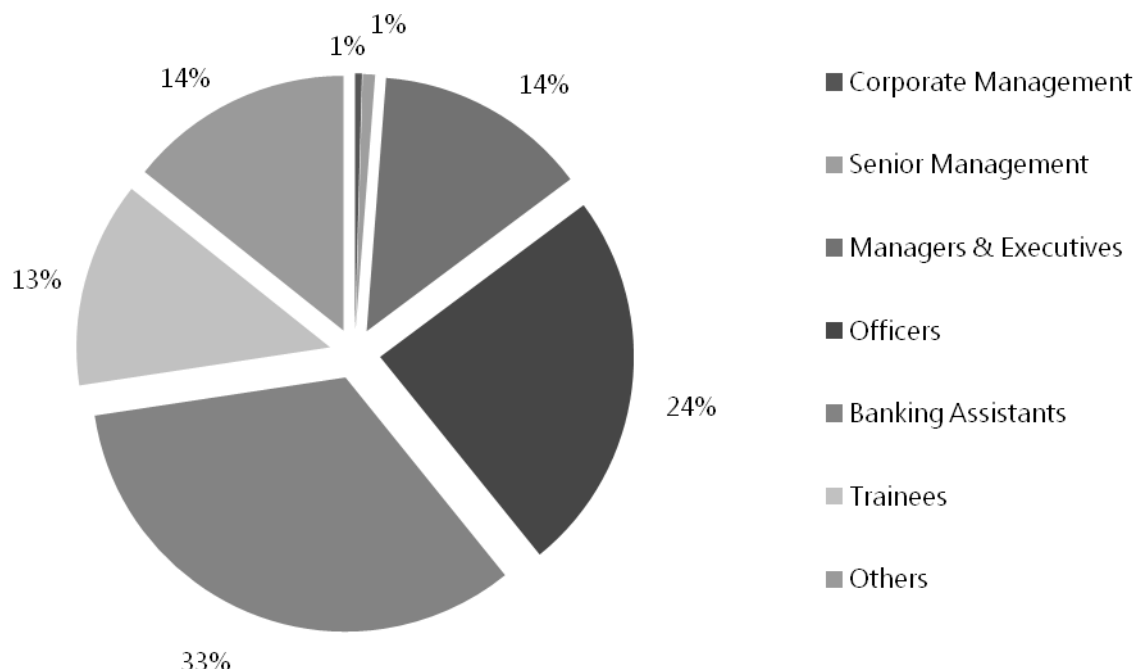
### 9.2 Stated Capital

The Company's capital structure includes both Voting and Non-voting shares as at the date of the prospectus.

HNB has a stated capital of LKR12.6b represented by 317,846,028 issued ordinary voting shares and 79,698,766 issued ordinary non-voting shares as at 31 March 2013.

### 9.3 Human Resources

As 30 June 2013 the total staff strength of HNB is 4,668, which consists of the following breakdown.



Striving for employee excellence is at the very core of HNB's priorities. From a professional standpoint, the Bank endeavour in every conceivable manner to create a conducive environment for professional development particularly by way of grooming financial management and banking experts.

The employees attached to Trade Unions of the Bank as at 30 June 2013 are as follows.

- Ceylon Bank Employees Union (CBEU) : 2,195
- Officers Union HNB : 1,149

The Bank has entered into the following agreements with the Trade Union:

- Collective agreement for Banking assistants, allied grades and support staff with the CBEU was entered into in 2009.
- Collective agreement for Junior Executives with the Officers Union of HNB, which is renewable every three years.

### 9.4 Dividend Policy

The Board of Directors subject to the Articles of Association of the Company and Companies Act No. 07 of 2007 may recommend and declare dividends to the shareholder from and out of the profits of the Bank. The dividend rate will be determined based on a number of factors, including but not limited to the Company's earnings, capital requirements and overall financial condition. Dividends paid and payable are subject to the Banking Act requirements.

## 9.5 Working capital

The Board is of the opinion that the working capital is sufficient for the purpose of carrying out day to day operations of the Company

## 9.6 Takeover Offers

There have been no take-over offers by third parties in respect of HNB shares during the past two years. Also HNB has not made any takeover offers in respect of shares of a third party.

## 9.7 Degree of dependence on key customers and suppliers

### Key Customers

HNB has a well-diversified product offering which amongst various demographic segments and economic sectors of the country, and as a result does not depend on a single customer or a category of customers. The Bank's operations are governed by the CBSL regulations, as a result exposure to any one group of companies, any one company and any individual borrower is regularly monitored and CBSL limits are adhered to.

### Key Suppliers (Funding)

As a LCB, HNB's main sources of funding are customer deposits. HNB has mobilised borrowing through its 250 branches across the country.

## 9.8 Taxation

The Bank does not enjoy any tax concessions or tax exemptions as at date of Prospectus.

## 9.9 Litigation, disputes and contingent liabilities

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

Contingent liabilities as at 31 March 2013 are as follows.

	<b>LKR '000s</b>
Acceptances	6,699,930
Documentary Credits	13,251,623
Guarantees	37,197,185
Bills for collection	5,120,694
Forward exchange contracts	102,479,712
<b>Total</b>	<b>164,749,144</b>

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

There were no penalties imposed by regulatory or state authorities on HNB as at 31 March 2013.

### **9.11 Details of commissions and benefits paid**

Brokerage at the rate of 0.25% of the nominal value of Debentures issued was paid to banks, members or trading members of the CSE with regard to the Debenture Issue concluded in June 2013.

No other commissions or benefits were payable, paid, given or intended to be paid or given in the two preceding years - for subscribing or agreeing to subscribe or procuring or agreeing to procure or promoting or agreeing to promote, subscriptions for any shares or debentures of the Bank.

### **9.12 Material contracts**

There are no other material contracts, except for those contracts entered into as part of the ordinary course of business.

### **9.13 Transactions related to property**

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

### **9.14 Details of management agreements**

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

### **9.15 Corporate governance practices**

Strong corporate governance framework is in place to ensure that HNB operates in an ethical and law-abiding manner. The Board has the responsibility of achieving and maintaining the highest standards of corporate governance to ensure accountability, integrity and professionalism in its business operations.

In keeping with the accepted principles of corporate governance, the office of the Chairman and Chief Executive Officer are kept separately. The Chairman holds office in a non-executive capacity. Further, good corporate governance is ensured by the presence of respected individuals who function as Non-Executive and Independent Directors on the Board. The Non-Executive Directors do not have any business interest that could materially interfere with the exercise of their independent judgement.

#### **9.15.1 Audit Committee**

The Audit Committee is responsible for ensuring the quality of financial reporting and related communication to the shareholders and the public as well as providing additional assurance on the reliability of the financial statements through a process of independent and objective review.

The Audit Committee comprises of five (5) Non-Executive Directors of the Board. Members of the Audit Committee are as follows;

- i. Mr Sujeewa Mudalige - Independent Non-Executive Director (Committee Chairman)
- ii. Ms M A R C Cooray - Independent Non-Executive Director
- iii. Mr R S Captain - Non-Executive Director
- iv. Ms D S C Jayawardena - Non-Executive Director
- v. Dr Rohan Karunaratne - Independent Non-Executive Director

#### **9.15.2 Human Resources & Remuneration Committee**

The Human Resources & Remuneration committee is responsible for evaluating the performance of the Executive Directors and the Chief Executive Officer against the set targets and goals periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives.

The Human Resources & Remuneration Committee consists of four (4) Non-Executive Directors. Members of the Remuneration Committee are as follows.

- i. Dr W W Gamage - Independent Non-Executive Director (Committee Chairman)
- ii. Dr Ranee Jayamaha - Non-Executive Director
- iii. Mr L U D Fernando - Independent Non-Executive Director
- iv. Mr D T S H Mudalige - Independent Non-Executive Director

#### **9.15.3 Nomination Committee**

The nominations committee makes recommendations to the Board on all new appointments and of four (4) Non-Executive Directors. Members of the Nomination Committee are as follows.

- i. Dr L R Karunaratne - Independent Non-Executive Director (Committee Chairman)
- ii. Dr Ranee Jayamaha - Non-Executive Director
- iii. Dr W W Gamage - Independent Non-Executive Director
- iv. Ms M A R C Cooray - Independent Non-Executive Director

#### **9.15.4 Integrated Risk Management Committee**

The Risk Management Committee ensures that the risks taken in Credit, Operational, Market, Strategic and other areas are within the approved risk appetite set out by the Board. The risk management committee consists of nine (9) members with a Non-Executive Director functioning as the Chairman of the committee.

Members of the Integrated Risk Management Committee are as follows.

- i. Ms M A R C Cooray – Independent Non-Executive Director (Committee Chairperson)
- ii. Dr Ranee Jayamaha - Non Executive Director
- iii. Dr L R Karunaratne – Independent Non-Executive Director
- iv. Mr D T S H Mudalige - Independent Non-Executive Director (*observer only*)
- v. Ms D S C Jayawardena - Non-Executive Director
- vi. Mr A J Alles – MD /CEO
- vii. Mr D P N Rodrigo - Chief Operating Officer
- viii. Mr A P L Fernando - DGM (Recoveries & Credit Quality Management)
- ix. Ms S Gnanapragasam - AGM (Treasury & Markets)

## 10.0 DIRECTORS AND KEY MANAGEMENT

### 10.1 The Board of Directors of HNB

Name	Business Address	Residential Address
Dr R Jayamaha	Hatton National Bank PLC, 479, T. B. Jayah Mawatha, Colombo 10.	1/394, Lily Avenue, Robert Gunawardena Mawatha, Battaramulla.
Mr A J Alles	Hatton National Bank PLC, 479, T. B. Jayah Mawatha, Colombo 10.	Apartment # 4/3, Sunset Wing, Trillium Residencies, 153, Elvitigala Mawatha Colombo 08.
Ms M A R C Cooray	NA	63, Vihara Mawatha, Kolonnawa.
Dr W W Gamage	Ministry of Botanical Gardens & Public Recreation, 6th Floor, Rakshana Mandiraya, Vauxhall Street Colombo 02.	1351B, Bogahawatta Road, Monrovia Place, Kottawa, Pannipitiya.
Dr L R Karunaratne	AKK Engineers (Pvt) Ltd, 115, New Parliament Road, Battaramulla.	115, New Parliament Road, Battaramulla.
Mr L U D Fernando	NA	27C, Fairmount Residencies, Buthgamuwa Road, Rajagiriya.
Mr D T S H Mudalige	Pricewaterhouse Coopers, No: 100, Braybrooke Place, Colombo 02.	115, Havelock Road, Colombo 05.
Miss D S C Jayawardena	Lanka Milk Foods (CWE) PLC, Welisara, Ragama.	82, Main Street, Jaela.
Mr R S Captain	Paints & General Industries Ltd, 108, 4th Floor, Propertex Court, W A D Ramanayake Mawatha, Colombo 02.	30/10, Park Road, Colombo 05.

### 10.2 Profiles of the Board of Directors

#### **Dr Ranee Jayamaha** – Chairperson

*B.A. (Hons) (University of Ceylon, Peradeniya, Sri Lanka), MSc. (University of Stirling, U.K.), Ph.D (University of Bradford, U.K.), Duniv (University of Stirling, U.K.)*

Appointed Director and Chairperson on 31 March 2011. She is the Chairperson of HNB Assurance PLC and also of Sithma Development (Pvt) Ltd. Dr Jayamaha had been the Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka from 2004 up



to her retirement at end of May 2009. She has over 37 years of extensive experience in the fields of economics, banking, finance, regulation and administration, having held a number of positions in the Central Bank and outside. She is currently an Advisor to His Excellency the President.

On release from the Central Bank, she has served as Secretary – Presidential Commission on Finance and Banking, Advisor – Financial Sector Reform Committee, Ministry of Finance and Special Advisor (Economic) – Common Wealth Secretariat, London, U.K.

She has been a Member of the Securities and Exchange Commission of Sri Lanka, the Insurance Board of Sri Lanka, the Chairperson of the Credit Information Bureau of Sri Lanka and the National Payments Council. Dr Jayamaha has been a Member of the Working Group on General Payment System Development of the Bank for International Settlements, Member of the Global Payments Forum, Member of the Advisory Panel of the G-8 Remittances Working Group and Member of the Expert Pane of the Safeguard Assessment Policy Review 2010 of the IMF. She had been providing advisory service to a number of international financial institutions and Central Banks in the Region.

**Mr A J Alles** - Managing Director/Chief Executive Officer  
*MBA – Finance (Stirling), A.I.B (Sri Lanka)*

Jonathan Alles was appointed as the Chief Executive Officer/MD of HNB on 1 July 2013. He holds a MBA from the University of Stirling, Scotland and is an Associate Member of the Institute of Bankers, Sri Lanka. He counts 25 years of banking experience having served International Banks and HSBC, Sri Lanka and also at Hatton National Bank during the period September 2002 to June 2005. Having returned to Sri Lanka from the UAE in September 2010, Alles re-joined Hatton National Bank in the capacity of the Chief Operating Officer.

He also serves as a Director of Sithma Development (Pvt) Ltd, Acuity Partners (Pvt) Ltd, Acuity Stockbrokers (Pvt) Ltd, Lanka Ventures PLC and HNB Assurance PLC.

**Ms. M A R C Cooray**  
*B.A. (Hons.) (University of Ceylon, Peradeniya, Sri Lanka), M.Sc (Strathclyde University, U.K.)*

Appointed Director in February 2010. She is a retired Deputy Governor of the Central Bank of Sri Lanka where she served for over 35 years. She is a Director of Ceylon Guardian Investment Trust PLC and Ceylon Investment PLC.

On release from the Central Bank, she had served the Ministry of Finance in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly 6 years, represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority and represented the Monetary Board on West Coast Power (Pvt) Ltd.

She has functioned as the Vice Chairperson of the Institute of Bankers of Sri Lanka for 5 years and has served on a number of Committees at national level covering a variety of subjects representing the Ministry of Finance and the Central Bank. She has also represented the Central Bank and the Ministry of Finance at various international meetings/seminars. Mrs. Cooray has been involved extensively in policy making and implementing projects and programmes especially in the area of regional development and microfinance. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the Government. Her articles / papers have been published in professional journals.

### **Dr Willie W Gamage**

*B.Sc (University College of London, U.K.), M.Sc (University of Colombo), Ph.D (Rajarata University)*

Appointed Director on 31st March 2011. Dr Willie W. Gamage currently serves as the Secretary to the Ministry of State Resources and Enterprises Development, while serving as the Chairman/CEO of the Strategic Enterprise Management Agency (SEMA).

He has over 30 years of wide experience in the public, private and non-governmental organisations, having served several such organisations in different capacities. He has extensive experience in formulating and implementing several projects on poverty alleviation, local economic development, promoting alternative energy generation and enhancing capacities in public enterprises. Dr Gamage has also contributed immensely to the local and regional development initiatives in the areas of Rural Water Supply and Sanitation, Small Scale Fisheries Development, Community Development, Municipal Solid Waste Management, Rural Enterprise Development and Rural Housing Development.

### **Dr Rohan Karunaratne**

*B.E (India), T.Eng (CEI), MIE (Lon), MBA (U.K.), Ph.D (U.K.), FIIM(HK), FCIQB*

Dr Rohan Karunaratne, a Consultant Engineer, is the incumbent President of the Ceylon Institute of Builders (CIOB), engaged in developing the construction industry and construction builders in Sri Lanka.

He is the Managing Director of A.K.K. Engineers (Pvt) Ltd., an Engineering Company specialized in building construction, civil engineering, water supply and waste water, construction of swimming pool and now in road construction, the Chairman of Associated Motor Finance Co Ltd and is also the Deputy Chairman of the International Institute of Management.

He has over 27 years of experience in civil engineering, building construction, engineering consultancy, construction training, lecturing in civil construction, designing and planning. He was the past Chairman of the National Construction Association of Sri Lanka and was the first Chairman of Human Resources Development (Pvt) Ltd and Advance Construction Training Academy. Dr Karunaratne holds a Ph.D in Management and a MBA from the Sussex University (UK). He is an Engineering Graduate in Civil Engineering and an advanced Diploma holder in HIET (Chennai - India). He is a Fellow of the International Institute of Management and a Fellow of the Ceylon Institute of Builders.

**Mr L U D Fernando**

*CIMA (UK), MBA (Sri Jayawardenapura)*

Mr L U D Fernando has over 29 years of experience in finance, life and non-life insurance, asset management and unit trusts, management of healthcare, food and beverages, manufacturing and retail, in the mercantile sector. In his career he has held many positions including Board seats. Mr Fernando is a Fellow Member of Chartered Institute of Management Accountants of United Kingdom and a Master of Business Administration of University of Sri Jayawardenapura.

**Mr D T S H Mudalige**

*FCA (Sri Lanka), FCMA (UK), FCCA (UK)*

Mr Mudalige is a Partner of Pricewaterhouse Coopers, Chartered Accountants. He has served as a Commission Member of the Securities and Exchange Commission of Sri Lanka. He is a Member of the governing board of the Sri Lanka Accounting and Auditing Standards Monitoring Board of Sri Lanka (SLA & ASMB) and a Member of the Financial Systems Stability Consultative Commission of the Central Bank.

Mr Mudalige is the Chairman of the Audit Committee of the University of Colombo/School of Computing (appointed by the University Grants Commission) and has served as a Member of the governing boards of the Postgraduate Institute of Management (PIM) and the National Institute of Business Management (NIBM).

He is also the Vice President of the Confederation of Asia and Pacific Accountants. The Confederation includes the professional accountancy bodies of Asian and Pacific nations. Mr Mudalige is a Fellow of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Chartered Institute of Management Accountants (UK) and a Fellow of the Association of Chartered Certified Accountants (UK).

**Miss D S C Jayawardena**

*B.A. (Monash University, Australia), Certified Auditor (DNVNorway), CIM – London, MCIM (U.K), Chartered Marketer*

Miss D S C Jayawardena is a Director of Lanka Milk Foods (CWE) PLC., Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd and Indo Lanka Exports (Pvt) Ltd, since 2009. She has worked as an Intern for the Clinton Foundation in 2008.

Miss Jayawardena holds a B.A. (Commercial Law, Criminology, Sociology) from the Monash University Australia, Professional Certificate in Marketing (CIM), Diploma in Marketing (CIM) and a Professional Postgraduate Diploma in Marketing (CIM). She is also a Certified Auditor (DNV-Norway), a Member of the Chartered Institute of Marketing (UK) (MCIM) and a Chartered Marketer.

**Mr R S Captain***University of Miami, Florida*

Mr R S Captain is the Managing Director of Austin Gloves (Ceylon) Ltd, CEI Plastics Ltd, Propertex Development Ltd, Paints and General Industries Ltd, Paints and General Industries (Exports) Ltd Polypak Secco Ltd and Ranweli Ltd. He is also a Director of Agriland Ltd, Chemical Industries (Colombo) Ltd, Forest Creek Park Ltd, Body Bar Ltd, Horahena Investments Ltd, Palmland Ltd, Parkland Ltd, Polytex Garments Ltd and Randiya Farms Ltd.

Mr Captain has had his primary education at the Royal College and secondary education at Millfield U.K. and the University of Miami, Florida.

**10.3 Directors' Direct Shareholdings in the Company**

The Directors' Direct Shareholding as at 30 June 2013.

	No. of shares held	
	Voting Shares	Non-Voting Shares
Dr. Ranee Jayamaha	101	-
Mr. A J Alles	-	-
Mrs. M A R C Cooray	-	5,312
Dr. W W Gamage	101	-
Dr. L R Karunaratne	1,018	-
Mr. L U D Fernando	610	2,057
Mr. D T S H Mudalige	-	-
Miss. D S C Jayawardena	500	-
Mr. R S Captain	6,007	-
Total	8,337	7,369

**10.4 Directors' Emoluments**

The aggregate emoluments paid to the Directors (including MD/CEO) comprising bonus and/or profit sharing payment during the financial year ended 31 December 2012 was LKR85.9m and the estimated emoluments including bonus and/or profit sharing payment payable for the financial year ending 31 December 2013 is LKR97m.

**10.5 Directors' Interests in Assets**

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

**10.6 Directors' Interests in Contracts**

There are no contracts or arrangements in force in which a director of HNB is materially interested, in relation to the business of the Company as at the date of Prospectus.

## 10.7 Statement – Board of Directors

No Director or a person nominated to become a Director of the Company has been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer; and
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

## 10.8 Key Management

Key management of HNB possesses extensive knowledge and skills with wide spread of business experience. Details of the key management of HNB are provided below:

Name	Position	Experience
Mr A J Alles	Managing Director/ Chief Executive Officer	Refer Section 10.2 for profile
Mr D P N Rodrigo	Chief Operating Officer	15 years of experience in the banking sector covering Finance, Institutional Banking and Risk Management; 5 years of experience in the apparel sector and 2 years in external auditing.
Ms I R D Thenabadu	DGM - Wholesale & Corporate Banking	26 years of experience in the banking sector covering branch banking, corporate banking, risk & compliance.
Mr J R P M Paiva	DGM - Strategy & Compliance	30 years of experience in banking covering branch banking, regional management, corporate credit and human resources.
Mr P D Hennayake	DGM - Services	Counts 11 years of experience in banking sector covering project finance, network management and services, 2½ years in venture capital and 9½ years in engineering.
Mr A P L Fernando	DGM - Recoveries & Credit Quality Management	32 years in banking covering corporate credit, development banking, SME, microfinance, regional banking and recoveries.
Mr A Ratnasabapathy	AGM - Corporate Banking	32 years in banking covering branch banking, international, treasury and corporate banking

Mr M Asokan	Head of Internal Audit	21 years in internal auditing/ financial accounting in banking /insurance sectors.
Mr N U Jumat	AGM - Trade & International	Covers 33 years of banking experience in international trade and credit including an 11 years in the Middle East.
Mr R J Thambirajah	AGM - Network Management	33 years of experience in banking covering branch banking, regional management and audit.
Mr R M P Dayawansa	AGM - Personal Financial Services	Over 31 years of experience in the banking sector covering branch banking, regional management.
Ms S Gnanapragasam	AGM - Risk	Over 27 years in treasury management in the banking and manufacturing sector.
Ms L C Cooray	AGM - Human Resources	Counts 17 years of experience in HR Management in banking, insurance and logistics sectors.
Ms K A L T Ranaweera	AGM - Legal/Company Secretary	Over 20 years of experience in legal aspects relating to commercial, development and investment banking sectors.
Mr S N Wijeratne	AGM - Chief Information Officer / Head of IT	24 years of experience in IT, banking and finance sectors covering IT Management, business consultancy and project management.
Mr A Gooneskere	Chief Accountant	Counts 28 years of experience in the banking industry covering financial accounting and reporting, taxation and leasing
Mr A R Uduwela	Chief Manager – Operations	Over 20 years covering branch banking, project finance and operations
Mr. A Abeygunasekara	Chief Manager – Treasury & Markets	Over 16 years of banking experience with 13 years at Treasury

### **10.9 Key Management's Emoluments**

The aggregate emoluments paid to the Senior Management (which includes key management personnel) in the form of salaries and bonuses during the financial year ended 31 December 2012 was LKR240.0m and the estimated emoluments in the form of salaries and bonuses payable for the financial year ending 31 December 2013 is LKR270m.

### **10.10 Statement – Managing Director/ Chief Executive Officer**

The Managing Director/ Chief Executive Officer of the HNB has not been involved in any of the following:

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer;
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

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## **11.0 INVESTMENT CONSIDERATION AND ASSOCIATED RISKS**

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Prior to investing in the Offered Debentures, prospective investors should pay particular attention to the fact that the Company and to a large extent its business activities are subject to a number of risk factors which may be within or outside the control of the Company. We recommend that you review the entire Prospectus in detail and pay particular attention to the following risks in connection with your investment. If any of the considerations and uncertainties given below develops into actual events, the Company's business, financial conditions or results of operations and prospects could be materially and adversely affected and this may impact the market price of the Debentures.

### **11.1 Risks Related to the Business**

#### **11.1.1 Interest Rate Risk**

Interest Rate Risk is the risk to which the Bank is exposed to due to uncertain and adverse movements in future interest rates. Interest rate risk is monitored through regular review of net interest yields by product to ensure interest rate margins and spreads are maintained and revisiting asset and liability pricing in line with our expectations on the interest yield curve.

The Bank is exposed to interest rate risk arising from a fixed rate liability book where re-pricing is slower than the majority of loan portfolio on fixed rates (notable exceptions being majority of the corporate banking portfolio and some midmarket exposures on floating rates). However, almost the entire deposit base contractually or otherwise can be re-priced within a year, an additional strength, which serves to reduce our vulnerability to interest rate risks. The Bank is committed to improving its liquidity and interest rate risk management infrastructure through its newly implemented Asset & Liability Management System. The system will be used to assess the behavioural and contractual maturity profiles of the Bank's assets and liabilities and the advanced stress testing capabilities will assist the Bank in enhancing its capital management processes.

#### **11.1.2 Compliance Risk**

It is HNB's policy to conduct its business in accordance with the Board approved Compliance Policy by complying with the laws and regulations imposed by the regulatory authorities with zero tolerance for failure to identify any breaches and promptly remedy such breaches if any, on the part of the Bank. The compliance policy has been formulated with the broad vision of establishing a fully compliant "corporate governance" and "risk mitigating" culture within the Bank. Accordingly the Bank is continuing its efforts towards establishing and maintaining internal systems and controls with a view to adhering to the highest status of ethical and professional behaviour in the conduct of Bank's business and to be fully compliant with laws, regulations, rules, directions that govern the Bank's business operations.

One of the key initiatives taken by the Compliance Division during the year 2012 was the project to implement an Anti-Money Laundering (AML) software. The new Anti-Money Laundering system will assist in the customer due diligence processes, keeping in line with the Financial Transaction Reporting Act No: 6 of 2006. In addition, the Bank commenced capturing



Know Your Customer (KYC) data electronically, which is a pre-requisite for successful implementation of the AML software.

Automation of web-based returns submitted to the Central Bank of Sri Lanka is another important initiative taken by the Bank with a view of putting in place a mechanism to further enhance data integrity of such statements. The Phase I of the project was completed in 2012, whilst the internal controls on debit card transactions taking place outside Sri Lanka too were further strengthened. Successful implementation of the Customer Charter was another milestone reached during the year 2012. A Risk Matrix was developed to measure the compliance risk associated with the Bank's business, and proactively mitigate such risks. During the year 2012 as well, the Bank continued its practice of submission of regulatory reports to the Board Integrated Risk Management Committee on matters of concern.

#### **11.1.3 Impact on Credit Ratings**

Credit rating plays a key role in determining the borrowing costs and access to debt capital markets for HNB. Fitch Ratings Lanka Limited has affirmed HNB with a long term rating of AA-(lka) as per the respective report published on 30 April, 2013. Any possible decline in these credit ratings could adversely affect the borrowing cost of HNB, the availability of debt capital from financial markets and the capability of raising deposits from the public.

#### **11.1.4 Market Risk**

Market Risk quantifies the risks arising from fluctuations in interest rates, foreign exchange positions and prices of commodity and equity investments. HNB's Board approves the market risk appetite and related limits for both the banking book (investments) and the trading book. Treasury Middle Office (TMO) which is part of the independent Risk Management Division reports on market risk and is instrumental in ensuring that the market risk limits are in line with the level of risk acceptable to the Board. TMO keeps track of price movements and other developments in the market that affect the Bank's risk profile and monitors primarily exchange rate, interest rate and equity price risks.

HNB's trading and currency translation risks are minimal in relation to total operations of the Bank. Presently exposure to the Bank's trading book is only 2% of the banking book given the capital market restrictions and minimal opportunities in the market. Market risk on long term investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark-to-market considerations. Reviews and assessments on the performance of the investments are undertaken regularly by the Bank's Investment Committee.

The Bank has a comprehensive Board approved Treasury Policy in place to reflect regulatory and market developments. The Treasury Middle Office (TMO) under the purview of the Head of Risk Management monitors the asset-liability position with oversight and supervision from the ALCO. The TMO also independently reviews activities of the Treasury Front Office and adherence to regulatory / internal policy guidelines. A Market Risk Dashboard indicates performance against risk appetite for currency, bond and equity positions of the trading portfolio with country, duration and value at risk (VAR) based limits in place.

#### **11.1.5 Competition with Other Institutions**

The financial services sector in Sri Lanka is one of the most competitive industry segments in the economy with LCBs, RFCs, LSBs and SLCs compete against each other on very competitive rate structures and excellent customer service. HNB has maintained a healthy asset growth during the past, but the threat of competition could hinder the growth and market share of the Company and could adversely affect the operations and its financial condition.

#### **11.1.6 Liquidity Risk**

Liquidity Risk is the risk that the Bank is unable to meet its debt obligations due to a lack of funds or having to meet these obligations at excessive cost. HNB manages liquidity risk in accordance with regulatory guidelines and international best practices. The objective of HNB's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. A Board approved Liquidity Policy to manage liquidity on a day-to-day basis and a Contingency Funding Plan to deal with crisis situations are in place. Contractual maturity of assets and liabilities, key liquidity ratios and monthly liquidity forecasts are reviewed at ALCO meetings. The main sources

of the Bank's funding are capital, core deposits from retail and commercial clients, wholesale deposits and access to borrowed funds from the interbank money market. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position.

HNB's lending portfolio is financed to a great extent by retail deposits and reliance on wholesale deposits and interbank market is low. Liquidity risk exposure is managed by Treasury with limits and triggers set to ensure that sufficient liquidity surplus and reserves are available to meet daily business requirements and also to deal with a sudden liquidity shock. Treasury reports the Bank's overall liquidity position to Management on a daily basis.

#### **11.1.7 Credit Risk**

HNB views credit risk as the risk of a potential loss to the Bank when a borrower or counterparty is either unable or unwilling to meet its financial obligations. The credit risk HNB face arises primarily from Corporate Banking, SME and Retail loans and advances and to a lesser degree from debt securities and off-balance sheet products such as guarantees. Given the scale and materiality of the Bank's loan book, managing the credit quality of the lending portfolio is a key focus area with the objective of minimising probable losses and maintaining credit risk exposure within acceptable parameters. The Bank's credit portfolio remains well diversified by customer, business segment and sector.

The Bank has developed policies and processes to measure and monitor credit risk. HNB's Credit Policy which is reviewed regularly by the Board of Directors can be described as the rules and parameters within which the Bank's credit officers operate. The Credit Risk Policy plays a central role in managing daily business activities. The policy defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring in line with the Bank's risk appetite. The approach is to avoid large credit risk on a counterparty or portfolio level by applying stringent underwriting

standards combined with sound collateralisation where feasible. The policy is reviewed regularly by the Board of Directors and updated throughout the year to ensure consistency with the Bank's business strategy. A monthly Credit Policy Meeting chaired by the Chief Executive Officer, drives policy decisions and implementation plans.

#### **11.1.8 Adverse Local Economic Conditions**

A macroeconomic downturn would negatively result in HNB growing their lending portfolio as well as the timely recovery of the same. In such a scenario, a slowdown of business of HNB cannot be avoided, and the profitability and the financial position may be adversely affected.

#### **11.1.9 Operational Risk**

Operational Risk is the risk of losses incurred due to inadequate internal processes, systems, human failures and/or external events. The majority of losses that distress companies have operational risk as a main contributor and operational risk management must therefore have its firm place in a company's internal control framework. HNB has a comprehensive operational risk policy in place comprising risk identification and assessment, implementation of controls for improving the management and monitoring process and mitigation tools for operational risks. There has been visible progress on standardizing and quantifying operational risk, this is reflected in the improving preventative culture observed across the business.

#### **11.1.10 Loss of Key Employees**

HNB will be dependent on the performance of its key employees and could have difficulties at least in the short run in the performance of its duties if the key employees leave the organisation.

#### **11.1.11 Reputational Risk**

Reputational risk results from damage to the Bank's image among stakeholders due to negative publicity regarding the Bank's business practices or management, and whether true or false, it can result in a loss of revenue or decline in shareholder confidence. The reputation of a company can be perceived as an intangible asset similar to goodwill.

HNB considers reputational risk as a consequence of a failure to manage its key risks. The Bank is therefore committed to managing reputational risk by promoting strong corporate governance and risk management practices at all levels of the organisation, by understanding how different aspects of its business activities affect stakeholders' perception of the organisation, through effective communication in the form of timely and accurate financial reports and news bulletins, by maintaining strong media presence, valuable client service and investor relationships and by complying effectively with current laws and regulations.

### **11.2 Risks Related to the Debentures of HNB**

#### **11.2.1 Reinvestment Risk**

The calculation for annual effective rate (AER) assumes the investor is able to reinvest his coupons at the same interest rate. The investor who is paid periodic coupon faces the risk of investing these coupon payments to generate the required AER on his investment. HNB Debentures have annual coupon payments. Assuming the investor is unable to invest these

coupon payments at the same interest rate on the debenture, the Debenture holder may not be able to generate the required AER. In case the investor can find an investment which yields a higher interest rate than the Debenture interest, the Debenture holder can generate a higher AER by reinvesting the coupon in such instruments.

### **11.2.2 Interest Rate Risk**

The price of a typical debenture will have a negative correlation with the market interest rates. Interest rate risk captures this relationship between market interest rates and the value of Debentures. If market interest rates rise, the value of the Debentures may fall: as market interest rates fall the value of Debentures may rise (all other factors being equal). If the investor wishes to sell the Debenture prior to its maturity, he might be facing a capital loss (gain) if the market interest rates have increased (decreased) subsequently. Interest rate risk is irrelevant for the investor who wishes to hold the Debenture till maturity.

### **11.2.3 Credit Risk**

Risk of the issuer not being able to pay interest and principal payments as promised on a timely basis is default risk/ credit risk. It is advisable for prospective HNB Debenture investors to take into account the Company's the rating awarded to the Company and its Debentures by Fitch Ratings, present financial strength as reflected in the Balance Sheet of the Company, asset and earnings growth, experience and skills of the Directors and senior management when forming an opinion on default risk. The rights of the debenture holders would be ranked in priority to the subordinated creditors of the Company but after the secured creditors of the Company.

### **11.2.4 Liquidity Risk**

Liquidity risk refers to the ease with which the debenture can be sold in the secondary market, after the initial placement. Since the HNB Debentures are listed, should an investor require an exit option; they will be able to sell the Debentures through the CSE in order to convert them to cash and to exit from the investment. Therefore the liquidity risk is mitigated to a greater degree in the HNB Debenture. Investors have to be mindful of the fact that even though the Debentures are listed, trading of listed debt is not at an advanced stage as the equity markets in Sri Lanka.

### **11.2.5 Call Risk**

Call risk refers to the risk that the issuer will retire all of the principal value of the debentures before maturity. The risk to investor is in that, the timing of the call is not known and the investor will be faced with a re-investment risk in the event the call is made at a time when the market interest rates have declined.

HNB Debentures do not have a call risk except in the circumstances stated below.

Since these Debentures shall not be redeemed by the Company prior to maturity for any reason whatsoever except due to unforeseen circumstances beyond the control of the Company. If redemption is to be done before maturity, it will be done subject to the prior written approval from the CBSL and the approval of 3/4th of the Debenture holders in nominal value of the Debentures outstanding as set out under Clause 14.2 of the Trust Deed, when the principal sum

is repaid before maturity.

### **11.3 Future plans of HNB and the risks associated with the future plans**

#### **11.3.1 Outlook for HNB**

Central Bank of Sri Lanka in its monetary policy road map for 2013 and beyond emphasised its objective of achieving a per capita GDP of USD4,000 by 2016, which places a significant amount of responsibility on the systemically important banks to provide the funding necessary for propelling economic growth to achieve this objective. While deposits will continue to be the main source of funding, the banks will need to supplement same with non-conventional funding sources. Hence the challenge for the sector in 2013 and beyond would be to maintain margins while supporting the overall growth story in the Country.

Therefore the bank believes their focus on profitable balance sheet growth supplemented by increase in fee income and improved productivity would be the key towards delivering sustainable above average shareholder returns in the foreseeable future.

The strategic priorities of the bank in achieving its medium term goals include;

- Focus on strong sales culture and profitable balance sheet growth
- Focus on operational excellence and cost optimisation
- Higher fee income
- Focus on governance, transparency, compliance and responsibility
- Build a competent, engaged and motivated team
- Focus on our strong national franchise
- Focus on customer relationships and fair banking
- Focus on innovation for tomorrow's customer
- Focus on Green banking

Despite the bank being resilient during tough economic cycles, and having risk mitigation strategies in place, the bank faces risks of not pursuing such future plans should there be any unforeseen shocks to the domestic and external economy, government policies or regulations.

#### **11.4 Assumptions on Future Plans of HNB**

Future plans of HNB which are discussed under Section 11.3 have been made with the following assumptions;

- HNB expects Sri Lanka's economic development the country to be conducive to businesses in a way the accelerated economic development would fuel overall economic activity and the demand for credit
- It is also expected that HNB would have access to and availability of funding to facilitate future lending at a feasible cost
- HNB expects the current tax legislation applicable to its financial products to either remain unchanged or have no adverse change
- HNB expects no adverse change in the interest rate environment which may have a negative impact on the margin spread of the Company

## 12.0 FINANCIAL STATEMENTS AND AUDITORS' REPORT

### 12.1 Accountants Report for inclusion in the Prospectus



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

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#### ACCOUNTANTS REPORT FOR THE INCLUSION IN THE PROSPECTUS

20<sup>th</sup> June 2013

The Board of Directors,  
HNB Towers  
No 479, T B Jaya Mawatha  
P O Box 837  
Colombo 10  
Sri Lanka

Dear Sirs,

#### ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF HATTON NATIONAL BANK PLC

This report has been prepared for the inclusion in the prospectus issued to the public in connection with the Listed, Senior, Unsecured, Redeemable and Rated Debentures issue of Rs. 2 billion, with an option to issue Debentures to a further Rs. 1 billion for a period of 10 years.

We have examined the financial statements of Hatton National Bank PLC from the financial years ended 31<sup>st</sup> December 2008 to 31<sup>st</sup> December 2012, included in the prospectus and report as follows.

##### 1. INCORPORATION

Hatton National Bank PLC ("Bank") is a publicly listed Bank incorporated in 1970 and domiciled in Sri Lanka. As per Section 487 (2) of Companies Act No 7 of 2007 the Bank has been re registered under the registration number PQ 82. The shares of the Bank have a primary listing on the Colombo Stock Exchange.

It is licensed by the Central Bank of Sri Lanka to conduct banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, dealing in government securities etc. under the provisions of Banking Act No. 30 of 1988.

##### 2. FINANCIAL STATEMENTS OF THE BANK

###### 2.1 Five Years Summary of Financial Statements

A summary of the Income Statements and Balance Sheets of Hatton National Bank PLC for the financial years ended 31<sup>st</sup> December 2008 to 31<sup>st</sup> December 2012, based on the audited financial statements of the Bank are set out in section 12.2 of the Prospectus.

Summaries presented for Assets, Liabilities and Shareholder Funds for financial years of 2012, 2011 and 2010 are based on financial statements prepared in accordance with SLFRSs, effective from 1<sup>st</sup> January 2012 applied from the date of transition of 1/1/2011 where as the financial

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo ACA  
Principals - S.R.J. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

information presented for 2009 and 2008 are based on financial statements prepared in accordance with the previous SLAS.

Operating results summaries presented for financial years of 2012 and 2011 are based on financial statements prepared in accordance with SLFRSs, effective from 1<sup>st</sup> January 2012 applied from the date of transition of 1/1/2011 where as the financial information presented from 2010, 2009 and 2008 are based on financial statements prepared in accordance with previous SLAS.

## 2.2 Audited Financial Statements for the year ended 31<sup>st</sup> December 2012

Statement of financial position as at 31<sup>st</sup> December 2012 related Statement of comprehensive income, statements of changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes are set out in section 12.4 of the Prospectus. We have audited these financial statements and our report dated 21<sup>st</sup> February 2013 is attached to the Financial Statements.

## 2.3 Audit Reports

We have audited the financial statements of the Bank for the financial years ended 31<sup>st</sup> December 2008 to 31<sup>st</sup> December 2012. Unqualified audit opinions have been issued for the said financial reporting periods.

## 2.4. Application of Accounting Standards and Accounting Policies

The financial statements of the Bank for the financial years ended 31<sup>st</sup> December 2008 to 31<sup>st</sup> December 2012 complied with applicable Sri Lanka Accounting Standards.

The accounting policies of the Bank are stated in detail in the audited financial statements of Hatton National Bank PLC for the year ended 31<sup>st</sup> December 2012. The adoption of revised/ new accounting standards and a summary of related amendments to the accounting policies of the Bank from financial years ended 31<sup>st</sup> December 2008 to 31<sup>st</sup> December 2012 are given below. Detailed descriptions are set out in section 12.4 of the prospectus. (The detailed description is only in relation to 2012)

Financial Year	Adoption of revised/ new accounting standards and related changes in Accounting Policies
31 <sup>st</sup> December 2008	<p>The Bank has adopted the revised Sri Lanka Accounting Standard 16, on "Employee benefits" during the year. The resulting implications were;</p> <ul style="list-style-type: none"> <li>▪ The Bank and HNB Assurance PLC involved a qualified Actuary in the measurement of post employment benefit obligations.</li> <li>▪ Actuarial gains and losses were recognized in the income statement to the extent that any cumulative unrecognized actuarial gain or loss exceeded 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets.</li> <li>▪ On first adopting the Standard, the Bank determined its transitional liability for defined benefit plans as at 1st January 2008. Since the</li> </ul>



	transitional liability was more than the liability that would have been recognized on 1st January 2008 under the respective entity's previous accounting policy, the Bank made an irrevocable choice to recognize that increase in its defined benefit liability, as an expense on a straight line basis over a period of five years from 1st January 2008.
31 <sup>st</sup> December 2009	There were no material changes.
31 <sup>st</sup> December 2010	Statement of Financial Position as at 31 <sup>st</sup> December 2010 was restated in 2012 due to the effects explained under " <i>Adoption of revised/ new accounting standards and related changes in Accounting Policies for year ended 31<sup>st</sup> December 2012</i> " due to the adoption of SLFRSs, from 1 <sup>st</sup> January 2012.
31 <sup>st</sup> December 2011	Financial statements of 2011 was restated in 2012 due to the effects explained under " <i>Adoption of revised/ new accounting standards and related changes in Accounting Policies for year ended 31<sup>st</sup> December 2012</i> " due to the adoption of SLFRSs, from 1 <sup>st</sup> January 2012.
31 <sup>st</sup> December 2012	<p>The Institute of Chartered Accountants of Sri Lanka had issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 1st January 2012. The Consolidated Financial Statements of the Group and the Financial Statements of the Bank which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with these Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka. These are the Group's first Consolidated Financial Statements prepared in accordance with SLFRSs and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards has been applied. An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the Bank/Group is provided in note 57 to the Annual report for the year ended 31<sup>st</sup> December 2012.</p> <p>Resulting implications of adopting SLFRSs were as follows;</p> <p><b><i>Loans and receivables:</i></b></p> <ul style="list-style-type: none"> <li>▪ Initial recognition of all Loans and Receivables at fair value plus directly attributable transaction costs.</li> <li>▪ Impairment of financial asset was determined using the incurred loss model based on objective evidence of impairment.</li> <li>▪ Interest income continued to be recognized on impaired loans on EIR basis.</li> </ul> <p><b><i>Deposits:</i></b></p> <ul style="list-style-type: none"> <li>▪ Deposits were subsequently measured at amortized cost using effective interest rate over the estimated term of the deposits</li> </ul>



	<p><b><i>Investment securities:</i></b></p> <ul style="list-style-type: none"> <li>▪ Equity securities not held for trading were classified as Available for Sale and were measured at their fair value with the changes in fair value being taken to equity.</li> <li>▪ Quoted Treasury Bills/Bonds were classified as Available for Sale which was measured with the changes in fair value being taken to equity.</li> </ul> <p><b><i>Dealing securities:</i></b></p> <ul style="list-style-type: none"> <li>▪ Dealing securities were classified as “Fair Value through Profit or Loss” which were measured at fair value through profit or loss.</li> </ul> <p><b><i>Derivatives:</i></b></p> <ul style="list-style-type: none"> <li>▪ Fair value of derivatives was determined based on present value. The fair value assets and liabilities were presented gross on the balance sheet.</li> </ul> <p><b><i>Consolidation of the Employee Share Benefit Trust (ESBT):</i></b></p> <ul style="list-style-type: none"> <li>▪ ESBT was treated as a special purpose entity and included in the Consolidated Financial Statements.</li> </ul> <p><b><i>Employee provident fund:</i></b></p> <ul style="list-style-type: none"> <li>▪ HNB accounted the employee provident fund scheme as a defined benefit scheme. Under defined benefit plans actuarial assumptions were used to measure the obligation and expense.</li> </ul> <p><b><i>Share based payment transactions:</i></b></p> <ul style="list-style-type: none"> <li>- <b><i>Cash settled share based payment transaction</i></b>  The fair value of the amount payable to employees in respect of share appreciation rights settled in cash was recognized as an expense with a corresponding increase in liabilities. The liability is remeasured at each reporting date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.</li> <li>- <b><i>Equity settled share based payment transactions</i></b> <ul style="list-style-type: none"> <li>a. <i>Equity settled share based payments granted after 1<sup>st</sup> January 2012</i>  The grant date fair value of equity-settled share-based payment awards granted to employees was recognized as an employee expense, with a corresponding increase in equity, over the</li> </ul> </li> </ul>
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	<p>period in which the employees unconditionally become entitled to the awards.</p> <p><i>b. Equity settled share based payments granted prior to 1st January 2012</i></p> <p>In respect of employee share options granted prior to 1<sup>st</sup> January 2012 SLFRS 2 Share Based Payment standard was not applicable.</p> <p><b>Interest income /expense:</b></p> <ul style="list-style-type: none"> <li>Interest income and expense were recognized in profit or loss using the effective interest method.</li> </ul> <p><b>Fee and commission income:</b></p> <ul style="list-style-type: none"> <li>All fees, points paid or received, transaction costs and other premiums or discounts were amortized over the expected life of the instrument</li> <li>Fee incomes on financial guarantee contracts were recognized as revenue over the period that the related services are provided.</li> </ul> <p><b>Operating lease rental:</b></p> <ul style="list-style-type: none"> <li>Lease rentals were recognized on a straight line basis over the primary lease period, in line with LKAS 17 "Leases".</li> </ul>
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## 2.5. Dividends

The Bank has declared the following dividends in respect of Ordinary Shares during the five financial years ended up to 31<sup>st</sup> December 2012.

Financial Year	Gross Dividend (Rs.Mn)	Dividend Per Share(Rs.)
2008	942	4.00
2009	1,533	6.50
2010	1,650	7.00
2011*	2,914	7.50
2012**	3,378	8.50

\*Final dividend of Rs 6.00 per share consisted of Rs 3.00 per share in cash and Rs 3.00 in the form of a scrip dividend

\*\* Bank declared a final dividend of Rs. 7 per share on voting and non-voting shares of the bank as at 31<sup>st</sup> December 2012. A solvency report was issued on 21<sup>st</sup> February 2013, in this regard. This dividend was approved at the AGM held on 28<sup>th</sup> March 2013.

## **2.6. Events after the Reporting Date**

### **Majan Exchange LLC**

Bank entered in to a sale agreement with a local investor in Oman to dispose its subsidiary, Majan Exchange LLC on 23rd May 2013.

### **Debenture issue**

On 6th June 2013, the Bank issued 20,000,000 unsecured subordinated redeemable debentures to the public at an issue price of Rs. 100/- with the option to issue further 20,000,000 debentures in the event the issue is oversubscribed. Therefore, the Bank issued Rs. 4Bn of debentures in June at an interest rate of 14%.

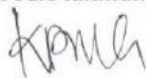
### **Related party lending**

Bank granted long term loan facilities to Government and Government related entities amounting to Rs. 4.5Bn respectively for infrastructure projects during the first half of 2013.

### **Employee Share Benefit Trust (ESBT)**

ESBT was a trust set up by the Bank for the benefit of the executive employees that entitled those employees to a share option. The Bank has obtained clearance from CSE on 14<sup>th</sup> June 2013 and SEC to liquidate the ESBT which will result in the reversal of the provisions made for the cost of the cash settled share option.

Yours faithfully,



**Chartered Accountants**

Colombo  
SR/SD

## 12.2 Five Year Summary of Financial Statements

Year ended 31st December (LKRm)                      **2008**                      **2009**                      **2010**                      **2011**                      **2012**

### Operating Results

Income	36,615	38,811	34,870	<b>37,066</b>	<b>51,559</b>
Interest Income	32,431	34,620	30,249	<b>33,176</b>	<b>47,346</b>
Interest Expense	19,752	20,040	14,703	<b>16,530</b>	<b>25,368</b>
Non-Interest Income	4,131	4,053	4,591	<b>3,856</b>	<b>4,159</b>
Operating Expenses (Incl. Financial VAT and impairment)	12,026	12,716	13,406	<b>12,114</b>	<b>16,091</b>
Profit before Income Tax	4,785	5,918	6,731	<b>8,388</b>	<b>10,046</b>
Income Tax on Profit	1,566	1,566	2,267	<b>2,123</b>	<b>2,342</b>
Profit after Taxation	3,219	4,352	4,464	<b>6,265</b>	<b>7,703</b>

### Liabilities and Shareholder Funds

Customer Deposits	186,770	210,507	<b>239,034</b>	<b>291,357</b>	<b>341,424</b>
Refinance Borrowings	6,424	6,169	<b>6,429</b>	<b>7,045</b>	<b>6,435</b>
Other Liabilities	42,064	38,773	<b>42,579</b>	<b>42,923</b>	<b>50,489</b>
Deferred Taxation	872	939	<b>891</b>	<b>1,175</b>	<b>1,478</b>
Shareholders' funds	20,581	23,900	<b>30,775</b>	<b>37,984</b>	<b>46,476</b>
<b>Total</b>	<b>256,711</b>	<b>280,289</b>	<b>319,708</b>	<b>380,484</b>	<b>446,302</b>

### Assets

Loans and Receivables	174,808	169,639	<b>202,253</b>	<b>257,198</b>	<b>302,761</b>
Cash, Short Term Funds and Statutory Deposits with Central Bank of Sri Lanka	35,149	38,216	<b>30,600</b>	<b>33,446</b>	<b>39,025</b>
Property, Plant and Equipment	6,866	7,180	<b>7,428</b>	<b>7,835</b>	<b>9,418</b>
Other Assets	39,888	65,254	<b>79,427</b>	<b>82,004</b>	<b>95,099</b>
<b>Total</b>	<b>256,711</b>	<b>280,289</b>	<b>319,708</b>	<b>380,484</b>	<b>446,302</b>

### Ratios

Return on Average Shareholders' Funds (%)	17	20	16	<b>18</b>	<b>18</b>
Income Growth (%)	24	6	(10)	6	39
Return on Average Assets (%)	1.3	1.6	1.5	1.8	1.9
Dividend Cover (Times)	3.4	2.8	2.7	2.1	2.3
Property, Plant and Equipment to Shareholders' Funds (%)	3.4	2.8	2.7	2.1	2.3
Total Assets to Shareholders' Funds (Times)	12	12	10	10	10
<b>(As specified in the Banking Act No. 30 of 1988)</b>					
Capital Funds to Liabilities including Contingent Liabilities (%)	1.2	1.1	1.0	<b>2.2</b>	2.2
Liquid Assets to Liabilities (%)	22	29	24	<b>22</b>	<b>22</b>

<b>Share Information</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Market Value per Share (LKR)					
-Voting	69.75	170.25	399.90	151.30	<b>148.00</b>
-Non Voting	32.00	104.75	214.60	83.20	<b>112.50</b>
Earnings per Share (LKR)	13.67	18.47	18.84	16.60	<b>19.36</b>
Earnings per Share (Adjusted) (LKR) *	8.09	10.94	11.22	15.75	<b>19.36</b>
Price Earnings Ratio	5.10	9.22	21.23	9.11	<b>7.64</b>
Net Assets per Share (Adjusted) (LKR) **	51.81	60.16	77.47	95.62	<b>116.99</b>
Dividend per share (LKR)	4.00	6.50	7.00	7.50	<b>8.50</b>
Gross Dividends (LKRm)	942	1,533	1,650	2,914	<b>3,378</b>

<b>Other Information</b>					
1 No of Employees	4,395	4,302	4,352	4,584	<b>4,679</b>
No of Customer Centres	177	186	205	240	247
No of Student Banking Centres	152	153	159	164	166
No of Other Financial Centres	114	115	121	123	132

\* Earnings per share have been adjusted for weighted Average number of shares outstanding during the current year.

\*\* Net Assets per share has been computed for the current number of shares issued as at 31st December 2012

\*\*\* Above highlighted Information are based on LKASs/SLFRSs.

## 12.3 Interim Financial Statements for the 3m ended 31 March 2013

INCOME STATEMENT						
	BANK			GROUP		
	2013	2012	% Increase/ (Decrease)	2013	2012	% Increase/ (Decrease)
	Rs. 000	Rs. 000		Rs. 000	Rs. 000	
<b>Income</b>	<b>14,622,783</b>	<b>11,471,608</b>	<b>27</b>	<b>15,683,723</b>	<b>12,368,581</b>	<b>27</b>
Interest income	13,682,576	10,035,319	36	13,879,856	10,150,855	37
Interest expenses	7,584,415	5,187,419	46	7,619,094	5,213,321	46
<b>Net interest income</b>	<b>6,098,161</b>	<b>4,847,900</b>	<b>26</b>	<b>6,260,762</b>	<b>4,937,534</b>	<b>27</b>
Fee and commission income	1,038,230	933,542	11	1,088,571	986,566	10
Fee and commission expenses	20,465	10,004	105	131,269	106,297	23
<b>Net fee and commission income</b>	<b>1,017,765</b>	<b>923,538</b>	<b>10</b>	<b>957,302</b>	<b>880,269</b>	<b>9</b>
<b>Net interest, fee and commission income</b>	<b>7,115,926</b>	<b>5,771,438</b>	<b>23</b>	<b>7,218,064</b>	<b>5,817,803</b>	<b>24</b>
Net gain/(loss) from trading	(1,022,199)	805,107	(227)	(1,012,691)	770,753	(231)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-
Net gain/(loss) from financial investments	93,833	77,156	22	24,743	30,241	(18)
Other operating income (net)	830,343	(379,516)	(319)	1,703,244	430,166	296
<b>Total operating income</b>	<b>7,017,903</b>	<b>6,274,185</b>	<b>12</b>	<b>7,933,360</b>	<b>7,048,963</b>	<b>13</b>
Impairment for loans and other losses						
Individual impairment	133,597	184,009	(27)	133,597	184,009	(27)
Collective impairment	861,363	392,775	119	861,363	392,775	119
Others	24,145	12,222	98	24,145	12,222	98
<b>Net operating income</b>	<b>5,998,798</b>	<b>5,685,179</b>	<b>6</b>	<b>6,914,255</b>	<b>6,459,957</b>	<b>7</b>
<b>Operating expenses</b>						
Personnel expenses	1,965,413	1,763,737	11	2,108,228	1,909,314	10
Depreciation and amortisation	258,324	240,543	7	308,527	287,756	7
Other expenses	1,659,379	1,475,266	12	2,264,902	1,961,347	15
	3,883,116	3,479,546	12	4,681,657	4,158,417	13
<b>Operating profit before Value Added Tax (VAT)</b>	<b>2,115,682</b>	<b>2,205,633</b>	<b>(4)</b>	<b>2,232,598</b>	<b>2,301,540</b>	<b>(3)</b>
Value Added Tax (VAT) on financial services	425,732	383,324	11	425,732	383,324	11
<b>Operating profit after Value Added Tax (VAT)</b>	<b>1,689,950</b>	<b>1,822,309</b>	<b>(7)</b>	<b>1,806,866</b>	<b>1,918,216</b>	<b>(6)</b>
Share of profits of associates	-	-	-	6,204	(6,509)	(195)
<b>Profit before Income Tax</b>	<b>1,689,950</b>	<b>1,822,309</b>	<b>(7)</b>	<b>1,813,070</b>	<b>1,911,707</b>	<b>(5)</b>
Income Tax expenses	531,996	588,064	(10)	539,004	590,979	(9)
<b>Profit for the period</b>	<b>1,157,954</b>	<b>1,234,245</b>	<b>(6)</b>	<b>1,274,066</b>	<b>1,320,728</b>	<b>(4)</b>
<b>Profit attributable to:</b>						
Owners of the parent	1,157,954	1,234,245	(6)	1,262,191	1,277,973	(1)
Non-controlling interests	-	-	-	11,875	42,755	(72)
<b>Profit for the period</b>	<b>1,157,954</b>	<b>1,234,245</b>	<b>(6)</b>	<b>1,274,066</b>	<b>1,320,728</b>	<b>(4)</b>
<b>Earnings per share on profit</b>						
Basic earnings per ordinary share (Rs.)	2.91	3.11	(6)	3.30	3.35	(1)
Diluted earnings per ordinary share (Rs.)	2.90	3.10	(6)	3.29	3.34	(1)

STATEMENT OF COMPREHENSIVE INCOME						
	BANK			GROUP		
	For the Three Months ended 31st March			For the Three Months ended 31st March		
	2013 Rs. 000	2012 Rs. 000	% Increase/ (Decrease)	2013 Rs. 000	2012 Rs. 000	% Increase/ (Decrease)
<b>Profit for the period</b>	<b>1,157,954</b>	<b>1,234,245</b>	<b>(6)</b>	<b>1,274,066</b>	<b>1,320,728</b>	<b>(4)</b>
<b>Other comprehensive income, net of tax</b>						
Gains and losses arising from translating the financial statements of foreign operations	-	-	-	(501)	22,224	(102)
Gains and losses on re-measuring available - for - sale financial assets						
Net change in fair value on available - for - sale financial assets	786,419	(162,174)	585	796,816	(165,567)	581
Transfer to life policy holder reserve fund	-	-	-	-	-	-
Net amount transferred to profit or loss - AFS financial assets	-	75,402	(100)	-	75,402	(100)
Changes in revaluation surplus	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>Other comprehensive income for the period, net of taxes</b>	<b>786,419</b>	<b>(86,772)</b>	<b>1,006</b>	<b>796,315</b>	<b>(67,941)</b>	<b>1,272</b>
<b>Total comprehensive income for the period</b>	<b>1,944,373</b>	<b>1,147,473</b>	<b>69</b>	<b>2,070,381</b>	<b>1,252,787</b>	<b>65</b>
Total comprehensive income attributable to:						
Owners of the parent	1,944,373	1,147,473	69	2,058,084	1,201,200	71
Non-controlling interests	-	-	-	12,297	51,587	(76)
<b>Total comprehensive income for the period</b>	<b>1,944,373</b>	<b>1,147,473</b>	<b>69</b>	<b>2,070,381</b>	<b>1,252,787</b>	<b>65</b>



STATEMENT OF FINANCIAL POSITION						
	As at 31.03.2013 Rs. 000	BANK As at 31.12.2012 Rs. 000 (Audited)	% Increase/ (Decrease)	As at 31.03.2013 Rs. 000	GROUP As at 31.12.2012 Rs. 000 (Audited)	% Increase/ (Decrease)
<b>ASSETS</b>						
Cash and cash equivalents	9,871,943	8,769,206	13	10,181,752	8,848,746	15
Balances with central banks	20,465,182	19,933,463	3	20,481,647	19,950,040	3
Placements with banks	5,391,200	10,321,832	(48)	6,722,915	11,667,417	(42)
Derivative financial instruments	204,954	344,552	(41)	204,954	344,552	(41)
Other financial assets held-for-trading	440,579	474,083	(7)	1,311,797	1,078,124	22
Non - current assets held for sale	-	-	-	2,875	2,875	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	-
Loans and receivables to other customers	306,532,754	302,760,980	1	307,316,413	303,922,092	1
Financial investments – Available-for-sale	57,424,753	57,869,546	(1)	58,550,009	58,929,296	(1)
Financial investments – Held-to-maturity	-	-	-	1,457,697	1,643,852	(11)
Financial investments – Loans and Receivables	25,343,288	20,030,669	27	26,425,027	20,904,172	26
Investments in subsidiaries	2,357,285	2,357,285	-	-	-	-
Investments in associates and joint ventures	655,000	655,000	-	517,377	386,172	34
Property, plant and equipment	9,450,256	9,417,915	-	17,802,678	17,815,411	-
Investment properties	348,388	349,708	-	163,717	164,598	(1)
Intangible assets	615,726	556,171	11	745,083	689,501	8
Deferred tax assets	443,254	369,726	20	445,721	372,193	20
Other assets	12,170,481	12,092,197	1	13,123,379	12,679,956	3
<b>Total assets</b>	<b>451,715,043</b>	<b>446,302,333</b>	<b>1</b>	<b>465,453,041</b>	<b>459,398,997</b>	<b>1</b>
<b>LIABILITIES</b>						
Due to banks	27,805,781	30,400,980	(9)	27,906,583	30,400,980	(8)
Derivative financial instruments	1,744,931	1,436,443	21	1,744,931	1,436,443	21
Other financial liabilities held-for-trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	348,175,532	341,423,986	2	347,797,945	340,847,606	2
Other borrowings	3,831,869	4,950,535	(23)	5,272,406	6,747,144	(22)
Debt securities issued	-	-	-	150,000	150,000	-
Current tax liabilities	1,866,616	1,755,429	6	1,966,046	1,839,714	7
Insurance provision -Life	-	-	-	3,881,655	3,626,239	7
Insurance provision -General	-	-	-	1,175,905	969,441	21
Deferred tax liabilities	1,484,237	1,478,341	-	1,553,135	1,556,312	-
Other provisions	3,605,001	4,240,493	(15)	3,666,008	4,400,098	(17)
Other liabilities	12,861,488	9,554,819	35	13,688,963	10,268,110	33
Due to subsidiaries	-	-	-	-	-	-
Subordinated term debts	4,671,097	4,585,568	2	4,648,316	4,563,011	2
<b>Total liabilities</b>	<b>406,046,552</b>	<b>399,826,594</b>	<b>2</b>	<b>413,451,893</b>	<b>406,805,098</b>	<b>2</b>



STATEMENT OF FINANCIAL POSITION						
	As at 31.03.2013 Rs.000	BANK As at 31.12.2012 Rs.000 (Audited)	% Increase/ (Decrease)	As at 31.03.2013 Rs.000	GROUP As at 31.12.2012 Rs.000 (Audited)	% Increase/ (Decrease)
<b>EQUITY</b>						
Stated capital	12,609,139	12,579,479	-	12,609,139	12,579,479	-
Statutory reserve funds	4,931,153	4,530,562	9	4,931,153	4,530,562	9
Retained earnings	2,200,497	4,225,948	39	3,524,479	5,321,845	(34)
Other reserves	25,927,704	25,139,750	(11)	29,990,002	29,192,575	3
Total shareholders' equity	45,668,493	46,475,739	(2)	51,054,771	51,624,461	(1)
Non-controlling interests	-	-	-	946,377	969,438	(2)
<b>Total equity</b>	<b>45,668,491</b>	<b>46,475,739</b>	<b>(2)</b>	<b>52,001,148</b>	<b>52,593,899</b>	<b>(1)</b>
<b>Total equity and liabilities</b>	<b>451,715,043</b>	<b>446,302,333</b>	<b>1</b>	<b>465,453,041</b>	<b>459,398,997</b>	<b>1</b>
<b>Contingent liabilities and commitments</b>	<b>164,749,144</b>	<b>164,367,012</b>	<b>-</b>	<b>164,749,144</b>	<b>164,367,012</b>	<b>-</b>
Net asset value per share (Rs.)	114.88	116.99	(2)	128.43	129.96	(1)
Memorandum Information						
Number of Employees	4,668	4,679				
Number of Branches	249	247				

## CERTIFICATION

I certify that the above financial statements are in compliance with the requirements of the Companies Act No.7 of 2007 and give a true and fair view of the state of affairs of Hatton National Bank PLC and the Group as at 31st March 2013 and its profit for the 3 months ended 31st March 2013.

(Sgd.)

**Ajantha de Vas Gunasekara**

Chief Financial Officer

07th May 2013

We the undersigned, being the Acting Chief Executive Officer / Executive Director and the Chairperson of Hatton National Bank PLC certify that:

- the above statements have been prepared in compliance with the formats and definitions prescribed by the Central Bank of Sri Lanka and Rule 7.4 of Colombo Stock Exchange.
- the information contained in these statements have been extracted from the unaudited financial statements of the Bank, its Associate, Joint Venture and Subsidiary Companies unless indicated as audited.

(Sgd.)

**Jonathan Alles**

Acting Chief Executive Officer / Executive Director

07th May 2013

(Sgd.)

**Ranee Jayamaha**

Chairperson

07th May 2013

## STATEMENT OF CHANGES IN EQUITY - BANK

	Stated Capital		Statutory Reserves			Other Reserves				Total Equity
	Voting	Non-voting	Reserve Fund	Investment Fund	Available for Sale Reserve	Capital Reserve	General Reserve	ESOP Reserve	Retained Earnings	
For the 3 months ended 31st March 2013	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>Balance as at 31st December 2012</b>	<b>10,049,259</b>	<b>2,530,220</b>	<b>2,230,000</b>	<b>2,300,562</b>	<b>2,693,821</b>	<b>4,469,414</b>	<b>17,800,000</b>	<b>176,515</b>	<b>4,225,948</b>	<b>46,475,739</b>
<b>Total comprehensive income for the period</b>										
Profit for the period	-	-	-	-	-	-	-	-	1,157,954	1,157,954
Other Comprehensive										
Income for the period (net of tax)	-	-	-	-	786,419	-	-	-	-	786,419
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>786,419</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,157,954</b>	<b>1,944,373</b>
<b>Transactions with equity holders, recognised directly in equity</b>										
Share options exercised	22,362	7,298	-	-	-	-	-	-	-	29,660
Final Dividend 2012	-	-	-	-	-	-	-	-	(2,782,814)	(2,782,814)
Deferred Tax Liability for Revaluation Reserve	-	-	-	-	-	1,535	-	-	-	1,535
Transfer to Investment Fund	-	-	-	400,591	-	-	-	-	(400,591)	-
<b>Total transactions with equity holders</b>	<b>22,362</b>	<b>7,298</b>	<b>-</b>	<b>400,591</b>	<b>-</b>	<b>1,535</b>	<b>-</b>	<b>-</b>	<b>(3,183,405)</b>	<b>(2,751,619)</b>
<b>Balance as at 31st March 2013</b>	<b>10,071,621</b>	<b>2,537,518</b>	<b>2,230,000</b>	<b>2,701,153</b>	<b>3,480,240</b>	<b>4,470,949</b>	<b>17,800,000</b>	<b>176,515</b>	<b>2,200,497</b>	<b>45,668,493</b>

	Stated Capital		Statutory Reserves			Other Reserves				Total Equity
	Voting	Non-voting	Reserve Fund	Investment Fund	Available for Sale Reserve	Capital Reserve	General Reserve	ESOP Reserve	Retained Earnings	
For the 3 months ended 31st March 2012	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>Balance as at 31st December 2011</b>	<b>9,143,326</b>	<b>2,308,125</b>	<b>1,800,000</b>	<b>978,337</b>	<b>2,334,403</b>	<b>3,009,986</b>	<b>15,400,000</b>	<b>-</b>	<b>3,009,553</b>	<b>37,983,730</b>
<b>Total comprehensive income for the period</b>										
Profit for the period	-	-	-	-	-	-	-	-	1,234,245	1,234,245
Other Comprehensive										
Income for the period (net of tax)	-	-	-	-	(86,772)	-	-	-	-	(86,772)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(86,772)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,234,245</b>	<b>1,147,473</b>
<b>Transactions with equity holders, recognised directly in equity</b>										
Share options exercised	6,643	1,371	-	-	-	-	-	-	-	8,014
Final Dividend - Scrip 2011	840,958	208,471	-	-	-	-	-	-	(1,049,429)	-
Final Dividend - Cash 2011	-	-	-	-	-	-	-	-	(1,282,635)	(1,282,635)
Deferred Tax Liability for Revaluation Reserve	-	-	-	-	-	541	-	-	-	541
ESOP allocation - 2012	-	-	-	-	-	-	-	176,515	-	176,515
Transfer to Investment Fund	-	-	-	343,546	-	-	-	-	(343,546)	-
<b>Total transactions with equity holders</b>	<b>847,601</b>	<b>209,842</b>	<b>-</b>	<b>343,546</b>	<b>-</b>	<b>541</b>	<b>-</b>	<b>176,515</b>	<b>(2,675,610)</b>	<b>(1,097,565)</b>
<b>Balance as at 31st March 2012</b>	<b>9,990,927</b>	<b>2,517,967</b>	<b>1,800,000</b>	<b>1,321,883</b>	<b>2,247,631</b>	<b>3,010,527</b>	<b>15,400,000</b>	<b>176,515</b>	<b>1,568,188</b>	<b>38,033,638</b>

# STATEMENT OF CHANGES IN EQUITY - GROUP

	Stated Capital		Statutory Reserves			Available for sale Reserve	Capital Reserve	Other Reserves			ESOP Reserve	Retained Earnings	Non Controlling Interest	Total Equity
	Voting Rs.000	Non-Voting Rs.000	Reserve Fund Rs.000	Investment Fund Rs.000	Treasury Shares Rs.000			General Reserve Rs.000	Exchange Equalisation Reserve Rs.000	Life Policy holder reserve Fund Rs.000				
<b>For the period ended 31st March 2013</b>														
Balance as at 31st December 2012	10,049,259	2,536,220	2,230,000	2,300,562	(310,938)	2,724,492	8,795,153	17,800,000	8,544	(1,191)	176,515	5,321,845	969,438	52,593,899
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-	1,262,191	11,875	1,274,066
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	422	796,314
Other Comprehensive Income for the period (net of tax)	-	-	-	-	-	788,247	-	-	(200)	7,845	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	788,247	-	-	(200)	7,845	-	1,262,191	12,297	2,070,380
<b>Transactions with equity holders, recognised directly in equity</b>														
Share options exercised	22,362	7,298	-	-	-	-	-	-	-	-	-	-	-	29,658
Final Dividend 2012	-	-	-	-	-	-	-	-	-	-	-	(2,674,308)	(55,000)	(2,729,308)
Deferred Tax Liability for Revaluation Reserve	-	-	-	-	-	-	1,535	-	-	-	-	-	-	1,535
Deemed disposal gain in Joint Venture Group	-	-	-	-	-	-	-	-	-	-	-	15,342	19,642	34,984
Transfer to Investment Fund	-	-	-	400,591	-	-	-	-	-	-	-	(400,591)	-	-
Total Transactions with equity holders	22,362	7,298	-	400,591	-	-	1,535	-	-	-	-	(3,059,557)	(35,358)	(2,663,131)
<b>Balance as at 31st March 2013</b>	<b>10,071,621</b>	<b>2,537,518</b>	<b>2,230,000</b>	<b>2,701,153</b>	<b>(310,938)</b>	<b>3,512,739</b>	<b>8,796,688</b>	<b>17,800,000</b>	<b>8,344</b>	<b>6,654</b>	<b>176,515</b>	<b>3,524,479</b>	<b>946,377</b>	<b>52,001,148</b>
	Stated Capital		Statutory Reserves			Available for sale Reserve	Capital Reserve	Other Reserves			ESOP Reserve	Retained Earnings	Non Controlling Interest	Total Equity
	Voting Rs.000	Non-Voting Rs.000	Reserve Fund Rs.000	Investment Fund Rs.000	Treasury Shares Rs.000			General Reserve Rs.000	Exchange Equalisation Reserve Rs.000	Life Policy holder reserve Fund Rs.000				
<b>For the period ended 31st March 2012</b>														
Balance as at 31st December 2011	9,143,326	2,308,125	1,800,000	978,337	(310,938)	2,364,801	6,403,549	15,400,000	5,733	(22,526)	-	3,504,132	782,224	42,356,763
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-	1,277,973	42,755	1,320,728
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	8,831	(67,941)
Other Comprehensive Income for the period (net of tax)	-	-	-	-	-	(86,597)	-	-	13,353	(3,528)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	(86,597)	-	-	13,353	(3,528)	-	1,277,973	51,586	1,252,787
<b>Transactions with equity holders, recognised directly in equity</b>														
Share options exercised	6,643	1,371	-	-	-	-	-	-	-	-	-	-	-	8,014
Final dividend - Scip 2011	840,958	208,471	-	-	-	-	-	-	-	-	-	(1,049,429)	-	-
Final Dividend - Cash 2011	-	-	-	-	-	-	-	-	-	-	-	(1,237,426)	(42,000)	(1,279,426)
Deferred Tax Liability for Revaluation Reserve	-	-	-	-	-	-	541	-	-	-	-	-	-	541
ESOP allocation - 2012	-	-	-	-	-	-	-	-	-	-	176,515	-	-	176,515
Subsidiary write off	-	-	-	-	-	-	-	-	3,665	-	-	(3,665)	-	-
Transfer to Investment Fund	-	-	-	343,546	-	-	-	-	-	-	-	(343,546)	-	-
Deemed Disposal Gain in Joint Venture	-	-	-	-	-	-	-	-	-	-	-	58,725	47,551	106,276
Total Transactions with equity holders	847,601	209,842	-	343,546	-	-	541	-	3,665	-	176,515	(2,575,341)	5,551	(988,080)
<b>Balance as at 31st March 2012</b>	<b>9,990,927</b>	<b>2,517,967</b>	<b>1,800,000</b>	<b>1,321,883</b>	<b>(310,938)</b>	<b>2,278,204</b>	<b>6,404,090</b>	<b>15,400,000</b>	<b>22,751</b>	<b>(26,054)</b>	<b>176,515</b>	<b>2,206,764</b>	<b>839,361</b>	<b>42,621,470</b>

<b>CASH FLOW STATEMENT</b>				
<b>Cash Flow Statement for the 3 months ended 31st March</b>	<b>BANK</b>		<b>GROUP</b>	
	<b>2013 Rs.000</b>	<b>2012 Rs.000</b>	<b>2013 Rs.000</b>	<b>2012 Rs.000</b>
<b>Cash Flows from Operating Activities</b>				
Interest & Commission Receipts	12,395,807	10,620,304	12,400,587	10,744,478
Interest Payments	(7,581,136)	(5,121,361)	(7,618,377)	(5,149,705)
Receipts from other Operating Activities	331,216	511,680	1,131,463	1,151,698
Cash Payments to Employees	(2,005,939)	(1,626,749)	(2,277,953)	(1,775,369)
Recoveries from loans written off in previous years	2,160	1,562	2,160	1,562
Cash Payments to Suppliers and Other Operating Activities	(2,570,852)	(1,645,350)	(2,852,738)	(1,980,075)
<b>Operating Profit before Changes in Operating Assets &amp; Liabilities</b>	<b>571,256</b>	<b>2,740,086</b>	<b>785,142</b>	<b>2,992,589</b>
<b>(Increase)/ Decrease in Operating assets</b>				
Deposits held for Regulatory or Monetary Control Purpose	(531,719)	(922,661)	(531,719)	(922,661)
Loans and advances	(4,131,040)	(26,435,509)	(3,786,562)	(26,381,186)
Other Short Term assets	229,748	(991,706)	(235,302)	(1,332,185)
	<b>(4,433,011)</b>	<b>(28,349,876)</b>	<b>(4,553,583)</b>	<b>(28,636,032)</b>
<b>Increase / (Decrease) in Operating Liabilities</b>				
Deposits from Customers	6,758,077	21,446,859	6,956,870	21,402,859
Other Liabilities	759,356	(18,169)	1,253,365	212,943
	<b>7,517,433</b>	<b>21,428,690</b>	<b>8,210,235</b>	<b>21,615,802</b>
<b>Net Cash Generated from / (used in) Operating Activities before Income Tax</b>	<b>3,655,678</b>	<b>(4,181,100)</b>	<b>4,441,794</b>	<b>(4,027,641)</b>
Income Taxes Paid	(320,514)	(458,139)	(321,450)	(462,722)
<b>Net Cash Generated from / (used in) Operating Activities</b>	<b>3,335,164</b>	<b>(4,639,239)</b>	<b>4,120,344</b>	<b>(4,490,363)</b>
<b>Cash Flows from Investing Activities</b>				
Dividend Income	22,769	33,210	31,041	43,965
Net Proceeds from Sale, Maturity and Purchase of Financial Investments	(2,827,507)	3,013,591	(3,056,760)	3,043,039
Purchase of Property, Plant & Equipment	(240,306)	(205,755)	(245,280)	(210,698)
Purchase of Intangible Assets	(108,622)	(24,949)	(108,622)	(24,949)
Improvements to Investment Properties	(25)	-	(304)	-
Investment in Associate Company	-	-	(125,000)	-
Proceeds from Deemed disposal of shares in subsidiary company	-	-	34,984	106,276
Proceeds from Sale of Property Plant & Equipment	844	16,643	875	16,933
<b>Net Cash Flows Generated from / (used in) Investing Activities</b>	<b>(3,152,847)</b>	<b>2,832,740</b>	<b>(3,469,066)</b>	<b>2,974,566</b>
<b>Cash Flows from Financing Activities</b>				
Increase/ (Decrease) of Borrowings / Term loans	(3,998,986)	6,937,444	(4,251,548)	6,623,398
Dividends Paid	(40,884)	(13,882)	(40,884)	(13,882)
Proceeds from issue of shares under ESOP	29,658	8,014	29,658	8,014
Share issue expenses	-	(104)	-	(104)
<b>Net Cash Generated from / (used in) Financing Activities</b>	<b>(4,010,212)</b>	<b>6,931,472</b>	<b>(4,262,774)</b>	<b>6,617,426</b>
<b>Net Increase/ (Decrease) in Cash and Cash Equivalents</b>	<b>(3,827,895)</b>	<b>5,124,973</b>	<b>(3,611,496)</b>	<b>5,101,629</b>
Cash and Cash Equivalents at the Beginning of the year	19,091,038	14,762,634	20,516,163	15,820,223
<b>Cash and Cash Equivalents at the End of the period</b>	<b>15,263,143</b>	<b>19,887,607</b>	<b>16,904,667</b>	<b>20,921,852</b>

## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - BANK

As at 31st March 2013	HFT	Designated at Fair Value	HTM	Amortised Cost	AFS	Hedging	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	9,871,943	-	-	9,871,943
Balances with Central Banks	-	-	-	20,465,182	-	-	20,465,182
Placements with Banks	-	-	-	5,391,200	-	-	5,391,200
Derivative financial instruments	204,954	-	-	-	-	-	204,954
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to Banks	-	-	-	-	-	-	-
Loans and receivables to other customers	-	-	-	306,532,754	-	-	306,532,754
Financial investments	440,579	-	-	25,343,288	57,424,753	-	83,208,620
<b>Total financial assets</b>	<b>645,533</b>	<b>-</b>	<b>-</b>	<b>367,604,367</b>	<b>57,424,753</b>	<b>-</b>	<b>425,674,653</b>
	<b>HFT</b>	<b>Designated at Fair Value</b>	<b>Amortised Cost</b>	<b>Hedging</b>	<b>Total</b>		
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>		
<b>LIABILITIES</b>							
Due to Banks	-	-	27,805,781	-	27,805,781		
Derivative financial instruments	1,744,931	-	-	-	1,744,931		
Other financial liabilities at fair value through profit or loss	-	-	-	-	-		
Due to other customers	-	-	348,175,532	-	348,175,532		
Other borrowings	-	-	3,831,869	-	3,831,869		
Debt securities issued	-	-	-	-	-		
<b>Total financial liabilities</b>	<b>1,744,931</b>	<b>-</b>	<b>379,813,182</b>	<b>-</b>	<b>381,558,113</b>		

As at 31st December 2012	HFT	Designated at Fair Value	HTM	Amortised Cost	AFS	Hedging	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	8,769,206	-	-	8,769,206
Balances with Central Banks	-	-	-	19,933,463	-	-	19,933,463
Placements with Banks	-	-	-	10,321,832	-	-	10,321,832
Derivative financial instruments	344,552	-	-	-	-	-	344,552
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to Banks	-	-	-	-	-	-	-
Loans and receivables to other customers	-	-	-	302,760,980	-	-	302,760,980
Financial investments	474,083	-	-	20,030,669	57,869,546	-	78,374,298
<b>Total financial assets</b>	<b>818,635</b>	<b>-</b>	<b>-</b>	<b>361,816,150</b>	<b>57,869,546</b>	<b>-</b>	<b>420,504,331</b>
	<b>HFT</b>	<b>Designated at Fair Value</b>	<b>Amortised Cost</b>	<b>Hedging</b>	<b>Total</b>		
	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>	<b>Rs. 000</b>		
<b>LIABILITIES</b>							
Due to Banks	-	-	30,400,980	-	30,400,980		
Derivative financial instruments	1,436,443	-	-	-	1,436,443		
Other financial liabilities at fair value through profit or loss	-	-	-	-	-		
Due to other customers	-	-	341,423,986	-	341,423,986		
Other borrowings	-	-	4,950,535	-	4,950,535		
Debt securities issued	-	-	-	-	-		
<b>Total financial liabilities</b>	<b>1,436,443</b>	<b>-</b>	<b>376,775,501</b>	<b>-</b>	<b>378,211,944</b>		



## ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS - GROUP

As at 31st March 2013	HFT	Designated at Fair Value	HTM	Amortised Cost	AFS	Hedging	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	10,181,752	-	-	10,181,752
Balances with central banks	-	-	-	20,481,647	-	-	20,481,647
Placements with banks	-	-	-	6,722,915	-	-	6,722,915
Derivative financial instruments	204,954	-	-	-	-	-	204,954
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	-	-
Loans and receivables to other customers	-	-	-	307,316,413	-	-	307,316,413
Financial investments	1,311,797	-	1,457,697	26,425,027	58,550,009	-	87,744,530
<b>Total financial assets</b>	<b>1,516,751</b>	<b>-</b>	<b>1,457,697</b>	<b>371,127,754</b>	<b>58,550,009</b>	<b>-</b>	<b>432,652,211</b>
	HFT	Designated at Fair Value	Amortised Cost	Hedging	Total		
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000		
<b>LIABILITIES</b>							
Due to banks	-	-	27,906,583	-	27,906,583		
Derivative financial instruments	1,744,931	-	-	-	1,744,931		
Other financial liabilities at fair value through profit or loss	-	-	-	-	-		
Due to other customers	-	-	347,797,945	-	347,797,945		
Other borrowings	-	-	5,272,406	-	5,272,406		
Debt securities issued	-	-	150,000	-	150,000		
<b>Total financial liabilities</b>	<b>1,744,931</b>	<b>-</b>	<b>381,126,934</b>	<b>-</b>	<b>382,871,865</b>		

As at 31st December 2012	HFT	Designated at Fair Value	HTM	Amortised Cost	AFS	Hedging	Total
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	8,848,746	-	-	8,848,746
Balances with central banks	-	-	-	19,950,040	-	-	19,950,040
Placements with banks	-	-	-	11,667,417	-	-	11,667,417
Derivative financial instruments	344,552	-	-	-	-	-	344,552
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	-	-
Loans and receivables to other customers	-	-	-	303,922,092	-	-	303,922,092
Financial investments	1,078,124	-	1,643,852	20,904,172	58,929,296	-	82,555,444
<b>Total financial assets</b>	<b>1,422,676</b>	<b>-</b>	<b>1,643,852</b>	<b>365,292,467</b>	<b>58,929,296</b>	<b>-</b>	<b>427,288,291</b>
	HFT	Designated at Fair Value	Amortised Cost	Hedging	Total		
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000		
<b>LIABILITIES</b>							
Due to banks	-	-	30,400,980	-	30,400,980		
Derivative financial instruments	1,436,443	-	-	-	1,436,443		
Other financial liabilities at fair value through profit or loss	-	-	-	-	-		
Due to other customers	-	-	340,847,606	-	340,847,606		
Other borrowings	-	-	6,747,144	-	6,747,144		
Debt securities issued	-	-	150,000	-	150,000		
<b>Total financial liabilities</b>	<b>1,436,443</b>	<b>-</b>	<b>378,145,730</b>	<b>-</b>	<b>379,582,173</b>		

SEGMENT REPORTING														
3 months ended 31st March	Banking		Leasing		Dealing		Property		Insurance		Elimination/unallocated		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Total revenue from external customers	13,688,104	10,520,475	878,045	883,288	107,859	138,703	59,281	81,324	950,083	800,209	351	(55,418)	15,683,723	12,368,581
Inter segment revenue	56,634	67,845	-	-	683	868	165,144	165,085	12,295	18,993	-	-	234,756	252,791
Total revenue	13,744,738	10,588,320	878,045	883,288	108,542	139,571	224,425	246,409	962,378	819,202	350	(55,419)	15,918,479	12,621,372
Segment result	1,320,062	1,492,977	628,212	569,872	9,249	49,567	109,609	102,790	74,602	54,477	(27,001)	(62,861)	2,114,733	2,266,822
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	-	-	(307,867)	(288,606)
Profit from operations	-	-	-	-	-	-	-	-	-	-	-	-	1,806,866	1,918,216
Income from associates	-	-	-	-	-	-	-	-	-	-	-	-	6,204	(6,509)
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	(539,004)	(590,979)
Non Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	(11,875)	(42,755)
Profit for the Equity holder of the Bank	-	-	-	-	-	-	-	-	-	-	-	-	1,262,191	1,277,973
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	1,274,066	1,320,728
Other comprehensive Income, Net of tax	786,419	(86,772)	-	-	744	236	-	-	1,808	(100)	7,344	18,595	796,315	(67,941)
Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-	2,070,381	1,252,787
Non Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	(12,297)	(51,587)
Profit for the Equity holder of the Bank	-	-	-	-	-	-	-	-	-	-	-	-	2,058,084	1,201,200
Total assets	427,105,733	384,786,886	24,609,310	26,435,312	3,297,657	3,101,148	7,867,226	7,600,296	7,603,273	6,536,514	(5,030,158)	(6,009,801)	465,453,041	422,450,355
Total liabilities	381,437,242	346,753,249	24,609,310	26,435,312	1,961,602	1,843,471	1,679,808	2,516,255	5,813,943	5,021,600	(2,050,012)	(2,737,552)	413,451,893	379,832,335
Cash flow from operating activities	2,664,396	(3,455,298)	670,768	(1,183,941)	83,275	92,767	132,438	118,996	167,466	203,106	402,001	(265,963)	4,120,344	(4,490,363)
Cash flow from investing activities	(3,152,847)	2,832,740	-	-	(493,144)	(75,440)	355	(2,213)	(113,453)	(103,324)	290,023	322,803	(3,469,066)	2,974,566
Cash flow from financing activities	(4,010,212)	6,931,472	-	-	89,969	132,924	(62,520)	(162,520)	(137,500)	(105,000)	(122,511)	(179,450)	(4,262,774)	6,617,426

## EXPLANATORY NOTES

### Explanatory notes

- There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year 2012.
- There are no material changes during the period in the composition of assets, liabilities, contingent liabilities and use of funds raised through debentures. All known expenditure items have been provided for.
- These interim financial statements are presented in accordance with LKAS 34 – Interim Financial Reporting and provide the information as required in terms of Rule 7.4 of the Colombo Stock Exchange.
- Where required, figures on the audited annual financial statements have been reclassified to conform to Central Bank of Sri Lanka publication requirements.
- Details of Employee Share Option Plan (ESOP)

	Allocation 2008*		Allocation 2010**		Allocation 2012***	
	Voting	Non voting	Voting	Non voting	Voting	Non voting
Number of options brought forward	84,222	15,769	2,877,970	675,023	3,792,336	896,018
Number of options allotted	-	-	-	-	-	-
Number of options exercised	-	-	(86,706)	(39,426)	(15,416)	(17,174)
Number of options expired	(84,222)	(15,769)	(781)	(335)	(69,372)	(7,642)
Number of options remaining	-	-	2,790,483	635,262	3,707,548	871,202
Option exercise price	Rs. 77.33	Rs. 35.07	Rs. 111.43	Rs. 65.67	Rs. 145.79	Rs. 81.43
Average market price	Rs. 153.03	Rs. 120.77	Rs. 153.03	Rs. 120.77	Rs. 153.03	Rs. 120.77

\*These options were allocated on 28th March 2008 and the retention period ended on 27th March 2009.

\*\*These options were allocated on 20th April 2010 and the retention period ended on 19th April 2011.

\*\*\*These options were allocated on 30th March 2012 and the retention period will end on 30th March 2013.

The outstanding options can be exercised within four years from the end of retention period or at retirement, resignation or death whichever occurs first.

- The consolidated financial statements of the Bank cover the Bank and its subsidiaries HNB Assurance PLC, Sithma Development (Pvt) Ltd and Majan Exchange LLC, & the Group's interest in Joint Venture Acuity Partners (Pvt) Ltd.
- There are no material events that took place after the Statement of Financial Position date which require adjustment or disclosure in the financial statements other than those disclosed below.
- Mr. Rajendra Theagarajah, Managing Director/Chief Executive Officer of Hatton National Bank PLC will be retiring from the services of the Bank with effect from 30th June 2013 having reached the age of retirement. He will also be resigning from the Board of Hatton National Bank PLC with effect from the said date. Mr Theagarajah will be on leave pending retirement with effect from 1st May 2013.

Mr. Jonathan Alles who is currently serving as the Deputy Chief Executive Officer will assume responsibilities as the Chief Executive Officer following retirement of Mr. Theagarajah. During the interim period with effect from 1st May 2013 to 30th June 2013 Mr Alles will act as the Acting Chief Executive Officer/Executive Director. This would be subject to the approval of the Director of Bank Supervision of the Central Bank of Sri Lanka.

Further Mrs. Pamela C Cooray retired from the Board with effect from 31st March 2013 and Director - Mr N G Wickremaratne was appointed as the Senior Director with effect from 1st April 2013<sup>4</sup>



## SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)

	As at 31.03.2013	As at 31.12.2012	As at 31.03.2013	As at 31.12.2012
	Bank		Group	
<b>Regulatory Capital Adequacy</b>				
Core capital (Tier 1 Capital) Rs.'000	34,890	37,665	37,499	40,221
Total Capital Base, Rs.'000	42,149	45,224	45,278	48,300
Core capital adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	12.38%	13.85%	12.68%	14.10%
Total capital adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	14.96%	16.63%	15.31%	16.94%

	As at 31.03.2013	As at 31.12.2012
	Bank	
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non-Performing Advances Ratio, % (net of Interest in Suspense)	4.86%	3.66%
Net Non-Performing Advances Ratio, % (net of Interest in Suspense and provisions)	3.04%	1.82%
<b>Profitability (Annualised)</b>		
Interest Margin, %	5.43%	5.32%
Return on Assets (before Tax), %	1.51%	2.43%
Return on Equity, %	10.05%	18.24%
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets, Rs.'000		
Domestic Banking unit	83,317	80,576
Off-Shore Banking Unit	7,053	7,304
Statutory Liquid Assets Ratio % (Minimum requirement 20%)		
Domestic Banking unit	22.24%	21.79%
Off-Shore Banking Unit	25.44%	22.97%

## LISTED DEBENTURE INFORMATION

Quarter Ended 31st March	Market Value				Yield as at Last Trade Done	
	2013		2012		2013	2012
	Highest Rs.	Lowest Rs.	Highest Rs.	Lowest Rs.		
<b>HNB DEBENTURES 2006</b>						
8 year Floating Rate (TB + 2.25% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T
15 year Fixed Rate (11.00% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T
18 year Fixed Rate (11.25% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T
<b>HNB DEBENTURES 2007</b>						
10 year Fixed Rate (16.00% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T
15 year Fixed Rate (16.75% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T
<b>HNB DEBENTURES 2011</b>						
10 year Fixed Rate (11.50% p.a.)	N/T	N/T	N/T	N/T	N/T	N/T
N/T – Not Traded as at 31st March						
<b>Yield to Maturity of Last Trade Done (% p.a.)</b>						
Quarter Ended 31st March	2013		2012			
<b>HNB DEBENTURES 2006</b>						
8 year Floating Rate (TB + 2.25% p.a.)**	N/A		N/A			
15 year Fixed Rate (11.00% p.a.)	N/T		N/T			
18 year Fixed Rate (11.25% p.a.)	N/T		N/T			
<b>HNB DEBENTURES 2007</b>						
10 year Fixed Rate (16.00% p.a.)	N/T		N/T			
15 year Fixed Rate (16.75% p.a.)	N/T		N/T			
<b>HNB DEBENTURES 2011</b>						
10 year Fixed Rate (11.50% p.a.)	N/T		N/T			
** The yield to maturity calculation is not applicable for floating rate debentures. N/T – Not Traded as at 31st March						

RATIOS OF DEBT		
	31.03.2013	31.12.2012
Debt Equity Ratio (%)	10.23	9.87
	31.03.2013	31.03.2012
Interest Cover (Times)	12.87	12.82
Yield of Comparable Govt. Security for the following HNB Debentures (% p.a.)		
2006 series 8 year maturity	10.25	11.06
2006 series 15 year maturity	11.76	N/Q
2006 series 18 year maturity	11.90	11.83
2007 series 10 year maturity	11.19	11.74
2007 series 15 year maturity	11.85	N/Q
2011 series 10 year maturity	11.85	N/Q
N/Q - Not Quoted		

## SHARE INFORMATION

As at	31-Mar-2013	31-Dec-2012
<b>Number of Shares</b>		
Voting	317,846,028	317,650,102
Non-voting	79,698,766	79,596,347
<b>Last Traded Price per Share</b>		
Voting	167.30	148.00
Non-voting	131.80	112.50

For the Quarter Ended	31-Mar-2013	31-Mar-2012
<b>Highest Price per Share</b>		
Voting	169.00	159.00
Non-voting	132.50	96.80
<b>Lowest Price per Share</b>		
Voting	142.50	135.00
Non-voting	111.00	77.50

## PUBLIC SHAREHOLDING PERCENTAGE

	As at 31st March 2013
Voting	67% approx.
Non-voting	81% approx.

## DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

	Number of shares	
	31-Mar-2013	31-Dec-2012
1 Dr. Ramee Jayamaha	101	101
2 Mr. R. Theagarajah*	36,788	36,788
3 Mrs. P.C. Cooray*	78,473	78,473
4 Mr. N.G. Wickremaratne	8,451	8,451
5 Ms. M.A.R.C. Cooray	5,312	5,312
6 Dr. W.W. Gamage	101	101
7 Dr. L.R. Karunaratne	1,018	1,018
8 Mr. L.U.D. Fernando	2,667	2,667
9 Mr. D.T.S.H. Mudalige	-	-
10 Miss D.S.C. Jayawardena	500	500
11 Mr. R.S. Captain	6,007	6,007

\* Refer explanatory note 8

### 20 MAJOR SHAREHOLDERS (VOTING) AS AT 31ST MARCH 2013

	Name	No. of Shares	% on Total Voting Capital
1.	Sri Lanka Insurance Corporation Ltd.(General Fund)	47,635,487	14.99
2.	Employees Provident Fund	30,436,612	9.58
3.	Milford Exports (Ceylon) Limited	25,828,280	** 8.13
4.	Mr.Sohli Edelji Captain	23,705,220	7.46
5.	Stassen Exports Ltd	22,387,096	** 7.04
6.	Brown & Company PLC	22,186,122	6.98
7.	Sonetto Holdings Limited	14,697,921	4.62
8.	HSBC Int'l Nominees Ltd-JPMLU-Franklin Templeton Investment Fund	11,812,999	3.72
9.	Distilleries Company of Sri Lanka PLC	10,016,272	** 3.15
10.	National Savings Bank	9,371,940	2.95
11.	Standard Chartered Bank Singapore S/A HL Bank Singapore	6,235,188	1.96
12.	Mr.Yonmerenne Simon Hewage Indrakumara Silva	6,008,207	1.89
13.	City Group Global Markets Ltd Agency Trading Prop.Securities	5,835,044	1.84
14.	The Bank of New York Mellon SA/NV-CF Ruffer Total return Fund	5,138,289	1.62
15.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return Fund	3,448,972	1.09
16.	Ms.Leesha Anne Captain	2,870,020	0.90
17.	Seylan Bank Plc/ ARC Capital (Pvt) Ltd	2,826,648	0.89
18.	BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	2,628,518	0.83
19.	Employees Trust Fund	2,020,976	0.64
20.	Mrs. Cheryl Susan De Fonseka	1,696,175	0.53

\*\*Pursuant to the provisions of the Banking Act Directions No. 1 of 2007, the total collective voting rights in the Bank, of Milford Exports (Ceylon) Limited, Stassen Exports Limited and Distilleries Company of Sri Lanka (who collectively hold 18.33% of the voting shares of the Bank) are limited to 10% of the total voting rights of the Bank with effect from 15th March 2012 as the voting rights in excess of such percentage is deemed invalid from that date.

### 20 MAJOR SHAREHOLDERS (NON-VOTING) AS AT 31ST MARCH 2013

	Name	No. of Shares	% on Total Non-Voting Capital
1.	Legallnc Trustee Services (Pvt) Ltd	15,500,925	19.45
2.	HSBC Intl Nominees Ltd-JPMLU-Franklin Templeton Investment Fund	4,525,980	5.68
3.	Employees Trust Fund Board	2,633,644	3.30
4.	The Bank of New York Mellon SA/NV-CF Ruffer Total Return Fund	2,557,103	3.21
5.	HINL-JPMCB-Butterfield Trust (Bermuda) LTD	1,985,885	2.49
6.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return	1,703,364	2.14
7.	Mr.Sohli Edelji Captain	1,442,839	1.81
8.	Pershing LLC S/A Averbach Grauson & Co.	1,190,438	1.49
9.	National Savings Bank	1,103,175	1.38
10.	BNY-CF Ruffer Investment Funds:CF Ruffer Pacific Fund	1,011,115	1.27
11.	Akbar Brothers Pvt Ltd A/c No.1	837,122	1.05
12.	CITI Bank NY S/A Forward International Dividend Fund	746,894	0.94
13.	DFCC Bank A/c No.01	715,947	0.90
14.	Waldock Mackenzie Ltd/Mr.H M S Abdullhusein	641,487	0.80
15.	Bank of Ceylon A/c Ceybank Century Growth Fund	633,499	0.79
16.	CITI Bank NY S/A Forward Select EM Dividend Fund	619,916	0.78
17.	Mr. Jayampathi Divale Bandaranayake	591,189	0.74
18.	Hatton National Bank PLC A/c No. 2	574,733	0.72
19.	Northern Trust Company S/A Polar Capital Fund	539,015	0.68
20.	Union Assurance PLC No. 1 A/c	521,346	0.65

### Independent Auditors' Report



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#### TO THE SHAREHOLDERS OF HATTON NATIONAL BANK PLC

##### Report on the Financial Statements

We have audited the accompanying financial statements of Hatton National Bank PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 206 to 323 of the annual report.

##### 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 - Company

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

##### Opinion - Group

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

##### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007 and present the information required by the Banking Act, No 30 of 1988.

CHARTERED ACCOUNTANTS

21st February 2013  
Colombo, Sri Lanka.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	Ms. M. P. Perera FCA	P.Y.S. Perera FCA
C.P. Jayatilake FCA	T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA
Ms. S. Joseph FCA	Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne ACA
S.T.D.L. Perera FCA	G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA		



## Consolidated Statement of Comprehensive Income

For the year ended 31st December	Note	BANK		GROUP	
		2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
<b>Income</b>	8	51,558,900	37,066,301	55,160,069	40,122,582
Interest income		47,346,498	33,175,928	47,939,508	33,546,871
Less: Interest expenses		25,368,432	16,530,253	25,495,541	18,626,472
<b>Net interest income</b>	9	21,978,066	16,645,675	22,443,967	16,920,399
Fee and commission income		3,740,497	2,710,552	3,833,378	2,987,433
Less: Fee and commission expenses		53,407	34,521	64,032	56,292
<b>Net fee and commission income</b>	10	3,687,090	2,676,031	3,769,346	2,931,141
<b>Net interest, fee and commission income</b>		25,665,156	19,321,706	26,213,313	19,851,540
Net loss from trading	11	(1,632,528)	(347,078)	(1,624,049)	(426,335)
Net gain from financial investments	12	142,479	398,936	114,412	390,630
Other operating income	13	1,961,954	1,127,963	4,896,820	3,623,983
<b>Total Operating income</b>		26,137,061	20,501,527	29,600,496	23,439,818
Less: Impairment charge/(reversal) for loans and other losses	14	1,162,231	(445,373)	1,162,231	(501,494)
<b>Net operating income</b>		24,974,830	20,946,900	28,438,265	23,941,312
Less:					
<b>OPERATING EXPENSES</b>	15				
Personnel expenses	16	6,520,648	4,987,287	7,103,764	5,525,978
Premises, equipment and establishment expenses		3,575,606	3,277,004	3,481,168	2,956,320
Other overhead expenses		3,584,997	3,070,598	5,929,498	5,162,678
		13,681,251	11,334,889	16,514,430	13,644,976
<b>Operating profit before value added tax (VAT)</b>		11,293,579	9,612,011	11,923,835	10,296,336
Less: Value added tax (VAT) on financial services		1,247,873	1,224,143	1,247,873	1,224,143
<b>Operating profit after value added tax (VAT)</b>		10,045,706	8,387,868	10,675,962	9,072,193
Share of profit/(loss) of Associates (net of income tax)	17	-	-	16,632	(15,729)
<b>PROFIT BEFORE INCOME TAX</b>		10,045,706	8,387,868	10,692,594	9,056,464
Less: Income tax expense	18	2,342,335	2,123,203	2,421,431	2,156,077
<b>PROFIT FOR THE YEAR</b>		7,703,371	6,264,665	8,271,163	6,900,387
Profit attributable to:					
Equity holders of the Bank		7,703,371	6,264,665	8,110,969	6,818,923
Non-controlling interests		-	-	160,194	81,464
<b>PROFIT FOR THE YEAR</b>		7,703,371	6,264,665	8,271,163	6,900,387
<b>OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX</b>					
Gains and losses arising from translating the financial statements of foreign operations		-	-	13,843	4,292
Gains and losses on re-measuring available-for-sale financial assets					
Net change in fair value on:					
available-for-sale financial assets		284,016	(3,334,984)	305,986	(3,341,133)
Transfer to life policy holder reserve fund		-	-	(21,335)	6,149
Net amount transferred to profit or loss (available-for-sale financial assets)		75,402	-	76,765	(5,745)
Actuarial gains and losses on defined benefit plans		587,494	34,870	587,494	34,870
Changes in revaluation surplus		1,465,117	4,391	2,397,293	4,391
<b>Other comprehensive income for the year, net of tax</b>		2,412,029	(3,295,723)	3,360,046	(3,297,176)
<b>Total comprehensive income for the year</b>		10,115,400	2,968,942	11,631,209	3,603,211
Total comprehensive income attributable to:					
Equity holders of the Bank		10,115,400	2,968,942	11,460,588	3,521,598
Non-controlling interests		-	-	170,621	81,613
<b>Total comprehensive income for the year</b>		10,115,400	2,968,942	11,631,209	3,603,211
Earnings per share on profit	19				
Basic earnings per ordinary share (Rs)		19.36	16.60	21.19	18.65
Diluted earnings per ordinary share (Rs)		19.34	16.49	21.16	18.51
<b>DIVIDEND PER SHARE (Rs)</b>		*8.50	7.50	*8.50	7.50

The Notes to the Financial Statements from pages 214 to 323 form an integral part of these Financial Statements.

\*Calculated on interim dividend paid and final dividend proposed, which is to be approved at the Annual General Meeting.

## Consolidated Statement of Financial Position

As at			BANK			GROUP		
	Note	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	
<b>ASSETS</b>								
Cash and cash equivalents	21	8,769,206	7,542,767	6,556,338	8,848,746	7,576,224	6,648,617	
Balances with central banks	22	19,933,463	18,683,405	12,491,644	19,950,040	18,698,197	12,506,052	
Placements with banks	23	10,321,832	7,220,151	11,551,945	11,667,417	8,243,999	12,047,493	
Derivative financial instruments	24	344,552	496,643	231,124	344,552	496,643	231,124	
Other financial assets held for trading	25	474,083	1,160,499	1,457,448	1,078,124	2,407,725	2,998,591	
Non-current assets held for sale	26	-	-	-	2,875	2,875	2,875	
Loans and receivables to other customers	27	302,760,980	257,198,343	202,253,018	303,922,092	257,435,480	201,579,582	
Financial investments - Available-for-sale	28	57,869,546	51,239,058	49,379,877	58,929,296	51,434,979	49,626,920	
Financial investments - Held-to-maturity	29	-	-	-	1,643,852	1,697,640	1,616,424	
Financial investments - Loans and receivables	30	20,030,669	14,665,997	15,370,787	20,904,172	15,362,143	15,739,393	
Investments in Associates	31	-	83,674	83,651	386,172	384,319	196,009	
Investment in Joint Venture	32	655,000	655,000	655,000	-	-	-	
Investments in Subsidiaries	33	2,357,285	2,357,285	2,179,086	-	-	-	
Investment properties	34	349,708	349,374	353,563	164,598	169,029	173,595	
Property, plant and equipment	35	9,417,915	7,834,866	7,427,555	17,815,411	15,415,636	15,115,760	
Intangible assets	36	556,171	549,503	577,015	689,501	670,776	702,931	
Deferred tax assets	47	369,726	313,785	506,348	372,193	318,895	508,534	
Other assets	37	12,092,197	10,133,295	8,633,367	12,679,956	10,982,310	9,905,711	
<b>Total Assets</b>		<b>446,302,333</b>	<b>380,483,645</b>	<b>319,707,766</b>	<b>459,398,997</b>	<b>391,296,870</b>	<b>329,599,611</b>	
<b>LIABILITIES</b>								
Due to banks	38	30,400,980	19,885,436	10,421,179	30,400,980	19,885,436	10,421,179	
Derivative financial instruments	39	1,436,443	617,702	166,521	1,436,443	617,702	166,521	
Due to other customers	40	341,423,986	291,356,578	239,033,783	340,847,606	290,911,558	238,838,573	
Dividends payable	41	221,455	168,080	49,558	223,251	169,876	51,120	
Other borrowings	42	4,950,535	7,008,741	12,573,000	6,747,144	8,876,197	14,143,564	
Debt securities issued	43	-	-	-	150,000	-	-	
Current tax liabilities		1,755,429	1,021,619	2,587,421	1,839,714	1,093,787	2,718,781	
Bills payable		1,430,578	1,404,158	1,305,161	1,430,578	1,404,158	1,305,161	
Subordinated debentures	44	4,585,568	5,023,216	2,849,143	4,563,011	4,989,350	2,816,548	
Insurance provision - Life	45	-	-	-	3,626,239	3,021,331	2,415,214	
Insurance provision - General	46	-	-	-	969,441	944,322	743,049	
Deferred tax liabilities	47	1,478,341	1,174,862	890,602	1,556,312	1,225,349	960,016	
Other provisions		4,240,493	5,812,370	8,397,841	4,400,098	5,876,883	8,491,344	
Other liabilities	48	7,902,786	9,027,153	10,658,135	8,614,281	9,924,156	11,986,945	
<b>Total Liabilities</b>		<b>399,826,594</b>	<b>342,499,915</b>	<b>288,932,344</b>	<b>406,805,098</b>	<b>348,940,105</b>	<b>295,058,015</b>	
<b>EQUITY</b>								
Stated capital	50	12,579,479	11,451,451	5,318,550	12,579,479	11,451,451	5,318,550	
Statutory reserves		4,530,562	2,778,337	1,510,000	4,530,562	2,778,337	1,510,000	
Retained earnings		4,225,948	3,009,553	2,252,516	5,321,845	3,504,132	2,120,000	
Other reserves		25,139,750	20,744,389	21,694,356	29,192,575	23,840,620	25,009,480	
<b>Total equity attributable to equity holders of the Bank</b>		<b>46,475,739</b>	<b>37,983,730</b>	<b>30,775,422</b>	<b>51,624,461</b>	<b>41,574,540</b>	<b>33,958,030</b>	
<b>Non-controlling interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>969,438</b>	<b>782,225</b>	<b>583,566</b>	
<b>Total Equity</b>		<b>46,475,739</b>	<b>37,983,730</b>	<b>30,775,422</b>	<b>52,593,899</b>	<b>42,356,765</b>	<b>34,541,596</b>	
<b>Total Liabilities and Equity</b>		<b>446,302,333</b>	<b>380,483,645</b>	<b>319,707,766</b>	<b>459,398,997</b>	<b>391,296,870</b>	<b>329,599,611</b>	
<b>Commitments and contingencies</b>	51	<b>164,367,012</b>	<b>152,589,043</b>	<b>124,170,550</b>	<b>164,367,012</b>	<b>152,589,043</b>	<b>124,170,550</b>	

The Notes to the Financial Statements from pages 214 to 323 form an integral part of these Financial Statements.

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



Ajantha de Vas Gunasekara  
Chief Financial Officer

For and on behalf of the Board



Rajendra Theagarajah  
Managing Director /  
Chief Executive Officer

21st February 2013  
Colombo

  
Ranee Jayamaha  
Chairperson

  
K.A.L. Thushari Ranaweera  
Assistant General Manager (Legal) /  
Company Secretary

## Statement of Changes in Equity

	Stated Capital		Statutory Reserves		Other Reserves		Retained earnings	
	Voting Shares Rs 000	Non-Voting Shares Rs 000	Statutory Reserve Rs 000	Investment Fund Account Rs 000	Available for sale reserve Rs 000	General Reserve Rs 000	ESOP Reserve Rs 000	Total Rs 000
Balance as at 31st December 2010	3,854,980	1,463,570	1,510,000	-	-	13,000,000	-	27,273,767
Impact of adopting SLFRSs as at 1st January 2011	-	-	-	-	5,669,387	-	-	3,501,855
<b>Restated balance as at 1st January 2011</b>	<b>3,854,980</b>	<b>1,463,570</b>	<b>1,510,000</b>	<b>-</b>	<b>5,669,387</b>	<b>13,000,000</b>	<b>-</b>	<b>30,775,422</b>
<b>Total comprehensive income for the year</b>								
Net profit for the year 2011	-	-	-	-	-	-	-	6,264,865
Other comprehensive income, net of tax	-	-	-	-	(3,334,984)	-	-	(3,295,723)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,334,984)</b>	<b>-</b>	<b>-</b>	<b>2,968,942</b>
Transactions with equity holders, recognised directly in equity								
Contributions by and distributions to equity holders								
Final dividend for 2010	-	-	-	-	-	-	-	(1,310,975)
Interim dividend for 2011	-	-	-	-	-	-	-	(582,560)
Shares issued under ESOP	59,702	6,400	-	-	-	-	-	66,102
Rights issue and private placement	5,228,644	838,155	-	-	-	-	-	6,066,799
<b>Total contributions by and distributions to equity holders</b>	<b>5,288,346</b>	<b>844,555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,239,366</b>
Transfer of revaluation reserve for disposal of property, plant and equipment	-	-	-	-	(19,374)	-	-	19,374
Transfers during the year 2011	-	-	290,000	978,337	-	2,400,000	-	(3,668,337)
<b>Balance as at 31st December 2011</b>	<b>9,143,326</b>	<b>2,308,125</b>	<b>1,800,000</b>	<b>978,337</b>	<b>2,334,403</b>	<b>15,400,000</b>	<b>-</b>	<b>37,983,730</b>
<b>Total comprehensive income for the year</b>								
Net profit for the year 2012	-	-	-	-	-	-	-	7,703,371
Other comprehensive income, net of tax	-	-	-	-	1,465,117	-	-	587,494
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,465,117</b>	<b>-</b>	<b>-</b>	<b>10,115,400</b>

BANK  
For the year ended 31st December 2012

**BANK**  
For the year ended 31st December 2012

Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders										
Final dividend for 2011 - Cash (Note 41)	-	-	-	-	-	-	-	-	(1,166,032)	(1,166,032)
Final dividend for 2011 - Scrip (Note 41)	840,958	208,471	-	-	-	-	-	-	(1,166,032)	(116,603)
Interim dividend for 2012 (Note 41)	-	-	-	-	-	-	-	-	(595,870)	(595,870)
ESOP allocation 2012	-	-	-	-	-	-	-	176,515	-	176,515
Shares issued under ESOP	64,975	13,624	-	-	-	-	-	-	-	78,599
<b>Total contributions by and distributions to equity holders</b>	<b>905,933</b>	<b>222,095</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>176,515</b>	<b>(2,927,934)</b>	<b>(1,623,391)</b>
Transfer of revaluation reserve for disposal of property, plant and equipment	-	-	-	-	-	(5,689)	-	-	5,689	-
Transfers during the year 2012	-	-	430,000	1,322,225	-	-	-	2,400,000	(4,152,225)	-
<b>Balance as at 31st December 2012</b>	<b>10,049,259</b>	<b>2,530,220</b>	<b>2,230,000</b>	<b>2,300,562</b>	<b>4,469,414</b>	<b>2,693,821</b>	<b>17,800,000</b>	<b>176,515</b>	<b>4,225,948</b>	<b>46,475,739</b>



## Statement of Changes in Equity

GROUP  
For the year ended 31st December 2012

Attributable to Equity Holders of the Bank												
	Stated Capital		Statutory Reserves		Available for sale reserve	Other Reserves		Life policy holder reserve	ESOP Reserve	Retained Earnings		
	Voting Shares	Non-Voting Shares	Statutory Reserve Fund	Investment Fund Account		Capital Reserve	Treasury shares			General Reserve	Exchange Equalisation Reserve	Non Controlling Interest
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 31st December 2010	3,854,980	1,463,570	1,510,000	-	5,791,791	-	13,000,000	2,744	-	4,355,024	588,592	30,566,701
Impact of adopting SLFRSs as at 1st January 2011	-	-	-	-	626,741	5,704,378	(147,224)	-	31,050	(2,235,024)	(5,026)	3,974,895
Restated balance as at 1st January 2011	3,854,980	1,463,570	1,510,000	-	6,418,532	5,704,378	(147,224)	13,000,000	2,744	31,050	583,566	34,541,596
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2011	-	-	-	-	-	-	-	-	-	6,818,923	81,464	6,900,387
Other comprehensive income, net of tax	-	-	-	-	4,391	(3,339,576)	-	2,989	-	34,870	150	(3,297,176)
Total comprehensive income for the year	-	-	-	-	4,391	(3,339,576)	-	2,989	-	6,853,793	81,614	3,603,211
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to equity holders	-	-	-	-	-	-	-	-	-	-	-	-
Final dividend for 2010	-	-	-	-	-	-	-	-	-	(1,260,743)	(39,205)	(1,299,948)
Interim dividend for 2011	-	-	-	-	-	-	-	-	-	(559,955)	-	(559,955)
Shares issued under ESOP	59,702	6,400	-	-	-	-	-	-	-	-	-	66,102
Rights issue and private placement	5,228,644	838,155	-	-	-	-	(163,714)	-	-	-	156,250	6,059,335
Total contributions by and distributions to equity holders	5,288,346	844,555	-	-	-	-	(163,714)	-	-	(1,820,698)	117,045	4,265,534
Change in contract liabilities life fund	-	-	-	-	-	-	-	-	(47,427)	-	-	(47,427)
Transfer to life policy holders' reserve fund	-	-	-	-	-	-	-	-	(6,149)	-	-	(6,149)
Transfer of revaluation reserve for disposal of property, plant and equipment	-	-	-	-	(19,374)	-	-	-	-	19,374	-	-
Transfers during the year 2011	-	-	290,000	978,337	-	-	2,400,000	-	-	(3,668,337)	-	-
Balance as at 31st December 2011	9,143,326	2,308,125	1,800,000	978,337	6,403,549	2,364,802	(310,938)	15,400,000	5,733	(22,526)	782,225	42,356,765
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year 2012	-	-	-	-	-	-	-	-	-	8,110,969	160,194	8,271,163
Other comprehensive income, net of tax	-	-	-	-	2,397,293	359,690	-	5,142	-	587,494	10,427	3,360,046
Total comprehensive income for the year	-	-	-	-	2,397,293	359,690	-	5,142	-	8,698,463	170,621	11,631,209

## GROUP

For the year ended 31st December 2012

	Attributable to Equity Holders of the Bank												
	Stated Capital		Statutory Reserves			Other Reserves				Retained Earnings			Total
	Voting Shares	Non-voting Shares	Statutory Reserve Fund	Investment Fund Account	Capital Reserve	Available for sale reserve	Treasury shares	General Reserve	Exchange Equalisation Reserve	Life policy holder reserve Fund	ESOP Reserve	Non Controlling Interest	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Transactions with equity holders, recognised directly in equity													
Contributions by and distributions to equity holders													
Final dividend for 2011 - Cash (Note 41)	-	-	-	-	-	-	-	-	-	-	-	(51,046)	(1,171,869)
Final dividend for 2011 - Scrip (Note 41)	840,958	208,471	-	-	-	-	-	-	-	-	-	-	(116,603)
Interim dividend for 2012 (Note 41)	-	-	-	-	-	-	-	-	-	-	-	-	(572,619)
ESOP allocation 2012	-	-	-	-	-	-	-	-	-	-	176,515	-	176,515
Shares issued under ESOP	64,975	13,624	-	-	-	-	-	-	-	-	-	-	78,599
Total contributions by and distributions to equity holders	905,933	222,095	-	-	-	-	-	-	-	-	176,515	(51,046)	(1,605,977)
Transfer to life policy holder reserve fund	-	-	-	-	-	-	-	-	-	21,335	-	-	21,335
Write off of subsidiary investment	-	-	-	-	-	-	-	-	3,665	-	-	-	-
Disposal of associate company	-	-	-	-	-	-	-	-	(5,996)	-	-	-	46,056
Deemed disposal gain through joint venture	-	-	-	-	-	-	-	-	-	-	-	-	52,032
Transfer of revaluation reserve	-	-	-	-	-	-	-	-	-	-	-	67,638	144,511
for disposal of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers during the year 2012	-	-	430,000	1,322,225	-	-	-	2,400,000	-	-	-	-	(4,152,225)
Balance as at 31st December 2012	10,049,259	2,530,220	2,230,000	2,300,562	8,795,153	2,724,492	(310,338)	17,800,000	8,544	(1,191)	176,515	969,438	52,593,899

The Notes to the Financial Statements from page 214 to 223 form an integral part of these Financial Statements.

Statutory Reserve Fund represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

Capital Reserve relates to revaluation of freehold land and buildings carried out in 1989, 1993, 2007 and 2012 and includes the surplus on revaluation of those assets.

General Reserve comprises the amounts appropriated by the Board of Directors as a general banking reserve.

Exchange equalisation reserve consists of foreign exchange differences resulting from translation of foreign Subsidiary and Associate financial statements to functional currency of the Group. (Sri Lankan Rupees)

Investment Fund Account consists of 8% of the profits calculated for the payment of Value Added Tax and 5% of the Profit Before Tax calculated for payment of Income Tax purposes during the year.

ESOP reserve consists of the liability recognised on account of the ESOP allocation during 2012 (Note 4.15.3 (b))

## Cash Flow Statement

For the year ended 31st December	Bank		Group	
	2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
<b>Cash Flows from Operating Activities</b>				
Interest & Commission Receipts	43,830,000	32,124,704	44,122,146	32,619,731
Interest Payments	(24,728,933)	(14,224,010)	(24,856,302)	(14,315,333)
Receipts from other Operating Activities	1,641,013	1,085,283	4,575,925	3,538,563
Cash Payments to Employees	(6,385,313)	(5,755,443)	(6,896,173)	(6,281,654)
Cash Payments to Suppliers	(2,482,706)	(2,308,761)	(2,249,916)	(2,072,901)
Recovery of loans written off in prior years	11,192	4,071	11,192	4,071
Cash Payments to Other Operating Activities	(6,693,598)	(6,835,305)	(8,328,294)	(7,946,368)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>5,191,655</b>	<b>4,090,539</b>	<b>6,378,578</b>	<b>5,546,109</b>
<b>Increase in Operating assets</b>				
Deposits held for Regulatory or Monetary Control Purpose	(1,250,058)	(6,191,761)	(1,250,058)	(6,191,761)
Loans and receivables to other customers	(44,961,367)	(54,199,207)	(45,863,570)	(55,050,244)
Other Short Term assets	(902,569)	(1,382,675)	(981,135)	(1,281,723)
	(47,113,994)	(61,773,643)	(48,094,763)	(62,523,728)
<b>Increase/(Decrease) in Operating Liabilities</b>				
Deposits from Customers	48,819,348	50,073,031	48,687,988	49,829,714
Other Liabilities	(568,538)	(599,694)	(316,089)	(789,290)
	48,250,810	49,473,337	48,371,899	49,040,424
<b>Net Cash Generated from/(used in) Operating Activities before Income Tax</b>	<b>6,328,471</b>	<b>(8,209,767)</b>	<b>6,655,714</b>	<b>(7,937,195)</b>
Income Taxes Paid	(929,178)	(2,645,086)	(966,030)	(2,725,563)
<b>Net Cash Generated from/(used in) Operating Activities</b>	<b>5,399,293</b>	<b>(10,854,853)</b>	<b>5,689,684</b>	<b>(10,662,758)</b>
<b>Cash Flows from Investing Activities</b>				
Dividend Income	246,733	399,487	221,175	397,553
Net proceeds from Sale, Maturity and Purchase of Financial Investments	(6,616,307)	(1,491,319)	(6,670,428)	(1,505,697)
Improvements to Investment Properties	(5,085)	(395)	(139)	-
Purchase of Property, Plant and Equipment	(872,396)	(1,210,302)	(925,940)	(1,260,080)
Purchase of Intangible Assets	(181,982)	(145,402)	(208,214)	(155,408)
Investment in Associate Company	-	-	(20,000)	(199,661)
Net proceeds from sale of Associate company	58,815	-	58,815	-
Investment in Subsidiary Company	-	(234,320)	-	-
Proceeds from Sale of Property Plant and Equipment	36,038	84,389	37,237	90,044
Proceeds from deemed disposal of subsidiary company through Joint Venture	-	-	144,511	-
<b>Net Cash Flows used in Investing Activities</b>	<b>(7,334,184)</b>	<b>(2,597,862)</b>	<b>(7,362,983)</b>	<b>(2,633,249)</b>
<b>Cash Flows from Financing Activities</b>				
Increase/(Decrease) in Debentures	(375,724)	2,000,000	(363,725)	2,000,000
Increase of Long Term Borrowings	8,390,915	3,795,333	8,320,328	4,086,130
Issue of preference shares	-	-	150,000	-
Dividends Paid	(1,825,130)	(1,775,013)	(1,807,716)	(1,741,148)
Proceeds from right issue and private placement	-	6,066,799	-	5,903,086
Proceeds from issue of shares to minority share holders	-	-	-	156,250
Proceeds from issue of shares under ESOP	78,599	66,102	78,599	66,102
Share issue expenses	(5,649)	(45,871)	(8,247)	(50,300)
<b>Net Cash Generated from Financing Activities</b>	<b>6,263,011</b>	<b>10,107,350</b>	<b>6,369,239</b>	<b>10,420,120</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>4,328,120</b>	<b>(3,345,365)</b>	<b>4,695,940</b>	<b>(2,875,887)</b>
Cash and Cash Equivalents at the Beginning of the year	14,762,918	18,108,283	15,820,223	18,696,110
<b>Cash and Cash Equivalents at the End of the year</b>	<b>19,091,038</b>	<b>14,762,918</b>	<b>20,516,163</b>	<b>15,820,223</b>

For the year ended 31st December	BANK		GROUP	
	2012 Rs'000	2011 Rs'000	2012 Rs'000	2011 Rs'000
<b>Note (a)</b>				
<b>Reconciliation of operating profit before changes in operating assets and liabilities</b>				
Profit before income tax	10,045,706	8,387,868	10,692,594	9,056,464
Dividend income	(246,733)	(399,487)	(221,175)	(397,553)
Profit on sale of property, plant and equipment	(14,816)	(19,062)	(14,986)	(17,309)
Depreciation of Investment properties	4,751	4,584	4,569	4,566
Depreciation of property, plant and equipment	795,635	737,628	965,630	889,860
Amortisation of Intangible assets	175,314	172,914	189,099	185,624
Impairment for loans and other losses	1,162,231	(445,373)	1,162,231	(501,494)
(Gain)/Loss on marked to market valuation financial investments	(71,638)	256,080	(59,323)	287,180
Capital (gain)/loss from financial investment	216,990	(71,455)	198,922	(93,858)
Profit from sale of Associate company	(38,393)	-	(38,393)	-
Loss on FCBU revaluation	19,291	18,234	19,291	18,234
Notional tax credit and WHT credit	(564,615)	(325,101)	(605,321)	(359,397)
Share issue expenses	5,649	45,871	8,247	50,300
Non life insurance reserve fund	-	-	630,027	799,356
Share of associate (profit)/loss	-	-	(16,632)	15,729
Net income from sale of apartments	-	-	(91,133)	(70,758)
Negative goodwill on investment in subsidiaries/associates	-	-	-	(2,213)
Accrual for Interest receivable	(6,684,126)	(3,551,719)	(6,907,642)	(3,723,838)
Accrual for other receivable	(47,918)	(68,804)	(66,899)	(74,070)
Accrual for other payables	(1,605,152)	(2,879,815)	(1,501,594)	(2,754,151)
Accrual for Interest payable	2,058,757	2,228,176	2,058,499	2,233,436
Accrual for employee retirement benefits	(229,817)	-	(237,972)	-
Fair value of the options granted under ESOP	176,515	-	176,515	-
Net loss arising on derecognition of financial assets measured at amortised cost	34,024	-	34,024	-
	5,191,655	4,090,539	6,378,578	5,546,109

The Notes to the Financial Statements from pages 214 to 323 form an integral part of these Financial Statements.



## Notes to the Financial Statements

### 1. REPORTING ENTITY

Hatton National Bank PLC ("Bank"/"HNB") is a public quoted company incorporated on 5th March 1970 with limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Company was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at No 479, T B Jayah Mawatha, Colombo 10. The shares of the Bank have a primary listing on the Colombo Stock Exchange. The staff strength of the Bank as at 31st December 2012 is 4,679 (2011- 4,584).

The Consolidated Financial Statements of the Bank as at and for the year ended 31st December 2012 include the Bank and its Subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its Associate and Joint Venture. The Financial Statements of all companies in the Group have a common financial year which ends on December 31 except for Lanka Ventures PLC a subsidiary of Acuity Partners (Pvt) Limited, the joint venture, with a financial year ending March 31.

The Bank does not have an identifiable parent of its own.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

#### 1.1 Principal Activities

##### 1.1.1 Bank

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, dealing in government securities etc.

##### 1.1.2 Subsidiaries

Name of Subsidiary	Principal Activities
HNB Assurance PLC	Insurance services
Sithma Development (Pvt) Ltd	Property development
Majan Exchange LLC	Provision of remittances and foreign currency related services

The commercial activities of Commercial Interlink Services Inc were ceased on 1st October 2010 and the Bank's investment in the company was written off against the provision during 2012.

##### 1.1.3 Associate

Name of Associate	Principal Activities
Delma Exchange	Provision of remittances and foreign currency related services

Bank disposed its investments in Delma Exchange on 17th December 2012.

##### 1.1.4 Joint Venture

Name of Joint venture	Principal Activities
Acuity Partners (Pvt) Ltd	Operating as an investment company and providing financial services.

##### 1.1.5 Special Purpose Entity

Name of Special Purpose Entity	Principal Activities
Employee Share Benefit Trust	Administering the employee share Benefit scheme

### 2. BASIS OF PREPARATION

#### 2.1 Statement of Compliance

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 1st January 2012. The Consolidated Financial Statements of the Group and the Financial Statements of the Bank which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with these Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No 7 of 2007 and Banking Act No 30 of 1988 and amendments thereto. These are the Group's first consolidated financial statements prepared in accordance with SLFRSs and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the Bank/Group is provided in note 57.

#### 2.2 Approval of Financial Statements by Directors

The Consolidated and Bank's Financial Statements were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 21st February 2013.

## 2.3 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis and applied consistently subject to the impact in note 2.1, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Derivative financial instruments are measured at fair value.
- Financial instruments designated at fair value through profit and loss are measured at fair value
- Available for sale financial assets are measured at fair value
- Liabilities for cash settled share based payment arrangements are measured at fair value
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values at the date of revaluation.
- Non-current assets held for sale are measured at lower of its carrying amount and fair value less costs to sell.
- Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net totals of the plan assets and unrecognised past service cost.

## 2.4 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

Each entity in the Group determines its own functional currency and items included in the Financial Statements of each individual entity are measured using that functional currency. There was no change in the Group's presentation and functional currency during the year under review.

## 2.5 Use of Estimates and Judgements

The preparation of Consolidated Financial Statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the relevant notes as follows.

- Identification, measurement and assessment of impairment (refer Note 4.5.8)
- Recognition and measurement of financial instruments (refer Note 4.5.1 and 4.5.2)
- Employee Retirement Benefits (Refer Note 4.15)
- Classification of Investment Property (Refer Note 4.11)

## 3. MATERIALITY AND AGGREGATION

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening statement of financial position as at 1st January 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated. The accounting policies of the Bank have been consistently applied by the Group entities where applicable and deviations if any, have been disclosed accordingly.

### 4.1 Basis of Consolidation

#### 4.1.1 Business combinations

##### Acquisitions on or after 1st January 2012

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

## Notes to the Financial Statements

### Acquisitions prior to 1st January 2012

As part of its transition to SLFRSs, the Group elected not to restate those business combinations that occurred prior to 1st January 2012. In respect of acquisitions prior to 1st January 2012, goodwill represents the amount recognised under the previous Sri Lanka Accounting Standards.

### 4.1.2 Subsidiaries

Subsidiaries are entities, including special purpose entities (SPE) that are controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights presently exercisable are taken into account. The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The Non Controlling Interest is presented in the Consolidated Statement of Financial Position within equity, separately from the equity attributable to the Equity Holders of the Bank. Non controlling Interest in the profit or loss of the Group is disclosed separately in the Consolidated Statement of Comprehensive Income.

The Consolidated Financial Statements are prepared to common financial year end of 31st December. The accounting policies of Subsidiaries have been changed whenever necessary to align them with the policies adopted by the Bank.

Where Subsidiaries have been sold or acquired during the year, their operating results have been included to the date of disposal or from the date of acquisition.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Statement of Changes in Equity. If the Group retains any interest in the previous subsidiary, then such Interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

There are no significant restrictions on the ability of the Subsidiaries to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

All Subsidiaries of the Bank have been incorporated in Sri Lanka except Majan Exchange LLC in Oman.

A list of Subsidiaries within the Group is provided in Note 33.

### 4.1.3 Special purpose entity (SPE)

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

The Bank operates an Employee Share Ownership Plan covering specific employees who after having served for a minimum service period are allotted a specific number of shares of the Bank. HNB has set up a trust (Employee Share Benefit Trust (ESBT)) to administer the plan and has given an advance to the Trust at concessional rate of interest. The Trust has purchased equity shares (non-voting) of HNB from open market for meeting the obligations under the Plan. Accordingly the ESBT is treated as a special purpose entity and included in the Consolidated Financial Statements.

### 4.1.4 Associates

Associate is an entity in which the Group has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the Equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of the Associate, after adjustments being made to align the accounting policies with those of the Group from the date that significant influence effectively commences.

When the Group's share of losses exceeds its interest in the Associate, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the Associate. If the Associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The Group discontinues the use of the Equity method from the date that it ceases to have significant influence over an Associate and accounts for the investment in accordance with The Group's accounting policy for financial instruments.

There are no significant restrictions on the ability of the Associate to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

Details of the Associate within the Group are provided in Note 31.



#### 4.1.5 Joint Venture

Joint Venture is an entity over whose activities the Group has joint control, established by contractual arrangement and requiring unanimous consent for strategic, financial and operating decisions. The Group recognises its interest in the Joint Venture using the line by line reporting format for Proportionate Consolidation method and is recognised initially at cost.

The Group combines its share of each of the assets, liabilities, income and expenses of the Joint Venture with similar items, line by line in the Consolidated Financial Statements from the date that joint control commences, until the date joint control ceases.

There are no significant restrictions on the ability of the Joint Venture to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

Details of the Joint Venture are provided in Note 32.

#### 4.1.6 Transactions Eliminated on Consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee against the investment in the investee. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### 4.1.7 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

### 4.2 Foreign Currency Translation

#### 4.2.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees

at the exchange rates ruling at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### 4.2.2 Foreign Operations

The Financial Statements of foreign entities within the Group whose functional currency is different to presentation currency, are translated to Sri Lankan Rupees as follows:

- Assets (including goodwill and fair value adjustment arising on acquisition) and liabilities are translated at the middle rate of exchange at the date of the Statement of Financial Position.
- Income and expenses are translated at the average exchange rate ruling during the period under consideration.
- All resulting foreign exchange differences are recognised in other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the exchange equalisation reserve is transferred to retained earnings.

### ASSETS AND LIABILITIES AND BASIS OF MEASUREMENT

#### 4.3 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances with Central Banks, balances with banks, placements with banks, money at call and short notice with less than three months maturity from the date of acquisition.

#### 4.4 Statutory Deposit with Central Banks

The Monetary Law Act requires that all Commercial Banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees. The licensing regulations for Exchange Houses issued by the Central Bank of Oman require that all Exchange Houses maintain a deposit with the Central Bank of Oman.

The details of reserve requirements are given in Note 22.



## Notes to the Financial Statements

### 4.5 Financial Assets and Financial Liabilities

#### 4.5.1 Recognition and initial measurement

The Group initially recognises all financial assets and liabilities on the settlement date.

However for financial assets/liabilities held at fair value through profit and loss any changes in fair value from the trade date to settlement date is accounted in the Consolidated Statement of Income while for available for sale financial assets any changes in fair value from the trade date to settlement date is accounted in the Statement of Other Comprehensive Income.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

#### 4.5.2 Classification and subsequent measurement

##### Financial assets

At inception a financial asset is classified in one of the following categories:

- at fair value through profit or loss (either as held for trading or designated at fair value through profit or loss)
- loans and receivables
- held to maturity financial assets
- available-for-sale financial assets

##### Financial liabilities

The Group initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

##### Financial assets and financial liabilities at fair value through profit or loss

A financial asset or a financial liability is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated as fair value through profit or loss when;

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- The asset or liabilities include embedded derivatives and such derivatives are required to be recognised separately

Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

Loans and advances, bills of exchange, commercial papers and lease receivables are classified as loans and receivables.

##### Held to maturity financial assets (HTM)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

##### Available for sale financial assets (AFS)

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income on AFS financial assets is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

#### Financial liabilities measured at amortised cost

Financial liabilities not classified as fair value through profit or loss are classified as amortised cost instruments. Deposit liabilities including non interest bearing deposits, savings deposits, term deposits, deposits redeemable at call and certificates of deposit and borrowings are classified as financial liabilities measured at amortised cost.

#### 4.5.3 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

#### 4.5.4 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of

the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

#### 4.5.5 Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances:

- to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or
- to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of



## Notes to the Financial Statements

reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

### 4.5.6 Derecognition

The group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### 4.5.7 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### 4.5.8 Identification, measurement and assessment of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses of historical trends of the probability of default, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible.

#### 4.5.9 Rescheduled Loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered rescheduled loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

#### 4.6 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included under borrowings. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

#### 4.7 Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

#### 4.8 Non-current Assets Held for Sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as "Held for Sale" once identified that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. These are assets which are available for immediate sale in their present condition, subject to only the terms that are usual and customary for sale of such assets and their sale is highly probable.

Non-Current Assets Held for Sale are presented separately on the face of the Statement of Financial Position at the lower of its carrying amount and fair value less costs to sell.

Assets classified as Non-Current Assets Held for Sale are neither amortised nor depreciated.

Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in the Income Statement.

#### 4.9 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under Lease Receivable. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the impairment for rentals doubtful of recovery.

#### 4.9.1 Identification and Measurement of Impairment for Lease Receivables

Lease receivables are collectively assessed for impairment as stated above in Note 4.5.8.

#### 4.10 Intangible Assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

##### 4.10.1 Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

##### 4.10.1 (a) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 4.1.1.

## Notes to the Financial Statements

### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss in such investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Any gain on bargain purchase is recognised immediately in the Statement of Income.

#### 4.10.1 (b) Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

#### 4.10.2 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

#### 4.10.3 Amortisation

Intangible assets, except for goodwill, are amortised on a straight line basis in the Statement of Income from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful life of software is six years. Expenditure on an intangible item that was initially recognised as an expense by the Bank in previous Annual Financial Statements or Interim Financial Reports are not recognised as part of the cost of an intangible asset at a later date. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### 4.10.4 Retirement and Disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

### 4.11 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

#### 4.11.1 Basis of Recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

#### 4.11.2 Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

#### 4.11.3 Depreciation

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

Hatton National Bank PLC

Freehold buildings	2.5% per annum
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[Refer Note 35 (a)]

Sithma Development (Pvt) Ltd\*

Freehold buildings	2.5% per annum
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[Refer Note 35 (b)]

Plant, machinery and equipment integral to freehold buildings referred to above	20% per annum
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\* Sithma Development (Pvt) Ltd

The HNB towers which is owned by Sithma Development (Pvt) Ltd ("Sithma"), is leased to occupants including the Bank. However, the ancillary services provided by Sithma Development (Pvt) Ltd to the occupants of HNB towers, is a significant component of the arrangement as a whole. Therefore, HNB towers is not classified as investment property in the financial statements of Sithma, but has been classified under property, plant and equipment in accordance with Sri Lanka Accounting Standard (LKAS 40) "Investment Property".

#### 4.11.4 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.



**4.11.5 Investment property leased within the group**

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the group and adjustments are made for consolidation purposes and changes are disclosed in Note 34 (b) to the Financial Statements.

**4.12 Property, Plant and Equipment**

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

**4.12.1 Basis of Recognition**

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

**4.12.2 Measurement**

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

**4.12.3 Cost Model**

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

**4.12.4 Revaluation Model**

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the

Statement of Income or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

**4.12.5 Reclassification to investment property**

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in the Income Statement.

**4.12.6 Subsequent Costs**

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Income as incurred. Costs incurred in using or redeploying an item are not included under carrying amount of an item.

**4.12.7 Derecognition**

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in Statement of Income when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

**4.12.8 Depreciation**

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

## Notes to the Financial Statements

### Hatton National Bank PLC and its Subsidiary Companies (except for Sithma Development (Pvt) Ltd)

	% per annum
Freehold buildings	2.5
Motor vehicles	25
Computer equipment	16.7
Office equipment	20
Furniture and fittings	10
Fixtures	10
Civil works (Majan Exchange LLC)	10
Improvements to leasehold buildings	over the lease period

Depreciation is not provided for freehold land.

### Sithma Development (Pvt) Ltd

	% per annum
Freehold buildings - Sithma building	1
Generators, generator panels and associated power cables	2
Chillers, cooling towers and associated equipment	4
Lifts and escalator	4
Building management systems	4
Plant and machinery	20
Equipment	20
Furniture and fittings	10

### Change in estimates

During the year ended 31st December 2012 the Group conducted an operational efficiency review and there were changes in the expected usage of the chillers and building management system used by Sithma Development (pvt) Ltd. These items had a previous expected useful life of 25 years which are now expected to be used for 20 and 14 years respectively from the date of purchase. As a result the expected useful lives of these assets decreased. The effect of this change on depreciation expense, recognised in premises, equipment and establishment expenses, in current and future periods is as follows.

Rs Mn	2012	2013	2014	2015	2016
Increase in depreciation expense	3.6	10.8	10.8	10.8	10.8

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

### 4.12.9 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the

location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

### 4.12.10 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 23 (LKAS 23) "Borrowing Costs". Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

### 4.13 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of



CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## Liabilities and provisions

### 4.14 Dividends Payable

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

### 4.15 Employee Retirement Benefits

#### 4.15.1 Defined Benefit Plan

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

#### 4.15.1 (a) Pension Fund

The Bank operates an approved Pension Fund to facilitate the following payments for permanent staff of the Bank:

- a) Pensions to retiring staff
- b) Benefits to staff who opted for the optional scheme for pension introduced in 2005
- c) Gratuity

The gratuity would be the payments to staff who satisfy the criteria as per the Gratuity Act at the time of leaving the services of the Bank without pension rights. The requirement under the Payment of Gratuity Act No 12 of 1983, payment of gratuities to employees who have completed more than five years of service is covered through the Bank's own non-contributory pension scheme which is in force.

The Bank's obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, then deducting the fair value of any plan assets and past service cost not yet recognised. The value of any defined benefit asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits

available in the form of refunds from the plan or reductions in the future contributions to the plan. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit method which is the method recommended by Sri Lanka Accounting Standard (LKAS 19) "Employee Benefits".

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Statement of Income on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in Statement of Income.

To determine the net amount in the Statement of Financial Position, any unrecognised past service costs are deducted from the excess of total defined benefit obligation over fair value of plan assets.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of a plan in Other Comprehensive Income during the period in which it occurs.

The demographic assumptions underlying the valuation are retirement age (55 yrs), early withdrawals from service and retirement on medical grounds, death before and after retirement etc.

The Subsidiaries do not operate pension funds.

#### 4.15.1 (b) Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits other than pension funds is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligation. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits.

#### 4.15.1 (c) Widows', Widowers' and Orphans' Pension Fund

The Bank operates a separate Widows', Widowers' and Orphans' Pension Scheme (WW & OP) which was established with effect from 1st September 1995. The contributions are from employees only.



## Notes to the Financial Statements

### 4.15.1 (d) Majan Exchange LLC

The Company's obligation in respect of non-Omani terminal benefits which is an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and is calculated by estimating the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the Projected Unit Credit method and is discounted to its present value.

### 4.15.1 (e) Employees' Provident Fund - Bank

The Bank and employees contribute 12% and 8% respectively on the salary of each employee to the approved private Provident Fund.

### 4.15.2 Defined Contribution Plans

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Income as and when they are due.

### 4.15.2 (a) Employees' provident fund – group companies

The Group entities and their employees contribute 12% and 8% respectively on the salary of each employee to Employees' Provident Fund. [except for the bank as explained in note 4.15.1 (e)]

### 4.15.2 (b) Employees' Trust Fund

The Bank / Group contributes 3% of the salary of each employee to the Employees' Trust Fund.

### 4.15.2 (c) Majan Exchange LLC

In respect of Majan Exchange LLC, contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme are recognised as an expense in the Statement of Comprehensive Income as and when they are due.

### 4.15.3 Share Based Payment Transactions

#### 4.15.3 (a) Cash Settled Share Based Payment Transactions

The Employee Share Benefit Trust is treated as a cash settled share based payment transaction. It was introduced in 2005 and offered shares to executive and high rank officers of the Bank. The shares allotted to the respective employee under the plan would remain within the plan while the beneficial interest will be with the employee. At the time the employee leaves the Bank the difference between the issue price and the market price is paid to the employee. Therefore the said Employee Share Benefit Trust has no potential dilutive effect on the earnings per share of the Bank. The fair value of the amount payable to employees in respect of share appreciation rights settled in cash is recognised as an

expense with a corresponding increase in liabilities. The liability is remeasured at each reporting date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss. The trust is treated as a subsidiary and the shares held by the trust are treated as treasury shares which are eliminated against reserves in the Consolidated Statement of Financial Position.

### 4.15.3 (b) Equity Settled Share Based Payment Transactions

#### 4.15.3 (b) i Equity settled share based payments granted after 1st January 2012

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for difference between expected and actual outcomes.

#### 4.15.3 (b) ii Equity settled share based payments granted prior to 1st January 2012

In respect of employee share options granted prior to 1st January 2012 SLFRS 2 Share Based Payment standard is not applicable.

At the Annual General Meeting held on 28th March 2008 a resolution was passed to formulate an Employee Share Option Plan (ESOP) apart from the Employee Share Benefit Trust enabling the staff in the management rank and above of the Bank to take part in the voting and non voting ordinary shares of the Bank. The total number of share options available to the eligible employees per year will be 1.25% of shares issued by the Bank up to a maximum limit of 5% of the shares issued (both voting and non voting) by the Bank in 4 years. The benefits under ESOP will accrue to eligible employees of the Bank in any particular year only if the conditions set out in the ESOP are met.

An eligible employee will qualify to receive share options in a particular year by achieving a positive performance rating in the annual performance assessment. The amount of share options to be granted to each qualified eligible employee will depend on his / her seniority in the Bank. This employee share option plan has potential dilutive effect on the earnings per share of the Bank.

Details of share options are given in Note 50 (c) i.

**4.16 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

**4.17 Financial guarantees**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

**4.18 Operational Risk Events**

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to amounts of principal outstanding for loans and advances.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

**4.19 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary, Associate or Joint Venture for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

**4.20 Interest**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Comprehensive Income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense;
- the ineffective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of interest rate risk; and
- fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income in the Statement of Comprehensive Income.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**4.21 Dividend Income**

Dividend income is recognised in the Statement of Income on an accrual basis when the Bank's right to receive the dividend is established.



## Notes to the Financial Statements

This is usually on the ex-dividend date for equity securities. Dividends are presented in net trading income or net gain/(loss) from financial investments based on the underlying classification of the equity investment.

### 4.22 Lease Income

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease commencing with the month in which the lease is executed in proportion to the declining receivable balance.

### 4.23 Discount on Bills of Exchange

Income on discounting bills of exchange is recognised proportionately over the period of the instrument.

### 4.24 Fee and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

### 4.25 Profit / Loss from Sale of Property, Plant and Equipment

Profit / loss from sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified as other income.

### 4.26 Profit / Loss from Sale of Investment Properties

Any profits or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

### 4.27 Rental Income

Rental income is recognised on an accrual basis.

### 4.28 Revenue Recognition on Sale of Apartments – Residential Apartment Complex

Revenue from sale of apartments is recognised in the Statement of Income when significant risks and rewards of ownership transfer to the buyer.

### 4.29 Lease Payments

Total Payments made under operating leases are recognised in the Statement of Income on a straight line basis over the term of the lease.

The future monthly commitments on operating leases are shown in Note 51 (b).

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### 4.30 Income Tax Expense

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the Statement of Income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

#### 4.30.1 Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto at the rates specified in Note 18 (g).

Provision for taxation on overseas Subsidiaries/Associates is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes in those countries.

#### 4.30.2 Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Details of the deferred tax assets and liabilities as at the reporting date are given in Note 47.

#### 4.30.3 Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

#### 4.30.4 Withholding Tax on Dividends (WHT)

Dividend distributed out of taxable profit of the local Subsidiaries attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the Subsidiaries in the Consolidated Financial Statements as a consolidation adjustment.

Withholding tax that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

#### 4.30.5 Value Added Tax on Financial Services (VAT)

The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

#### 4.30.6 Economic Service Charges (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006, ESC was payable at 1% on Bank's liable turnover and was deductible from income tax payable. With effect from 1st April 2012 as per the ESC amendment Act No 11 of 2012 ESC is payable only on exempt turnover of the Bank and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

#### 4.31 Earnings per Share (EPS)

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

#### 4.32 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

#### 4.33 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS 7) "Statement of Cash Flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice.

#### 4.34 Regulatory provisions

##### 4.34 (a) Deposit Insurance Scheme

In terms of the Banking Act Direction No 5 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following.

## Notes to the Financial Statements

- deposit liabilities to member institutions
- deposit liabilities to Government of Sri Lanka
- deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- deposit liabilities held as collateral against any accommodation granted
- deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

### 4.34 (b) Investment Fund Account

As proposed in the budget proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

As and when taxes are paid after 1st January 2011 Licensed Commercial Banks are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the bank.

- 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT
- 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax

Licensed Commercial Banks shall utilise the funds in the Investment Fund Account in the following manner:

- Invest in long term government securities and/or bonds with maturities not less than seven years
- Lend on maturities not less than five years at interest rates not exceeding 5 year treasury bond rates plus 2%
- Lend only for the following purposes:
  - I. Long term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries
  - II. Factory/mills modernisation/establishment/expansion
  - III. Small and medium enterprises

Loans up to Rs. 200 Mn to enterprises with annual turnover less than Rs. 600 Mn

- IV. Information technology related activities and business process outsourcing
- V. Infrastructure development
- VI. Education – vocational training and tertiary education
- VII. Housing up to Rs. 2 Mn per customer for construction of a house for residential purposes
- VIII. Construction of hotels and for related purposes
- IX. Restructuring of loans extended for the above purposes

## PRESENTATION

Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. Where appropriate, the significant accounting policies are disclosed in the succeeding Notes.

### 4.35 Offsetting Income and Expenses

Income and expenses are not offset unless required or permitted by accounting standards.

### 4.36 Offsetting Assets and Liabilities

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 4.37 Events Occurring after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events that occurred after the reporting date, including the final dividend declared on Ordinary Shares have been considered and appropriate disclosures are made in Note 55 to the Financial Statements.

## 5 SIGNIFICANT ACCOUNTING POLICIES THAT ARE SPECIFIC TO THE BUSINESS OF THE SUBSIDIARY – HNB ASSURANCE PLC (HNBA)

As permitted by SLFRS 4 "Insurance Contracts", HNBA continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.



## 5.1 Product classification

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

Insurance contracts are those contracts where the entity (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, HNBA determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by HNBA are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, HNBA does not have any investment contracts within its product portfolio as at the date of the Statement of Financial Position.

## 5.2 Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to General Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenues earned.

In line with the available regulatory guidelines from the Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 1/24th basis.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

## 5.3 Reinsurance

The Subsidiary cedes insurance risk in the normal course of business to recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer’s policies and are in accordance with the related reinsurance contract.

Reinsurance is recorded gross in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the entity may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the entity will receive from the reinsurer. The impairment loss, if any is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the entity from its obligations to policyholders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

## 5.4 Premium Receivable

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all Non-Life insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

The entity decided to account for life insurance premiums on accrual basis with the implementation of new/revised SLFRS/LKAS. Accordingly, due Life Insurance premiums (only the premiums due in the 30 day grace period) are recognized at each reporting date and will be reversed if the premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the entity policy.

## Notes to the Financial Statements

### 5.5 Insurance Contract Liabilities

#### 5.5.1 Insurance Provision – Life Insurance

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method as specified by the Insurance Board of Sri Lanka (IBSL) based on the recommendation of the Independent Consultant Actuary. The liability is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type.

Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts reviving in the future.

As required by the SLFRS 4- Insurance Contracts, the entity performed a Liability Adequacy Test (LAT) in respect of Life Insurance contract liabilities with the assistance of an external actuary. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used.

#### 5.5.2 Insurance Provision – General Insurance

General Insurance contract liabilities include the outstanding claims provision including IBNR and IBNER, the provision for unearned premium and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

The valuation of Unearned Premium Reserve are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 1/24th basis).

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve are actuarially computed.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

As required by the SLFRS 4- Insurance Contracts, the entity performed a Liability Adequacy Test (LAT) in respect of General Insurance contract liabilities with the assistance of the external actuary.

### 5.6 Title Insurance Reserve

Title insurance reserve is maintained by the entity to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in that year. From the 2nd year onwards, profit is recognised by amortising the premium received and will be distributed throughout the remaining period of the policy using the straight line method. Profit for the first year will be recognised in the 2nd year and therefore it is periodically recognised.

If the corresponding loan of the Title Insurance Policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised in profits upon confirmation of the same by the respective Bank.

### 5.7 Revenue recognition

#### 5.7.1 Insurance Premiums

##### Life insurance business

Gross recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered as due). Any premiums received in advance is not recorded as revenue and recorded as a liability until the premium is due. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

##### General insurance business

Gross general insurance written premiums comprise the total premiums received /receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross Written Premium is generally recognized is written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

### 5.7.2 Reinsurance premiums

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts (using 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000).

### 5.7.3 Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or becoming due.

## 5.8 Benefits, claims and expenses

### 5.8.1 Gross benefits and claims

#### Life insurance business

Claims by death and maturity are charged against revenue on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

Expenses on Life Insurance relates to the acquisition expenses and expenses for maintenance of Life Insurance business, investment related expenses not treated as a part of the capital cost of investment, etc which are accounted on accrual basis.

#### General insurance business

General insurance claims include all claims occurring during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) is actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a semi-annual basis.

Whilst the Directors of HNBA consider that the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

### 5.8.2 Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

### 5.8.3 Net Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

## 5.9 Actuarial Valuation of Life Insurance Fund

The Directors of HNBA agree to the long term insurance provision for the entity at the year-end on the recommendations of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

## 5.10 Premium Income (GWP) and other Sundry Sales related taxes

Revenues, expenses and assets are recognised net of the amount of sales taxes and premium taxes except where the premium or sales tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as a part of the cost of acquisition of the asset or as a part of the expense item, as applicable.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are included as a part of receivables or payables in the Statement of Financial Position.



## Notes to the Financial Statements

### 6. COMPARATIVE INFORMATION

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in Note 57.

### 7 FINANCIAL RISK MANAGEMENT

#### 7.1 Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks (except market risk), the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital. Since the Bank (ultimate parent) accounts for more than 90% of the total assets, liabilities, income and expenses of the Group, only the Bank's exposure has been discussed under this note.

#### 7.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. In discharging its governance responsibility it operates through two key committees the Board Integrated Risk Management Committee and the Audit Committee.

The BIRMC provides the Board the assurance that risk management strategies, policies and processes are in place to manage events / outcomes that have the potential to impact significantly on earnings performance, reputation and capital. The approach entails active monitoring of the level of risk exposure against the parameters set in the risk appetite. The BIRMC also assists the Board by assessing and approving significant credit and other transactions beyond the discretion of executive management.

The following Executive Management Sub - Committees, each with specialised focus, support the BIRMC and are responsible for the co-ordination of risk matters for each of the areas of risk management:

- Executive Risk Management Committee
- Asset and Liability Committee (ALCO)
- Credit Policy Committee
- Investment Committee
- IT Steering Committee
- Sustainability Committee
- Staff Committee

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Audit Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

#### 7.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment in debt/equity securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, industry risk and geographical risk etc.).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below.

#### Management of credit risk

The Credit Risk Policy plays a central role in managing daily business activities. The Bank has developed a policy which defines the principles encompassing client selection, due diligence, early alert reporting, tolerable levels of concentration risk and portfolio monitoring in line with Bank's risk appetite. The approach is to avoid large credit risk on a counterparty or portfolio level by applying stringent underwriting standards combined with sound collateralisation where feasible. The policy is reviewed at least annually and approved by the Board of Directors ensuring consistency with the Bank's business strategy. A monthly Credit Policy Meeting chaired by the Chief Executive Officer, drives policy decisions and implementation plans.

Bank manages credit risk by focusing on following stages. Regular audits of business units undertaken by Internal Audit in order to ensure smooth functioning of each of these stages.

### Loan Origination and Risk Appraisal

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process and internal policy dictates margins in our favor by type of security offered, standards for periodic valuations and assessment of realisable value of collateral.

A suite of internal risk rating models (scientifically developed with the assistance of external consultants) is in place for corporate and retail customer segments. The internal risk rating is an important part of the risk assessment of customers and incorporated in the credit decision process. Significant strides have been made in internalizing this approach with a view to giving due prominence to lending based on cash flow repayment ability as distinct from collateral based lending.

### Loan Approval and Sanction

The Bank has established clear guidelines for loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require an independent risk signatory with no revenue targets in respective committees (process ensures over 85% of loans, excluding cash and gold backed facilities, are approved in this manner).

### Credit Administration and Disbursement

HNB's Corporate Banking loan portfolio is administered through a centralized Credit Administration Division which ensures efficient and effective post sanction customer support including disbursement, settlements, processing renewal notices and advising customers on interest rate amendments. This division independently reports to the Risk Management Unit to ensure clear

segregation of duties from business origination and disbursements only after stipulated conditions have been met and relevant security documents obtained.

### Credit Measurement and Monitoring

To safeguard the Bank against possible losses, problem loans need to be identified early. The Credit Risk Management Division measures and tracks the status of the credit portfolio, undertakes impact studies and detects early warning signals pointing to deterioration in the financial health of a borrower.

A credit risk dashboard is prepared monthly to review high level credit portfolio concentration and assess performance against internal limits (board risk appetite) and regulatory requirements. An internally developed Business Intelligence system ('KPI Wizard') is in place to evaluate credit risk indicators at branch, regional, zonal and bank level. Accountability for credit risk performance is vested with individual business units and unhealthy trends addressed at all levels.

### Recoveries

Problem loans are managed by the Recoveries and Credit Quality Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised. This division's activities are seamlessly integrated with Credit Administration and Credit Risk Management to ensure effective follow up and learning transfer.

Back Office recovery functions representing problem loans classification, rescheduling, provisioning and valuation of collateral on delinquent assets was centralized during the last year to ensure standardisation and accuracy. The Bank strictly conforms to regulatory requirements in problem loan classification and management.

## 7.3.1 Loans and advances to customers

The transition to fair value based accounting (LKAS 32 and 39) with effect from 01st January 2012 required the present age wise classification to be replaced with a cash flow based approach. The approach adopted was to classify loans in to individually significant exposures and other loans in to homogenous portfolios by segment / product for necessary computations as appropriate.

As at	Note	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Carrying amount at amortised cost	27	302,760,980	257,198,343	202,253,018
Individually significant - impaired		5,765,347	5,233,052	5,598,834
Allowance for impairment as at		(1,808,383)	(2,057,850)	(2,507,000)
Carrying amount		3,956,964	3,175,202	3,091,834

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

## Notes to the Financial Statements

## 7.3.1 Loans and advances to customers (Contd.)

As at	31.12.2012 Gross loan amount Rs 000	31.12.2011 Gross loan amount Rs 000	01.01.2011 Gross loan amount Rs 000
<b>Collateral wise analysis of Individually impaired loans</b>			
Secured by movable assets	-	-	-
Secured by immovable assets	4,737,306	4,162,724	3,856,900
Secured by cash/shares	105,922	94,570	90,548
Other Securities	686,899	622,766	1,322,579
Clean	235,220	352,993	328,812
	5,765,347	5,233,053	5,598,839
<b>Individually significant unimpaired</b>			
Watch listed	8,649,790	3,042,974	4,874,985
Others	113,856,075	95,442,949	77,457,706
	122,505,865	98,485,923	82,332,691
Allowance for impairment as at	(571,281)	-	-
Carrying amount	121,934,584	98,485,923	82,332,691
<b>As at</b>	<b>31.12.2012 Rs 000</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Collateral wise analysis of Individually significant unimpaired loans</b>			
Secured by movable assets	1,830,919	287,181	479,195
Secured by immovable assets	48,240,516	43,221,550	26,593,690
Secured by cash/shares	2,656,310	1,684,116	2,674,284
Other Securities	35,625,972	29,183,232	27,614,537
Clean	34,152,148	24,109,844	24,970,985
	122,505,865	98,485,923	82,332,691
<b>Collectively Impaired</b>			
Collectively impaired	182,113,462	160,144,276	122,034,167
Allowance for impairment as at	(5,244,030)	(4,607,058)	(5,205,674)
Carrying amount	176,869,432	155,537,218	116,828,493
<b>As at</b>	<b>31.12.2012 Gross Loans Rs 000</b>	<b>31.12.2011 Gross Loans Rs 000</b>	<b>01.01.2011 Gross Loans Rs 000</b>
<b>Collectively impaired comprises</b>			
0-30 days	168,387,721	149,634,321	111,437,162
31-60 days	6,771,650	4,565,752	3,891,691
61-90 days	968,162	768,878	872,127
91-120 days	531,907	259,923	327,020
121-150 days	397,392	334,863	382,967
151-180 days	527,119	351,666	487,476
Above 180 days	4,529,511	4,228,873	4,635,724
	182,113,462	160,144,276	122,034,167



### 7.3.1 Loans and advances to customers (Contd.)

#### Allowances for impairment

The Bank established an allowance for impairment losses on assets carried at amortised cost/available for sale that represents its estimate of incurred losses in its loan and investment debt/equity security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

#### Write-off policy

The Bank writes off a loan or an investment debt/equity security balance, and any related allowances for impairment losses, when it determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

#### Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances as at the reporting date is shown below.

As at	31.12.2012 Rs 000	%	31.12.2011 Rs 000	%	01.01.2011 Rs 000	%
<b>Concentration by sector</b>						
Agriculture and fishing	31,306,579	10.09	28,965,719	10.98	25,338,467	12.07
Manufacturing	38,851,459	12.52	29,373,274	11.13	24,291,183	11.57
Tourism	18,731,165	6.03	16,378,499	6.21	12,189,811	5.81
Transport	5,034,068	1.62	10,210,733	3.87	11,992,130	5.71
Construction	40,234,886	12.96	38,583,493	14.62	33,780,242	16.09
Traders	49,636,247	15.99	40,804,323	15.46	32,868,660	15.65
New economy	4,675,435	1.51	3,424,704	1.30	2,623,994	1.25
Financial and business services	23,051,027	7.43	21,505,529	8.15	15,581,646	7.42
Infrastructure	8,923,369	2.87	7,072,183	2.68	5,600,478	2.67
Other services	23,469,029	7.56	24,645,018	9.34	13,166,509	6.27
Credit card	2,778,069	0.90	2,355,722	0.89	1,877,220	0.89
Pawning	48,447,062	15.61	34,377,453	13.03	23,223,488	11.06
Other	15,246,279	4.91	6,166,601	2.34	7,431,864	3.54
	310,384,674	100.00	263,863,251	100.00	209,965,692	100.00

As at	31.12.2012 Rs 000	%	31.12.2011 Rs 000	%	01.01.2011 Rs 000	%
<b>Concentration by location</b>						
Western	207,254,789	66.77	175,524,531	66.51	126,275,867	60.14
Southern	13,641,985	4.40	11,307,776	4.29	10,577,256	5.04
Uva	5,914,993	1.91	5,270,609	2.00	3,471,150	1.65
North Central	6,712,992	2.16	5,732,445	2.17	10,927,618	5.20
North Western	14,411,984	4.64	12,688,117	4.81	19,836,658	9.45
Eastern	11,265,987	3.63	9,094,598	3.45	6,083,158	2.90
Northern	15,343,983	4.94	12,333,439	4.67	8,147,759	3.88
Sabaragamuwa	8,789,991	2.83	7,591,597	2.88	5,707,015	2.72
Central	21,558,976	6.95	16,722,539	6.34	10,427,152	4.97
Overseas	5,488,994	1.77	7,597,600	2.88	8,512,059	4.05
	310,384,674	100.00	263,863,251	100.00	209,965,692	100.00

Concentration by location for loans and advances is measured based on the location of the customer centre granted the facility, which has a high correlation with the location of the borrower except for loans granted by the Foreign Currency Banking Unit (FCBU).

## Notes to the Financial Statements

As at	Note	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>7.3.2 Financial Investments</b>	28, 30	77,900,215	65,905,055	64,750,664
Investment in debt securities at amortised cost				
AA-		926,932	1,095,400	365,400
A+		18,000	92,000	-
A		389,778	150,000	270,000
A-		686,000	700,000	-
Unrated		489,000	489,000	489,000
		2,509,710	2,526,400	1,124,400
Investment in local/foreign government securities at amortised cost				
Sri Lanka Development Bonds		17,520,959	11,460,121	9,600,234
Sri Lanka Sovereign Bonds		-	679,476	647,745
CBSL Securities		-	-	3,998,408
		17,520,959	12,139,597	14,246,387
Investments in equity securities at Available for Sale				
AAA		-	180,000	360,000
AA		4,251,708	4,224,630	6,428,250
Unrated		225,456	231,156	297,956
		4,477,164	4,635,786	7,086,206
Investments in local/foreign government securities at Available for Sale				
Government of Sri Lanka Treasury Bills		47,804,967	35,929,393	33,525,659
Government of Sri Lanka Treasury Bonds		5,587,415	10,598,527	8,627,064
Bonds issued by the Government of Greece		-	75,352	140,948
		53,392,382	46,603,272	42,293,671
<b>As at</b>	<b>Note</b>	<b>31.12.2012 Rs 000</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>7.3.3 Investment held at fair value through profit or loss</b>	25			
Equity Securities		452,847	723,316	576,280
Government securities		21,236	437,183	881,168
		474,083	1,160,499	1,457,448

**7.3.3 Investment held at fair value through profit or loss (Contd.)**

Analysis of equity securities held at fair value through profit or loss based on external risk ratings

As at	31.12.2012			31.12.2011			01.01.2011		
	Cost	Market Value	%	Cost	Market Value	%	Cost	Market Value	%
	Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000	
AAA	146,247	147,643	32	74,855	60,863	8	77,644	84,417	15
AA	104,496	76,833	17	124,700	91,467	13	112,019	111,405	19
AA-	62,084	49,508	11	124,578	100,239	14	40,053	54,853	10
A+	17,494	16,701	4	-	-	-	7,513	9,471	2
A	34,754	25,654	6	-	-	-	29,792	28,391	5
A-	-	-	-	-	-	-	40,230	52,167	9
BBB+	7,060	6,531	1	27,715	17,735	2	29,322	28,755	5
Unrated	187,875	129,977	29	548,144	453,012	63	165,904	206,821	35
	560,010	452,847	100	899,992	723,316	100	502,477	576,280	100

Risk ratings are based on the external ratings as published by the Fitch Ratings Lanka Ltd &amp; RAM Ratings Lanka (Pvt) Limited.

Sector wise analysis of the equity securities held at fair value through profit or loss

As at	31.12.2012			31.12.2011			01.01.2011		
	Cost	Market Value	%	Cost	Market Value	%	Cost	Market Value	%
	Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000	
Banks, Finance and Insurance	132,300	116,502	26	189,038	146,097	20	146,558	171,805	30
Beverage, Food and Tobacco	63,805	50,572	11	172,055	158,441	22	74,215	83,295	14
Diversified Holdings	208,659	183,714	40	243,036	183,417	25	153,410	160,872	28
Health Care	-	-	-	-	-	-	37,305	37,862	7
Manufacturing	79,938	55,427	12	124,131	94,161	13	38,076	47,117	8
Motors	-	-	-	60,676	50,968	7	-	-	-
Oil and Palms	39,755	25,789	6	42,979	41,200	6	-	-	-
Power and Energy	35,553	20,843	5	67,954	49,032	7	-	-	-
Trading	-	-	-	-	-	-	52,778	75,329	13
Odd lots and delisted shares	-	-	-	123	-	-	135	-	-
	560,010	452,847	100	899,992	723,316	100	502,477	576,280	100

Total Investment in securities issued by Government of Sri Lanka

As at	31.12.2012	31.12.2011	01.01.2011
	Rs 000	Rs 000	Rs 000
Loans and Receivables (at amortised cost)	17,520,959	12,139,597	14,246,387
Fair Value through Profit or Loss	21,236	437,183	881,168
Available for Sale	53,392,382	46,527,920	42,152,723
	70,934,577	59,104,700	57,280,278
Government securities as a % of total trading assets and financial investments	90.5	88.1	86.5

## Notes to the Financial Statements

### 7.3.4 Derivative assets/liabilities held for Risk Management

The bank holds derivative assets/liabilities (Forward exchange contracts and Swaps) for risk management purposes. An analysis of the credit quality of such derivative assets/liabilities, based on rating agency ratings where applicable, is as follows:

Fair value as at	Note	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Derivative assets held for risk management purposes	24	344,552	496,643	231,124
Derivative liabilities held for risk management purposes	39	(1,436,443)	(617,702)	(166,521)
		(1,091,891)	(121,059)	64,603
<b>Analysis of derivative assets/liabilities based on the external risk ratings of the counterparts</b>				
AAA		(676,018)	(113,400)	72,508
AA+		4,317	5,653	(2,431)
AA		(512,398)	46,075	7,241
AA-		1,202	44,168	1,470
A+		(21)	-	(22)
A		66,272	(71,307)	(1,581)
A-		26,985	(398)	16,494
BBB+		4,620	-	-
BBB		-	772	658
BBB-		40,000	(123,576)	11,652
BB+		(25)	-	1,351
unrated *		(46,825)	90,954	(42,727)
		(1,091,891)	(121,059)	64,603

\*Unrated includes derivatives with unrated international banks /financial institutions, unrated local banks, individuals and corporates.

Analysis of derivative assets/liabilities by counterparts/products is given below:

Fair value as at	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Banks and financial Institutions</b>			
<b>Local</b>			
Forward Exchange Contracts	6,642	(143,679)	117,407
Swaps	(1,201,834)	72,621	(7,132)
<b>International</b>			
Forward Exchange Contracts	44	(54)	(19,322)
Swaps	112,239	(140,905)	20,292
<b>Others (Individuals and corporates)</b>	(8,982)	90,958	(46,642)
	(1,091,891)	(121,059)	64,603

### 7.3.5 Cash and cash equivalents/placements with other banks

The Bank held cash and cash equivalents/placements with other banks of Rs 19.091 Bn as at 31 December 2012 which represents its maximum credit exposure on these assets. The cash and cash equivalents consisted of cash on hand (Rs 8.368 Bn), placements with banks and financial institution which are rated AA- to AAA based on rating agency ratings (Rs 10.184 Bn) and placements with other local/foreign banks and financial institutions (Rs 539 Mn)

## 7.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

### Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, that funds available are adequate to meet credit demands of its customers and to enable deposits to be repaid on demand or upon maturity as appropriate.

Treasury is responsible for the management of liquidity risk and funding. The Head of Treasury is responsible for the daily execution of the treasury operations and for ensuring that these are in accordance with the approved guidelines and risk limits. The main sources of the Bank's funding are capital, core deposits from customers and access to borrowed funds from the interbank market. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

### Exposure to liquidity risk

The bank monitors the following liquidity ratios to assess funding requirements.

	31.12.2012	31.12.2011
Net loans/Total assets	67.84%	67.60%
Gross Loans/Customer deposits	90.91%	90.56%
<b>Liquid Asset Ratio (LAR)</b>		
Average for the year	21.90%	22.69%
Maximum for the year	23.28%	24.48%
Minimum for the year	20.79%	20.99%

Liquid assets include cash and short term funds, bills purchased and short term investments. Short term liabilities include savings deposits, call and repo borrowings and current taxation.

The Bank also monitors the maturity profile of its assets and liabilities. Maturity analysis of assets and liabilities which is based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity date is given in Note 53 to the financial statements.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Detailed analysis of the Bank's Financial Investments is presented under credit risk.



## Notes to the Financial Statements

### 7.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

Provisions made by the Bank for operational losses for the last five years are given below along with the subsequent recoveries made out of such provisions.

Rs' 000	2008	2009	2010	2011	2012
Provisions made for operational losses	14,180	60,083	43,169	10,973	8,777
Operational losses recovered	-	-	7,024	18,360	4,006

### 7.6 Capital Management

The Banks' capital management objectives can be summarised as follows:

- maintain sufficient capital to meet minimum regulatory capital requirements
- hold sufficient capital to support the Bank's risk appetite;
- allocate capital to businesses to support the Bank's strategic objectives
- ensure that the Bank maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events.

#### Regulatory Capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by the CBSL and the Bank is required to comply with the Provisions of the Basel II framework in respect of regulatory capital. Commercial banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5%.

## 7.6 Capital Management (Contd)

### 7.6.1 Capital Adequacy

The primary objective of the Capital Adequacy Ratio (CAR) defined under Basel II is to protect a bank's depositors, whilst maintaining confidence and giving stability to the world banking system. The regulators attempt to accomplish this by setting the capital reserves a bank needs to hold in relation to the risk the bank exposes itself through its business activities. Keeping in line with international standards, the Central Bank of Sri Lanka has supported these regulatory reforms by enhancing them in accordance with local funding and liquidity requirements.

The Bank computes CAR as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardized approach whereas operational risk is computed by using the basic indicator approach. As the Basel II guidelines are phased in and more sophisticated risk measurement systems and models are implemented, banks will be in a position to move from the standardized methods to the more refined and robust requirements of the advanced approaches.

As of 31st December 2012, HNB reported a Tier 1 ratio of 13.85% and a total CAR of 16.63 which remain comfortably above the CBSL's capital requirements.

In arriving at the above ratios, the Bank has used profits as per SLFRSs for the purpose of Tier I Capital. However all other balances are as per the accounting standards existed prior to 1st January 2012 (Previous GAAP - SLAS) including the risk weighted assets.

The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

HNB manages its capital structure and adjusts it accordingly in line with changes in global and local economic and market conditions and its overall risk appetite. In order to maintain or increase capital, the Bank may issue Tier 1 or Tier 2 securities, change the dividend payment to shareholders or obtain international funding. Accordingly the Bank in 2012 obtained USD 25 Mn foreign funding from DEG Germany to strengthen its supplementary capital.

#### CAPITAL BASE

As at 31st December

	2012 Rs Mn	2011 Rs Mn
<b>TIER I</b>		
Voting ordinary shares	10,049	9,143
Non-Voting ordinary shares	2,530	2,308
Statutory reserve fund	2,230	1,800
Published retained earnings (Note 1)	5,077	4,448
General and other reserves	20,101	16,379
Less: Deductions from Tier 1 capital (Note 2)	(2,322)	(2,245)
Eligible Tier 1 Capital	37,665	31,833
<b>TIER II</b>		
50% of approved asset revaluation reserves (Note 3)	1,029	1,032
General provision for loan losses	1,169	1,041
Approved subordinated term debt	7,208	4,157
Tier II Capital	9,406	6,230
Less: Deductions from Tier II capital (Note 2)	(1,846)	(1,846)
Eligible Tier II capital	7,560	4,384
Capital Base	45,225	36,217
<b>Risk Adjusted capital ratios</b>		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balance) *	13.85	12.76
Total (Capital base / Total risk adjusted balance) **	16.63	14.51

\* Statutory minimum 5%      \*\* Statutory minimum 10%

## Notes to the Financial Statements

## 7.6 Capital Management (Contd)

## 7.6.1 Capital Adequacy (Contd.)

## Risk adjusted on - Balance Sheet Exposure

As at 31st December	Balance		Risk Weights %	Risk Adjusted Balance	
	2012 Rs Mn	2011 Rs Mn		2012 Rs Mn	2011 Rs Mn
Exposures					
- To Central Government and CBSL	95,015	81,519	0	-	-
- To banks / foreign sovereigns	11,064	8,060	20 - 150	2,511	1,779
- To financial institutions	9,760	7,994	20 - 150	5,513	3,997
- To corporates	79,796	76,793	20 - 150	72,318	74,394
- To retail sector (excluding claims secured by residential properties)	106,175	90,210	75 - 100	81,131	69,191
- Secured on residential property mortgages	25,491	24,063	50 - 100	17,329	16,391
- Non performing advances	6,775	7,150	50 - 150	7,246	7,769
- Other Exposures	1,130	1,805	20 - 150	1,130	1,805
- Cash and cash items in the process of collection	11,523	9,693	0 - 20	631	555
- Other Assets	20,406	15,556	100	20,406	15,556
Asset base for risk weight	367,135	322,843		208,215	191,437

## Risk adjusted off - Balance Sheet Exposure

As at 31st December	Amount of Off-Balance Sheet Items 2012 Rs Mn	Credit Conversion Factor %	Credit Equivalent Amount 2012 Rs Mn	Risk Weights %	Risk Adjusted Balance	
					2012 Rs Mn	2011 Rs Mn
Financial guarantees, bank acceptances and other guarantees	13,319	100	13,319	0 - 100	13,319	8,707
Performance related guarantees and warranties and stand by LCs related to particular transactions	18,669	50	9,334	0 - 100	9,334	11,790
Shipping guarantees, documentary letter of credit and trade related acceptances	22,108	20	4,422	0 - 100	4,422	3,933
Other commitments with an original maturity of < 1 year	38,452	0 - 20	-	0 - 100	-	6
> 1 year	-	50	-	0 - 100	-	-
Foreign exchange contracts	104,471	2	2,089	0 - 100	2,089	1,805
Interest rate contracts	-	7	-	0 - 100	-	4
Total off-balance sheet exposures	197,019		29,164		29,164	26,245

**7.6 Capital Management (Contd)****7.6.1 Capital Adequacy (Contd.)**

## Capital Charge for Market Risk

As at 31st December	Capital charge		Risk Adjusted Balance	
	2012 Rs Mn	2011 Rs Mn	2012 Rs Mn	2011 Rs Mn
Interest rate	0.3	5.8	3	58
Equity	61.2	109.4	612	1,094
Foreign exchange and gold	40.7	100.2	407	1,002
Total risk adjusted balance for market risk	102.2	215.4	1,022	2,154

## Capital Charge for Operational Risk

As at 31st December	Capital charge	
	2012 Rs Mn	2011 Rs Mn
Average gross income	22,376.4	19,786.5
15% of average gross income	3,356.5	2,967.9
Total capital charge for operational risk	3,356.5	2,967.9

As at 31st December	2012 Rs Mn	2011 Rs Mn
Total risk adjusted balance for operational risk	33,565	29,679
Total risk adjusted balances (credit risk, market risk, operational risk)	271,966	249,515

## NOTES:

1. In computing the CAR for 2012, profits for the year was computed based on SLFRS.
2. Deductions

As at 31st December	Tier I		Tier II	
	2012 Rs Mn	2011 Rs Mn	2012 Rs Mn	2011 Rs Mn
Additional investment in Sithma Development (Pvt) Ltd.	450	450	450	450
Employee share option plan	476	399	-	-
Others	1,396	1,396	1,396	1,396
Total deductions	2,322	2,245	1,846	1,846

3. Revenue Reserves approved by CBSL is Rs 2,058 Mn.

## Notes to the Financial Statements

For the year ended 31st December		Bank		Group	
		2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
<b>8</b>	<b>INCOME</b>				
	Interest income [Note 9 (a)]	47,346,498	33,175,928	47,939,508	33,546,871
	Fee and commission income (Note 10)	3,740,497	2,710,552	3,833,378	2,987,433
	Net loss from trading (Note 11)	(1,632,528)	(347,078)	(1,624,049)	(426,335)
	Net gain from financial investments (Note 12)	142,479	398,936	114,412	390,630
	Other operating income (Note 13)	1,961,954	1,127,963	4,896,820	3,623,983
		51,558,900	37,066,301	55,160,069	40,122,582
<b>9</b>	<b>NET INTEREST INCOME</b>				
<b>9 (a)</b>	<b>Interest income</b>				
	Placements with banks	506,816	183,350	633,455	259,669
	Loans and receivables to other customers	40,010,269	28,370,233	39,920,519	28,184,609
	Other financial assets - Held for trading	96,421	60,753	137,396	214,429
	Financial investments - Held to maturity	-	-	250,477	209,983
	Financial investments - Available for sale	5,572,802	3,776,821	5,649,263	3,783,830
	Financial investments - Loans and receivables	1,087,336	695,523	1,248,821	790,641
	Other interest income	72,854	89,248	99,577	103,710
	Total interest income	47,346,498	33,175,928	47,939,508	33,546,871
<b>9 (b)</b>	<b>Interest expenses</b>				
	Due to banks	1,939,946	1,043,103	1,939,746	1,043,103
	Deposits from customers (Due to other customers)	22,336,872	14,006,242	22,305,703	13,994,262
	Other borrowings	460,179	877,182	617,790	988,467
	Subordinated debentures	600,132	435,545	599,342	432,385
	Other interest expenses	31,303	168,181	32,760	168,255
	Total interest expenses	25,368,432	16,530,253	25,495,541	16,626,472
	Net interest income	21,978,066	16,645,675	22,443,967	16,920,399

**Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions**

Section 137 of the Inland Revenue Act No 10 of 2006 provides that a company which derives interest income from the secondary market transactions in Government securities be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in Government securities for the year by the Bank / Group has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs 534 Mn (2011 : Rs 308 Mn) for the Bank and Rs 574 Mn (2011 : Rs 340.70 Mn) for the Group.

**9 (c) Net Interest Income from Sri Lanka Government Securities**

For the year ended 31st December		Bank		Group	
		2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
	Interest income	6,268,929	4,293,218	6,907,671	4,758,522
	Less : Interest expenses	445,771	859,614	595,455	981,339
	Net interest income from Sri Lanka government securities	5,823,158	3,433,604	6,312,216	3,777,183



For the year ended 31st December		Bank		Group	
		2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
<b>10</b>	<b>NET FEE AND COMMISSION INCOME</b>				
	Fee and commission income	3,740,497	2,710,552	3,833,378	2,987,433
	Less: Fee and commission expenses	53,407	34,521	64,032	56,292
	Net fee and commission income	3,687,090	2,676,031	3,769,346	2,931,141
	<b>Comprising</b>				
	Loans	488,061	333,239	488,061	333,239
	Cards	974,609	410,271	974,609	410,271
	Trade and remittances	865,230	849,104	865,230	849,104
	Deposits	327,996	137,252	327,996	137,252
	Guarantees	403,210	349,619	403,210	349,619
	Currency	392,862	288,100	428,402	314,452
	Others	235,122	308,446	281,838	537,204
	Net fee and commission income	3,687,090	2,676,031	3,769,346	2,931,141
<b>11</b>	<b>NET LOSS FROM TRADING</b>				
	Fixed income	3,575	(7,267)	11,164	(36,281)
	Equities	(96,845)	(166,796)	(95,955)	(217,039)
	Foreign exchange	(1,539,258)	(173,015)	(1,539,258)	(173,015)
		(1,632,528)	(347,078)	(1,624,049)	(426,335)
<b>12</b>	<b>NET GAIN FROM FINANCIAL INVESTMENTS</b>				
	Assets available for sale				
	Debt securities	(38,259)	-	(38,259)	-
	Equities	157,471	345,589	183,777	386,431
	Government Securities	-	-	2,918	4,199
	Net loss arising from derecognition of financial assets measured at amortised cost	(34,024)	-	(34,024)	-
	Dividend income from subsidiaries and associates	57,291	53,347	-	-
		142,479	398,936	114,412	390,630
<b>13</b>	<b>OTHER OPERATING INCOME</b>				
	Rent received	4,543	4,426	132,306	125,171
	Rent received from investment properties	54,255	48,424	46,279	46,698
	Auditorium hire income	4,195	3,149	4,195	3,149
	Profit from sale of property, plant and equipment	14,816	19,062	14,986	17,309
	Profit from sale of gold	1,524	4,987	1,524	4,987
	Recovery of loans written off in prior years	11,192	4,071	11,192	4,071
	Recovery of operational losses provided for in prior year	4,006	18,360	4,006	18,360
	Insurance premium income	-	-	2,630,385	2,292,245
	Net income from sale of apartments	-	-	91,133	70,758
	Gain on disposal of associate company [Note 31 (a)]	38,393	-	38,393	-
	Foreign exchange gain	1,812,186	1,007,492	1,832,781	1,014,764
	Miscellaneous	16,844	17,992	89,640	26,471
		1,961,954	1,127,963	4,896,820	3,623,983

## Notes to the Financial Statements

For the year ended 31st December		Bank		Group	
		2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
<b>14</b>	<b>IMPAIRMENT FOR LOANS AND OTHER LOSSES</b>				
	Loans and receivables to other customers	1,038,787	(501,494)	1,038,787	(501,494)
	Financial investments - Loans and receivables	53,032	-	53,032	-
	Property, plant and equipment	70,412	-	70,412	-
	Investment in subsidiaries [Note 33 (c)]	-	56,121	-	-
		1,162,231	(445,373)	1,162,231	(501,494)
<b>15</b>	<b>OPERATING EXPENSES</b>				
	Operating expenses, among others, include the following:				
	Legal expenses and professional fees	160,967	130,824	168,581	136,744
	Depreciation of investment property (Note 34)	4,751	4,584	4,569	4,566
	Depreciation of property, plant and equipment (Note 35)	795,635	737,628	965,630	889,860
	Amortisation of intangible assets (Note 36)	175,314	172,914	189,099	185,624
	Provision for operational risk event losses	8,777	10,973	8,777	60,988
	Provision for related party receivable - Exchange houses	-	18,683	-	-
	Directors' emoluments	95,360	116,979	95,520	117,139
	Auditors' remuneration [Note 15 (a)]	16,270	15,410	22,112	20,144
	Advertising and related expenses	294,227	301,897	335,337	336,942
	Donations	32,579	53,945	32,879	54,370
	Direct operating expenses on investment property	1,726	2,738	2,049	4,563
	Share issue expenses	5,649	45,871	8,247	50,300
	Deposit insurance premium	301,176	312,464	301,176	312,464
<b>15 (a)</b>	<b>Auditors' Remuneration</b>				
	Audit fees and expenses	7,678	7,476	11,055	10,562
	Audit related fee and expenses	3,580	3,846	5,504	4,643
	Non-audit services	5,012	4,088	5,553	4,768
	Audit fee and expenses - other auditors	-	-	-	171
		16,270	15,410	22,112	20,144
<b>16</b>	<b>PERSONNEL EXPENSES</b>				
	In addition to salaries, personnel expenses include the following				
	Contribution to Employees' Provident Fund	400,480	358,177	434,134	387,318
	Contribution to Employees' Trust Fund	100,281	89,547	108,708	96,195
	Provision charge for employee benefits [Note 16(a)]	303,944	610,032	317,179	625,027
	Equity-settled share-based payment transactions	176,515	-	176,515	-
	Cash-settled share-based payment transactions	292,116	(596,846)	292,116	(596,846)
	Increase in liability for EPF interest guarantee	2,814	1,219	2,814	1,219
	Increase/(Decrease) in liability for accumulated leave	(1,427)	7,243	(1,427)	7,243
<b>16 (a)</b>	<b>PROVISION CHARGE FOR EMPLOYEE BENEFITS</b>				
	Current service cost	402,934	427,275	402,934	427,275
	Interest on obligation	884,931	820,529	884,931	820,529
	Expected return on plan assets	(983,921)	(637,772)	(983,921)	(637,772)
	Provision made for gratuities	-	-	13,235	14,995
		303,944	610,032	317,179	625,027



For the year ended 31st December		Bank		Group	
		2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
<b>17</b>	<b>SHARE OF PROFIT/(LOSS) OF ASSOCIATES (NET OF INCOME TAX)</b>				
	Share of profit / (loss) of Associates before income tax	-	-	23,810	(14,100)
	Income tax expense on share of operating results of Associates	-	-	(7,178)	(1,629)
	Share of profit/(loss) of Associates after income tax	-	-	16,632	(15,729)
<b>18</b>	<b>INCOME TAX EXPENSE</b>				
	Recognised in the Statement of Comprehensive Income				
<b>18 (a)</b>	<b>Current Tax Expense</b>				
	Current tax on profits for the year [Note 18 (e)]	2,918,036	2,080,541	2,971,349	2,141,282
	Over provision as per the taxes finalised for the Y/As 2008/09 and 2010/11 (2011 : Y/A 2008/09 and 2009/10)	(690,434)	(438,552)	(694,778)	(444,568)
		2,227,602	1,641,989	2,276,571	1,696,714
<b>18 (b)</b>	<b>Deferred Tax Expense</b>				
	Charge to deferred tax liability [Note 47 (a) i]	170,674	288,651	198,158	269,724
	Charge to deferred tax Asset [Note 47 (b)]	(55,941)	192,563	(53,298)	189,639
		114,733	481,214	144,860	459,363
	Total income tax expense	2,342,335	2,123,203	2,421,431	2,156,077
For the year ended 31st December				Group	
				2012 Rs 000	2011 Rs 000
<b>18 (c)</b>	<b>Current Tax on Profits of Subsidiaries</b>				
	HNB Assurance PLC			42,692	26,012
<b>18 (d)</b>	<b>Current Tax on Profits of Joint Venture</b>				
	Acuity Partners (Pvt) Ltd and Subsidiaries			10,621	34,729
	Total			53,313	60,741

## Notes to the Financial Statements

**18 INCOME TAX EXPENSE (Contd.)**

For the year ended 31st December	Bank				Group			
	2012 %	2012 Rs 000	2011 %	2011 Rs 000	2012 %	2012 Rs 000	2011 %	2011 Rs 000
<b>18 (e) Reconciliation of effective tax rate</b>								
Profit before income tax		10,045,706		8,387,868		10,692,594		9,056,464
Tax using the corporate tax rate	28.00	2,812,798	28.00	2,348,603	28.00	2,993,926	28.00	2,535,810
Effect of tax rates in Joint Venture	-	-	-	-	(0.13)	(13,379)	(0.16)	(14,535)
Disallowable expenses	9.82	986,313	9.41	789,261	9.83	1,050,926	9.05	819,765
Allowable expenses	(26.33)	(2,645,462)	(28.39)	(2,381,315)	(24.93)	(2,665,028)	(26.48)	(2,398,345)
Tax exempt income	(4.84)	(486,072)	(3.62)	(303,667)	(6.08)	(650,435)	(4.81)	(435,462)
Adjustments for leasing	22.40	2,250,459	22.88	1,919,300	21.05	2,250,459	21.19	1,919,300
Tax loss utilised	-	-	-	-	(0.03)	(2,790)	(0.16)	(14,107)
Tax loss incurred during the year	-	-	-	-	0.09	9,627	0.07	6,082
Adjustments	-	-	(3.48)	(291,641)	(0.02)	(1,957)	(3.06)	(277,226)
Current tax on profits for the year (Note 18(a))	29.05	2,918,036	24.80	2,080,541	27.78	2,971,349	23.64	2,141,282
Over provided in prior years	(6.87)	(690,434)	(5.18)	(438,552)	(6.50)	(694,778)	(4.91)	(444,568)
Current tax on profits for the year	22.18	2,227,602	19.62	1,641,989	21.28	2,276,571	18.73	1,696,714
Charge to deferred tax liability on temporary differences	1.70	170,674	3.41	288,651	1.86	198,158	2.98	269,724
Charge to deferred tax asset on temporary differences	(0.56)	(55,941)	2.30	192,563	(0.50)	(53,298)	2.09	189,639
Total income tax expense	23.32	2,342,335	25.33	2,123,203	22.64	2,421,431	23.80	2,156,077

For the year ended 31st December	Group	
	2012 Rs 000	2011 Rs 000
<b>18 (f) Tax Losses Brought Forward and Utilised during the Year</b>		
Tax losses brought forward	245,201	273,859
Adjustments for brought forward tax losses	19,747	-
Loss incurred during the year	42,820	21,725
Tax losses utilised during the year	(93,796)	(50,383)
Tax losses not utilised and carried forward	213,972	245,201

**18 (g) Hatton National Bank PLC**

The Bank is liable for taxation on its income from banking operations at the rate of 28% (2011: 28%) for the year.

**18 (h) HNB Assurance PLC**

HNB Assurance PLC is liable for income tax at the rate of 28% (2011 : 28%) on its taxable income. Provision has been made in the Financial Statements accordingly.

**18 (i) Sithma Development (Pvt) Ltd**

In accordance with the BOI agreement dated 28th December 1994, the profits and income of Sithma Development (Pvt) Ltd are exempt from taxation until Year of Assessment 2014 / 15. After the expiration of the said tax exempt period, the following options are available for the company for another 15 years;

- Income tax payable for the Year of Assessment shall be computed at 2% of the turnover of the Company, or
- The provisions of the Inland Revenue laws for the time being in force shall apply to the Company.

In the event the company elects option (a), no deferred tax liability will arise even after the expiration of the tax exempt period. The company needs to make the election only 90 days prior to the expiration of the said tax exemption period, after evaluating all tax implications prevailing at that time. Therefore, no provision has been made in the Financial Statements by the company for deferred tax liability which could arise after the tax exempt period in the event the company elects option (b).

**18 INCOME TAX EXPENSE (Contd.)****18 (j) Acuity Partners (Pvt) Ltd**

Acuity Partners (Pvt) Ltd is liable for income tax at the rate of 28% (2011 : 28%) on its taxable income. Provision has been made in the Financial Statements accordingly. Subsidiaries of Acuity Partners (Pvt) Ltd other than Lanka Ventures PLC (2012 : 12%, 2011 : 12%) are liable for income tax at the rate of 28% (2011 : 28%).

**19 EARNINGS PER SHARE****19 (a) Basic Earnings per Share**

Basic Earnings per Share has been calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares on issue (both voting and non-voting) during the year, as per the requirements of the Sri Lanka Accounting Standard (LKAS 33) - "Earnings per Share".

**19 (b) Diluted Earnings per Share**

The calculation of Diluted Earnings per Share as at the reporting date was based on the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, after adjusting for the effects of all potentially dilutive weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ESOPs into ordinary shares.

The details of the options exercised and expired under Employee Share Option Plan during the year are given in Note 50 (c) i.

For the year ended 31st December	Bank		Group	
	2012	2011	2012	2011
Profit attributable to equity holders of the Bank (Rs 000)	7,703,371	6,264,665	8,110,969	6,818,923
Weighted average number of ordinary shares during the year used as the denominator ('000) for Basic EPS	397,811	377,302	382,699	365,696
Basic Earnings Per Share (Rs)	19.36	16.60	21.19	18.65
Profit attributable to equity holders of the Bank (Rs 000)	7,703,371	6,264,665	8,110,969	6,818,923
Weighted average number of ordinary shares during the year used as the denominator ('000) for Basic EPS	397,811	377,302	382,699	365,696
Weighted average number of shares under option ('000)	7,717	4,645	7,717	4,645
Weighted average number of ordinary shares that would have been issued at average market price ('000)	(7,179)	(1,992)	(7,179)	(1,992)
Weighted average number of ordinary shares during the year used as the denominator ('000) for Diluted EPS	398,349	379,955	383,237	368,349
Diluted Earnings Per Share (Rs)	19.34	16.49	21.16	18.51

The Basic and the Diluted Earnings Per Share of Bank / Group for 2011 have been adjusted for the effect of scrip dividend which was granted on 31st March 2012.

## Notes to the Financial Statements

## 20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

## 20 (a) Bank - 2012

	Held for trading	Loans and receivables/ deposits at amortised cost	Available for sale	Total carrying amount
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Cash and cash equivalents	-	8,769,206	-	8,769,206
Balances with Central Banks	-	19,933,463	-	19,933,463
Placements with banks	-	10,321,832	-	10,321,832
Other financial assets held for trading	474,083	-	-	474,083
Derivative financial instruments	344,552	-	-	344,552
Loans and receivables to other customers	-	302,760,980	-	302,760,980
Financial investments	-	20,030,669	57,869,546	77,900,215
<b>Total financial assets</b>	<b>818,635</b>	<b>361,816,150</b>	<b>57,869,546</b>	<b>420,504,331</b>
<b>Liabilities</b>				
Due to banks	-	30,400,980	-	30,400,980
Derivative financial instruments	1,436,443	-	-	1,436,443
Due to other customers	-	341,423,986	-	341,423,986
Other borrowings	-	4,950,535	-	4,950,535
Subordinated debentures	-	4,585,568	-	4,585,568
<b>Total financial liabilities</b>	<b>1,436,443</b>	<b>381,361,069</b>	<b>-</b>	<b>382,797,512</b>

## 20 (b) Bank - 2011

	Held for trading	Loans and receivables/ deposits at amortised cost	Available for sale	Total carrying amount
	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>				
Cash and cash equivalents	-	7,542,767	-	7,542,767
Balances with Central Banks	-	18,683,405	-	18,683,405
Placements with banks	-	7,220,151	-	7,220,151
Other financial assets held for trading	1,160,499	-	-	1,160,499
Derivative financial instruments	496,643	-	-	496,643
Loans and receivables to other customers	-	257,198,343	-	257,198,343
Financial investments	-	14,665,997	51,239,058	65,905,055
<b>Total financial assets</b>	<b>1,657,142</b>	<b>305,310,663</b>	<b>51,239,058</b>	<b>358,206,863</b>
<b>Liabilities</b>				
Due to banks	-	19,885,436	-	19,885,436
Derivative financial instruments	617,702	-	-	617,702
Due to other customers	-	291,356,578	-	291,356,578
Other borrowings	-	7,008,741	-	7,008,741
Subordinated debentures	-	5,023,216	-	5,023,216
<b>Total financial liabilities</b>	<b>617,702</b>	<b>323,273,971</b>	<b>-</b>	<b>323,891,673</b>

**20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)****20 (c) Group - 2012**

	Held for trading	Held to maturity	Loans and receivables/ deposits at amortised cost	Available for sale	Total carrying amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>					
Cash and cash equivalents	-	-	8,848,746	-	8,848,746
Balances with Central Banks	-	-	19,950,040	-	19,950,040
Placements with banks	-	-	11,667,417	-	11,667,417
Other financial assets held for trading	1,078,124	-	-	-	1,078,124
Derivative financial instruments	344,552	-	-	-	344,552
Loans and receivables to other customers	-	-	303,922,092	-	303,922,092
Financial investments	-	1,643,852	20,904,172	58,929,296	81,477,320
<b>Total financial assets</b>	<b>1,422,676</b>	<b>1,643,852</b>	<b>365,292,467</b>	<b>58,929,296</b>	<b>427,288,291</b>
<b>Liabilities</b>					
Due to banks	-	-	30,400,980	-	30,400,980
Derivative financial instruments	1,436,443	-	-	-	1,436,443
Due to other customers	-	-	340,847,606	-	340,847,606
Other borrowings	-	-	6,747,144	-	6,747,144
Subordinated debentures	-	-	4,563,011	-	4,563,011
<b>Total financial liabilities</b>	<b>1,436,443</b>	<b>-</b>	<b>382,558,741</b>	<b>-</b>	<b>383,995,184</b>

**20 (d) Group - 2011**

	Held for trading	Held to maturity	Loans and receivables/ deposits at amortised cost	Available for sale	Total carrying amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>					
Cash and cash equivalents	-	-	7,576,224	-	7,576,224
Balances with Central Banks	-	-	18,698,197	-	18,698,197
Placements with banks	-	-	8,243,999	-	8,243,999
Other financial assets held for trading	2,407,725	-	-	-	2,407,725
Derivative financial instruments	496,643	-	-	-	496,643
Loans and receivables to other customers	-	-	257,435,480	-	257,435,480
Financial investments	-	1,697,640	15,362,143	51,434,979	68,494,762
<b>Total financial assets</b>	<b>2,904,368</b>	<b>1,697,640</b>	<b>307,316,043</b>	<b>51,434,979</b>	<b>363,353,030</b>
<b>Liabilities</b>					
Due to banks	-	-	19,885,436	-	19,885,436
Derivative financial instruments	617,702	-	-	-	617,702
Due to other customers	-	-	290,911,558	-	290,911,558
Other borrowings	-	-	8,876,197	-	8,876,197
Subordinated debentures	-	-	4,989,350	-	4,989,350
<b>Total financial liabilities</b>	<b>617,702</b>	<b>-</b>	<b>324,662,541</b>	<b>-</b>	<b>325,280,243</b>

## Notes to the Financial Statements

**21 CASH AND CASH EQUIVALENTS**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Local currency in hand	7,766,981	6,447,510	5,541,468	7,768,029	6,448,528	5,542,488
Foreign currency in hand	601,274	472,408	299,083	610,628	505,580	324,029
Balances with banks	400,951	622,849	715,787	470,089	622,116	782,100
	8,769,206	7,542,767	6,556,338	8,848,746	7,576,224	6,648,617

All cash and cash equivalent balances held by the Group entities were available for use by the Group.

**22 BALANCES WITH CENTRAL BANKS**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Statutory deposit with Central Bank of Sri Lanka	19,933,463	18,683,405	12,491,644	19,933,463	18,683,405	12,491,644
Statutory deposit with Central Bank of Oman	-	-	-	16,577	14,792	14,408
	19,933,463	18,683,405	12,491,644	19,950,040	18,698,197	12,506,052

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka as explained in Note 4.4. The minimum cash reserve requirement on Rupee deposit liabilities was 8% as at 31st December 2012 (2011 : 8%).

There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposits liabilities in the Domestic Banking Unit.

Majan Exchange LLC is required to maintain a deposit of Omani Riyal 50,000 with the Central Bank of Oman (CB Oman) in accordance with its licensing regulations for exchange houses issued by the CB Oman. Interest is earned at the rate of 2% per annum. This is not available for use in the ordinary course of business.



As at	Bank			Group		
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>23 PLACEMENTS WITH BANKS</b>						
Fixed deposits with banks	-	-	3,187,258	1,345,585	1,023,848	3,682,804
Placements with banks	10,321,832	7,220,151	8,364,687	10,321,832	7,220,151	8,364,689
	10,321,832	7,220,151	11,551,945	11,667,417	8,243,999	12,047,493
<b>24 DERIVATIVE FINANCIAL INSTRUMENTS</b>						
Foreign currency derivatives						
Currency swaps	151,188	240,157	49,704	151,188	240,157	49,704
Forward foreign exchange contracts	193,364	256,486	181,420	193,364	256,486	181,420
	344,552	496,643	231,124	344,552	496,643	231,124

**25 OTHER FINANCIAL ASSETS HELD FOR TRADING****25 (a) Other financial assets held for trading - Summary**

As at	31.12.2012 Market Value Rs 000	31.12.2011 Market Value Rs 000	01.01.2011 Market Value Rs 000
Quoted shares - Bank [Note 25 (b)]	452,847	723,316	576,280
Government of Sri Lanka treasury bills - Bank [Note 25 (c)]	19,790	17,727	877,840
Government of Sri Lanka treasury bonds - Bank [Note 25 (d)]	1,446	419,456	3,328
Total Other financial assets held for trading - Bank	474,083	1,160,499	1,457,448
Quoted shares - Subsidiaries [Note 25 (e)]	215,668	256,004	215,243
Government of Sri Lanka treasury bills - Subsidiaries and Joint Venture [Note 25 (f)]*	186,015	506,961	667,931
Government of Sri Lanka treasury bonds - Subsidiaries and Joint Venture [Note 25 (g)]*	54,968	414,146	615,056
Quoted Units in Unit Trusts - Subsidiaries [Note 25 (h)]	7,550	7,699	10,296
Unquoted Units in Unit Trusts - Subsidiaries [Note 25 (i)]	139,840	62,416	32,617
Total Other financial assets held for trading - Subsidiaries and Joint Venture	604,041	1,247,226	1,541,143
Total Other financial assets held for trading - Group	1,078,124	2,407,725	2,998,591

\* Other financial assets held for trading through the Joint Venture reported above represent only 50% of the total other financial assets held for trading of the Joint Venture, being the shareholding of the Bank on the same.

## Notes to the Financial Statements

## 25 OTHER FINANCIAL ASSETS HELD FOR TRADING (Contd.)

## 25 (b) Quoted Shares Held by the Bank

As at	31.12.2012				31.12.2011			01.01.2011		
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost	Market Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000
<b>Banks, Finance and Insurance</b>										
Central Finance Company PLC	102,899	17,494	3.12	16,701	-	-	-	-	-	-
Ceylinco Insurance PLC	15,600	10,128	1.81	13,352	15,600	10,128	11,648	4,000	700	1,080
Lanka Orix Leasing Company PLC	-	-	-	-	212,900	27,715	17,735	225,000	29,322	28,755
National Development Bank PLC	270,000	48,934	8.74	37,233	270,000	48,934	37,287	100,000	36,253	34,950
Nations Trust Bank PLC	296,800	16,787	3.00	16,620	-	-	-	-	-	-
Sampath Bank PLC	130,000	31,897	5.70	26,065	407,317	102,261	79,427	201,738	40,053	54,853
Singer Finance (Lanka) PLC	476,704	7,060	1.26	6,531	-	-	-	-	-	-
Seylan Bank PLC	-	-	-	-	-	-	-	533,400	40,230	52,167
<b>Beverage, Food and Tobacco</b>										
Cargills (Ceylon) PLC	100,000	23,204	4.14	14,550	163,000	37,822	33,089	-	-	-
Distilleries Company of Sri Lanka PLC	217,000	40,601	7.25	36,022	413,000	77,273	60,752	-	-	-
Lion Brewery Ceylon PLC	-	-	-	-	340,000	56,960	64,600	450,000	74,215	83,295
<b>Diversified Holdings</b>										
Aitken Spence PLC	330,000	55,562	9.92	39,600	450,000	75,766	54,180	450,000	75,766	76,455
Expo Lanka Holdings PLC	-	-	-	-	750,500	9,699	6,754	-	-	-
Hayleys PLC	77,395	30,189	5.39	23,443	55,500	22,317	20,812	-	-	-
John Keells Holdings PLC	507,600	105,646	18.87	111,621	357,600	74,855	60,863	282,900	77,644	84,417
Softlogic Holdings PLC	-	-	-	-	416,000	12,064	7,488	-	-	-
Vallibel One PLC	500,000	17,262	3.08	9,050	1,400,000	48,335	33,320	-	-	-
<b>Health Care</b>										
Lanka Hospitals PLC	-	-	-	-	-	-	-	298,742	7,513	9,471
Nawaloka Hospitals PLC	-	-	-	-	-	-	-	7,673,300	29,792	28,391
<b>Manufacturing</b>										
Chevron Lubricants Lanka PLC	82,500	14,053	2.51	16,665	-	-	-	-	-	-
Lanka Floortiles PLC	121,700	15,576	2.78	7,910	-	-	-	-	-	-
Lanka Walltiles PLC	114,423	8,078	1.44	6,957	-	-	-	-	-	-
ACL Cables PLC	-	-	-	-	224,400	20,307	16,606	-	-	-
Ceylon Grain Elevators PLC	-	-	-	-	-	-	-	352,800	18,062	26,354
Lanka Tiles PLC	-	-	-	-	301,700	38,614	24,226	-	-	-
Royal Ceramics Lanka PLC	150,100	24,266	4.33	14,860	175,100	28,308	24,777	-	-	-
Tokyo Cement Company (Lanka) PLC	315,900	17,965	3.21	9,035	648,900	36,902	28,552	377,500	20,014	20,763
<b>Motors</b>										
Diesel & Motor Engineering PLC	-	-	-	-	18,870	29,104	24,571	-	-	-
United Motors PLC	-	-	-	-	180,800	31,572	26,397	-	-	-
<b>Oil &amp; Palms</b>										
Bukit Darah PLC	37,000	39,755	7.10	25,789	40,000	42,979	41,200	-	-	-
<b>Power &amp; Energy</b>										
Vallibel Power Erathna PLC	3,206,655	35,553	6.35	20,843	6,129,100	67,954	49,032	-	-	-
<b>Trading</b>										
Browns & Co PLC	-	-	-	-	-	-	-	305,100	52,778	75,329
Odd lots and delisted shares	-	-	-	-	-	123	-	-	135	-
<b>Total</b>		560,010		452,847		899,992	723,316		502,477	576,280
<b>Gain / (loss) from marked to market valuation</b>		(107,163)				(176,676)			73,803	
<b>Total Quoted Shares - Bank</b>		452,847		452,847		723,316	723,316		576,280	576,280

**25 OTHER FINANCIAL ASSETS HELD FOR TRADING (Contd.)****25 (c) Government of Sri Lanka Treasury Bills Held by the Bank**

As at			31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment	Market Value	Cost of Investment	Market Value	Cost of Investment	Market Value
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)						
Rs 20 Mn	2013	19,790	19,714	19,790	17,791	17,727	873,926	877,840
Gain / (loss) from marked to market valuation			76		(64)		3,914	
Total Government of Sri Lanka Treasury Bills - Bank			19,790	19,790	17,727	17,727	877,840	877,840

**25 (d) Government of Sri Lanka Treasury Bonds Held by the Bank**

As at			31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment	Market Value	Cost of Investment	Market Value	Cost of Investment	Market Value
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)						
Rs 1 Mn	2015	1,446	1,395	1,446	421,727		3,403	
Gain / (loss) from marked to market valuation			51		(2,271)		(75)	
Total Government of Sri Lanka Treasury Bonds - Bank			1,446	1,446	419,456	419,456	3,328	3,328

**25 (e) Quoted Shares Held by the Subsidiaries**

As at		31.12.2012				31.12.2011				01.01.2011		
		No of Ordinary Shares	Cost of Investment	% of Total Cost	Market Value	No of Ordinary Shares	Cost of Investment	Market Value	No of Ordinary Shares	Cost of Investment	Market Value	
			Rs 000		Rs 000		Rs 000	Rs 000		Rs 000	Rs 000	
Commercial Bank of Ceylon PLC		147,164	17,921	6.57	15,158	144,598	17,921	14,460	67,050	17,046	17,426	
Hemas Holdings PLC		321,000	14,106	5.17	8,667	321,000	14,106	10,593	321,000	14,106	14,285	
John Keells Holdings PLC		87,556	17,827	6.54	19,254	108,256	20,472	18,425	81,193	20,472	24,228	
Dialog Axiata PLC		217,500	5,243	1.92	1,805	217,500	5,243	1,697	217,500	5,243	2,567	
Asian Hotels & Properties PLC		-	-	-	-	-	-	-	5,000	167	970	
National Development Bank PLC		78,200	9,519	3.49	10,784	78,200	9,519	10,799	17,100	2,646	5,976	
John Keells Hotels PLC		92,700	1,564	0.57	1,279	92,700	1,564	1,251	-	-	-	
Expo Lanka Holdings PLC		-	-	-	-	221,700	3,104	1,995	-	-	-	
Softlogic Holdings PLC		-	-	-	-	170,600	4,947	3,071	-	-	-	
Browns Investments PLC		-	-	-	-	142,200	711	597	-	-	-	
Royal Ceramics Lanka PLC		183,000	26,095	9.57	18,117	183,000	26,095	25,895	12,000	633	3,659	
Chemical Industries (Colombo) PLC		-	-	-	-	-	-	-	116,500	10,905	16,392	
ACL Cables PLC		50,000	3,555	1.30	3,370	50,000	3,555	3,700	25,000	1,414	2,128	
Dipped Products PLC		19,500	1,829	0.67	2,145	19,500	1,829	2,077	19,500	1,829	2,334	
Peoples Leasing & Finance PLC		1,162,800	20,930	7.68	15,349	1,162,800	20,930	18,605	-	-	-	
Renuka Agri Foods PLC		-	-	-	-	-	-	-	309,100	815	2,071	
Aitken Spence Hotels Holdings PLC		-	-	-	-	75	3	5	23,375	820	2,471	
DFCC Bank		43,000	5,390	1.98	4,855	43,000	5,390	4,855	43,000	5,390	8,609	
Seylan Bank PLC - Non Voting		399,999	15,445	5.66	14,040	399,999	15,445	12,320	-	-	-	
Riverina Hotels PLC		23,000	4,537	1.66	3,220	46,000	4,537	4,830	52,000	5,060	5,476	

## Notes to the Financial Statements

## 25 OTHER FINANCIAL ASSETS HELD FOR TRADING (Contd.)

## 25 (e) Quoted Shares Held by the Subsidiaries (Contd.)

As at	31.12.2012			Market Value Rs 000	31.12.2011			Market Value Rs 000	01.01.2011		
	No of Ordinary Shares	Cost of Investment Rs 000	% of Total Cost		No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000		No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000
The Lighthouse Hotel PLC	21,400	1,433	0.53	1,136	21,400	1,433	1,145	21,400	1,433	1,348	
Sampath Bank PLC	76,125	17,088	6.27	15,263	74,399	17,088	14,508	92,724	19,945	25,212	
Nations Trust Bank PLC	275,000	18,229	6.69	15,400	275,000	18,229	15,675	180,000	11,767	15,012	
Singer Finance (Lanka) PLC	-	-	-	-	-	-	-	4,400	66	66	
Richard Pieris and Company PLC	1,375,000	17,228	6.32	10,725	1,375,000	17,228	12,375	325,000	2,449	3,413	
CIC Holdings PLC	95,000	9,603	3.52	6,109	95,000	9,603	10,593	-	-	-	
Distilleries Company of Sri Lanka PLC	60,000	10,648	3.90	9,960	60,000	10,648	8,826	-	-	-	
Hayleys PLC	-	-	-	-	-	-	-	22,000	7,258	7,590	
Haycarb PLC	20,500	3,547	1.30	3,508	20,500	3,547	3,178	20,500	3,547	3,454	
Chevron Lubricants Lanka PLC	24,000	3,619	1.33	4,848	24,000	3,619	4,080	24,000	3,619	3,828	
Tokyo Cement Company (Lanka) PLC	402,912	19,402	7.12	11,523	402,912	19,402	17,728	304,512	12,764	16,748	
Kelani Cables PLC	44,300	5,035	1.85	3,105	44,300	5,035	3,557	44,300	5,035	4,652	
ACL Plastics PLC	-	-	-	-	3,600	372	450	3,600	372	586	
Laugfs Gas PLC - (Voting Shares)	175,000	7,927	2.91	4,480	175,000	7,927	6,650	26,700	614	692	
Laugfs Gas PLC - (Non Voting Shares)	-	-	-	-	-	-	-	19,200	288	355	
PC House PLC	82,820	910	0.33	446	178,800	1,967	2,485	178,800	1,967	2,020	
Renuka Holdings PLC	50,877	2,121	0.78	1,837	50,877	2,121	2,742	70,000	2,970	4,333	
Textured Jersey Lanka PLC	428,500	6,428	2.36	3,814	428,500	6,428	4,371	-	-	-	
Asiri Hospital Holdings PLC	-	-	-	-	700,000	6,021	6,020	928,200	7,990	8,168	
Dolphin Hotels PLC	149,900	5,506	2.02	5,471	149,900	5,506	6,446	149,900	5,506	9,174	
Total		272,685	100	215,668		291,545	256,004		174,136	215,243	
(Loss)/Gain from marked to market valuation		(57,017)				(35,541)			41,107		
Total quoted shares - Subsidiaries		215,668		215,668		256,004	256,004		215,243	215,243	

## 25 (f) Government of Sri Lanka Treasury Bills held by Subsidiaries and through Joint Venture

As at	Face Value	Year of Maturity	Carrying Value (Rs 000)	31.12.2012		31.12.2011		01.01.2011	
				Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000
				185,178	186,015	509,417	506,961	666,813	667,931
				837		(2,456)		1,118	
				186,015	186,015	506,961	506,961	667,931	667,931



**25 OTHER FINANCIAL ASSETS HELD FOR TRADING (Contd.)****25 (g) Government of Sri Lanka Treasury Bonds held by Subsidiaries and through Joint Venture**

As at			31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment	Market Value	Cost of Investment	Market Value	Cost of Investment	Market Value
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)						
Rs 50.90 Mn	2013	52,189						
Rs 2.70 Mn	2014	2,545						
Rs 0.23 Mn	2015	234						
Gain/(loss) from marked to market valuation			54,871		439,138		581,904	
			97		(24,992)		33,152	
Total Government of Sri Lanka Treasury Bonds - Joint Venture			54,968	54,968	414,146	414,146	615,056	615,056

**25 (h) Quoted Units in Unit Trusts Held by Subsidiaries**

As at			31.12.2012			31.12.2011			01.01.2011		
			No of Units	Cost of Investment	Market Value	No of Units	Cost of Investment	Market Value	No of Units	Cost of Investment	Market Value
				Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000
Namal Acuity Value Fund			114,400	7,203	7,550	114,400	7,203	7,699	114,400	7,203	10,296
Gain from marked to market valuation				347			496			3,093	
Total Quoted Units - Subsidiaries and Joint Venture				7,550	7,550		7,699	7,699	7,203	10,296	10,296

**25 (i) Unquoted Units in Unit Trusts Held by Subsidiaries**

As at			31.12.2012			31.12.2011			01.01.2011		
			No of Units	Cost of Investment	Market Value	No of Units	Cost of Investment	Market Value	No of Units	Cost of Investment	Market Value
				Rs 000	Rs 000		Rs 000	Rs 000		Rs 000	Rs 000
Namal IPO Fund			1,000,000	9,750	10,270	1,000,000	9,750	9,700	-	-	-
Cey Bank			1,800,000	18,000	19,602	1,800,000	18,000	18,792	2,500,000	25,000	26,350
Ceylon Asset Management			664,622	6,500	4,333	1,195,729	6,500	4,486	-	-	-
FC Wealth Fund			3,851	4,000	4,349	3,851	4,000	4,172	-	-	-
Ceylon Income Fund			2,686,703	35,000	34,470	1,365,706	25,000	25,266	664,622	6,500	6,267
Guardian Acuity Fixed Income Fund			1,998,002	20,000	22,018	-	-	-	-	-	-
Comtrust Money Market Fund			383,877	4,000	4,131	-	-	-	-	-	-
Eagle Income Fund			969,932	10,000	10,417	-	-	-	-	-	-
Namal High Yield Fund			2,686,567	27,000	30,250	-	-	-	-	-	-
Gain/(loss) from marked to market valuation				5,590			(834)			1,117	
Total Unquoted Units in Unit Trusts - Subsidiaries				139,840	139,840		62,416	62,416		32,617	32,617

## Notes to the Financial Statements

**26 NON CURRENT ASSETS HELD FOR SALE**

As at	31.12.2012 Carrying Amount Rs 000	Bank 31.12.2011 Carrying Amount Rs 000	01.01.2011 Carrying Amount Rs 000	31.12.2012 Carrying Amount Rs 000	Group 31.12.2011 Carrying Amount Rs 000	01.01.2011 Carrying Amount Rs 000
Non current assets held for sale	-	-	-	2,875	2,875	2,875

**26 (a) Freehold Land\***

As at	31.12.2012		31.12.2011		01.01.2011	
	Extent (perches)	Cost of Land Rs 000	Extent (perches)	Cost of Land Rs 000	Extent (perches)	Cost of Land Rs 000
Lot - X, Survey plan - 6448, off Edirisinghe Rd, Mirihana*	10	2,875	10	2,875	10	2,875
Total - Group		2,875		2,875		2,875

\* Value of the above land (10 perches) amounted to Rs 5.75 Mn as at 31st January 2011 based on the valuation carried out by Messrs K C B Condegama AIV (Sri Lanka). As this land is held by Acuity Partners (Pvt) Ltd, the Joint Venture, only 50% of the value has been taken to the Consolidated Financial Statements.

**27 LOANS AND RECEIVABLES TO OTHER CUSTOMERS**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Gross loans and receivables	310,384,674	263,863,251	209,965,692	311,545,786	264,100,388	209,292,256
Less: Individual impairment [Note 27 (e)]	1,808,383	2,057,850	2,507,000	1,808,383	2,057,850	2,507,000
Collective impairment [Note 27 (f)]	5,815,311	4,607,058	5,205,674	5,815,311	4,607,058	5,205,674
Net loans and receivables	302,760,980	257,198,343	202,253,018	303,922,092	257,435,480	201,579,582

**27 (a) Product wise analysis of loans and receivables**

Overdrafts	61,160,391	48,088,165	43,179,410	61,022,596	47,632,606	42,769,849
Bills of exchange	1,272,694	1,071,921	1,509,187	1,272,694	1,071,921	1,509,187
Commercial papers	527,779	24,986	158,963	681,526	90,018	158,963
Securities purchased under resale agreements	51,050	781,478	1,187,098	2,245,771	2,869,836	2,734,581
Short term loans	16,756,644	13,254,457	13,754,239	16,809,710	13,299,955	13,754,239
Trust receipts	13,059,931	11,152,041	8,414,353	13,059,931	11,152,041	8,414,353
Packing credit loans	3,277,487	4,900,866	6,162,575	3,277,487	4,900,866	6,162,575
Staff loans	6,196,877	5,707,453	5,195,738	6,386,355	5,865,701	5,367,325
Term loans	110,551,220	95,023,763	68,382,363	109,259,115	93,359,323	66,399,418
Lease rentals receivables [Note 27 (d)]	25,280,078	24,568,780	13,919,320	25,280,078	24,568,780	13,919,320
Housing loans	22,990,253	21,800,114	18,821,074	22,990,253	21,800,114	18,821,074
Pawning advances	49,260,270	37,489,227	29,281,372	49,260,270	37,489,227	29,281,372
	310,384,674	263,863,251	209,965,692	311,545,786	264,100,388	209,292,256



**27 LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)****27 (b) Currency wise analysis of loans and receivables**

As at	Bank			Group		
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Sri Lankan Rupee	278,617,303	234,850,162	182,561,153	279,778,415	235,087,299	181,887,717
United States Dollar	30,243,653	27,320,484	26,091,570	30,243,653	27,320,484	26,091,570
Great Britain Pound	197,086	207,218	198,536	197,086	207,218	198,536
Euro	1,274,088	1,069,926	1,036,925	1,274,088	1,069,926	1,036,925
Others	52,544	415,461	77,508	52,544	415,461	77,508
	310,384,674	263,863,251	209,965,692	311,545,786	264,100,388	209,292,256

**27 (c) Industry wise analysis of loans and receivables**

Agriculture and fishing	31,306,579	28,965,719	25,338,467	31,306,579	28,965,719	25,338,467
Manufacturing	38,851,459	29,373,274	24,291,183	38,851,459	29,373,274	24,291,183
Tourism	18,731,165	16,378,499	12,189,811	18,731,165	16,378,499	12,189,811
Transport	5,034,068	10,210,733	11,992,130	5,034,068	10,210,733	11,992,130
Construction	40,234,886	38,583,493	33,780,242	39,102,119	36,771,684	31,585,033
Traders	49,636,247	40,804,323	32,868,660	49,636,247	40,804,323	32,868,660
New economy	4,675,435	3,424,704	2,623,994	4,675,435	3,424,704	2,623,994
Financial and business services	23,051,027	21,505,529	15,581,646	23,046,159	21,438,219	15,581,646
Infrastructure	8,923,369	7,072,183	5,600,478	8,923,369	7,072,183	5,600,478
Other services	23,469,029	24,645,018	13,166,509	23,469,029	24,645,018	13,166,509
Credit card	2,778,069	2,355,722	1,877,220	2,778,069	2,355,722	1,877,220
Pawning	48,447,062	34,377,453	23,223,488	48,447,062	34,377,453	23,223,488
Other	15,246,279	6,166,601	7,431,864	17,545,025	8,282,856	8,953,635
	310,384,674	263,863,251	209,965,692	311,545,786	264,100,388	209,292,256

**27 (d) Lease rentals receivables**

Gross lease rentals receivable	52,890,091	49,386,550	33,736,875	52,890,091	49,386,550	33,736,875
Initial rentals received	(100,621)	(102,215)	(85,923)	(100,621)	(102,215)	(85,923)
Lease rentals received	(21,951,473)	(19,121,395)	(16,357,491)	(21,951,473)	(19,121,395)	(16,357,491)
Total lease rentals receivable	30,837,997	30,162,940	17,293,461	30,837,997	30,162,940	17,293,461
Unearned lease income	(5,557,919)	(5,594,160)	(3,374,141)	(5,557,919)	(5,594,160)	(3,374,141)
Gross lease receivable	25,280,078	24,568,780	13,919,320	25,280,078	24,568,780	13,919,320
Impairment allowance for lease receivable - Collective [Note 27 (d) (iii)]	(302,133)	(217,385)	(205,600)	(302,133)	(217,385)	(205,600)
Net lease receivable	24,977,945	24,351,395	13,713,720	24,977,945	24,351,395	13,713,720
Gross lease receivable within one year [Note 27 (d) (i)]	8,783,462	7,374,729	4,849,915	8,783,462	7,374,729	4,849,915
Gross lease receivable after one year [Note 27 (d) (ii)]	16,194,483	16,976,666	8,863,805	16,194,483	16,976,666	8,863,805
	24,977,945	24,351,395	13,713,720	24,977,945	24,351,395	13,713,720

## Notes to the Financial Statements

**27 LOANS AND RECEIVABLES TO OTHER CUSTOMERS (Contd.)****27 (d) i Gross lease Receivable within One Year**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Total lease rentals receivable within one year from reporting date	11,823,506	10,164,813	6,637,509	11,823,506	10,164,813	6,637,509
Unearned lease income	(2,933,799)	(2,724,250)	(1,714,883)	(2,933,799)	(2,724,250)	(1,714,883)
Impairment allowance for lease receivable	(106,245)	(65,834)	(72,711)	(106,245)	(65,834)	(72,711)
Balance as at	8,783,462	7,374,729	4,849,915	8,783,462	7,374,729	4,849,915
<b>27 (d) ii Gross lease Receivable after One Year</b>						
Total lease rentals receivable after one year from reporting date	19,014,491	19,998,127	10,655,952	19,014,491	19,998,127	10,655,952
Unearned lease income	(2,624,120)	(2,869,910)	(1,659,258)	(2,624,120)	(2,869,910)	(1,659,258)
Impairment allowance for lease receivable	(195,888)	(151,551)	(132,889)	(195,888)	(151,551)	(132,889)
Balance as at	16,194,483	16,976,666	8,863,805	16,194,483	16,976,666	8,863,805

There were no lease receivables beyond five years.

**27 (d) iii Movement in impairment allowance for Lease Receivable - Bank/Group**

	2012 Rs 000 Collective	2011 Rs 000 Collective
Balance as at 1st January	217,385	205,600
Net impairment charge for the year	84,748	11,785
Balance as at 31st December	302,133	217,385
<b>27 (e) Movement in individual impairment allowance for loans and advances - Bank/Group</b>		
Balance as at 1st January	2,057,850	2,507,000
Net impairment reversal for the year	(249,467)	(449,150)
Balance as at 31st December	1,808,383	2,057,850
<b>27 (f) Movement in collective impairment allowance for loans and advances</b>		
Balance as at 1st January	4,607,058	5,205,674
Net impairment charge/(reversal) for the year	1,208,253	(598,616)
Balance as at 31st December	5,815,311	4,607,058

**27 (g) Loans granted from Investment Fund Account**

The details of loans granted from Investment Fund Account which were outstanding as at 31st December 2012 are as follows.

	Number of loans	Total amount outstanding Rs 000	Interest rate	Tenure
Agriculture	1	134,050	14.90% (LKR)	5 Years
Infrastructure development	5	693,996	13.65% (LKR) - 14.21% (LKR)	8 Years
Construction of hotels and related purposes	3	2,056,624	5.05% - 5.11% (US\$) & 12.56% (LKR)	6-7 Years
		2,884,670		

Investment Fund Account was Rs 2,300.56 Mn as at 31st December 2012. This balance had been fully allocated against the loans granted. Further loans of Rs 584.11 Mn had been granted for this purpose which is in excess of the balance in the Investment Fund Account as at the reporting date.

**28 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE**

As at	Market Value/ Directors Valuation 31.12.2012 Rs 000	Market Value/ Directors Valuation 31.12.2011 Rs 000	Market Value/ Directors Valuation 01.01.2011 Rs 000
Quoted shares - Bank [Note 28 (a)]	4,251,708	4,224,630	6,428,250
Quoted units - Bank [Note 28 (b)]	198,000	203,700	270,000
Unquoted shares - Bank [Note 28 (c)]	27,456	207,456	387,956
Government of Sri Lanka treasury bonds - Bank [Note 28 (d)]	5,587,415	10,598,527	8,627,064
Government of Sri Lanka treasury bills - Bank [Note 28 (e)]	47,804,967	35,929,393	33,525,659
Foreign government bonds - Bank [Note 28 (f)]	-	75,352	140,948
<b>Total financial investments - Available for sale - Bank</b>	<b>57,869,546</b>	<b>51,239,058</b>	<b>49,379,877</b>
Quoted shares - Joint Venture [Note 28 (g)]	3,644	3,875	3,974
Unquoted shares - Joint Venture [Note 28 (h)]	58,332	68,994	83,957
Quoted units in Unit Trust - Subsidiaries and Joint Venture [Note 28 (i)]	-	26,367	27,050
Unquoted units in Unit Trust - Joint Venture [Note 28 (j)]	24,094	-	-
Government of Sri Lanka treasury bonds - Subsidiaries [Note 28 (k)]	767,221	96,685	132,062
Government of Sri Lanka treasury bills - Subsidiaries [Note 28 (l)]	206,459	-	-
<b>Total financial investments - Available for sale - Subsidiaries and Joint Venture</b>	<b>1,059,750</b>	<b>195,921</b>	<b>247,043</b>
<b>Total financial investments - Available for sale - Group</b>	<b>58,929,296</b>	<b>51,434,979</b>	<b>49,626,920</b>

Financial investments - Available for sale through the Joint Venture reported above represent only 50% of the total investment securities of the Joint Venture, being the shareholding of the Bank on the same.

**28 (a) Quoted Shares Held by the Bank**

As at	31.12.2012			31.12.2011			01.01.2011		
	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000
DFCC Bank	32,396,140	942,651	3,660,764	32,109,140	911,399	3,625,122	32,109,140	911,399	6,428,250
National Development Bank PLC	4,282,200	694,519	590,944	4,282,200	694,519	599,508	-	-	-
<b>Total Quoted Shares - Bank</b>		<b>1,637,170</b>	<b>4,251,708</b>		<b>1,605,918</b>	<b>4,224,630</b>		<b>911,399</b>	<b>6,428,250</b>

**28 (b) Quoted Units in Unit Trusts held by the Bank**

Namal Acuity Value Fund	3,000,000	150,000	198,000	3,000,000	150,000	203,700	3,000,000	150,000	270,000
<b>Total Quoted Units in Unit Trusts - Bank</b>		<b>150,000</b>	<b>198,000</b>		<b>150,000</b>	<b>203,700</b>		<b>150,000</b>	<b>270,000</b>

## Notes to the Financial Statements

**28 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE (Contd.)****28 (c) Unquoted Shares Held by the Bank**

As at	31.12.2012			31.12.2011			01.01.2011		
	No of Shares	Cost of Investment Rs 000	Directors' Valuation Rs 000	No of Shares	Cost of Investment Rs 000	Directors' Valuation Rs 000	No of Shares	Cost of Investment Rs 000	Directors' Valuation Rs 000
Browns' Group Motels Ltd*	-	-	-	-	-	-	50,000	500	500
Credit Information Bureau of Sri Lanka	5,300	530	530	5,300	530	530	5,300	530	530
Fitch Rating Lanka Ltd	62,500	625	625	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd	2,200,000	22,000	22,000	2,200,000	22,000	22,000	2,200,000	22,000	22,000
Lanka Financial Services Bureau	225,000	2,250	2,250	225,000	2,250	2,250	225,000	2,250	2,250
S.W.I.F.T.	21	2,051	2,051	21	2,051	2,051	21	2,051	2,051
Dialog Axiata PLC									
Rated cumulative redeemable preference shares	-	-	-	180,000,000	180,000	180,000	360,000,000	360,000	360,000
Magpek Exports Ltd**	359,000	14,360	-	359,000	14,360	-	359,000	14,360	-
Metal Recyclers Colombo Ltd	-	-	-	-	-	-	69	3	-
Impairment provision	-	(14,360)	-	-	(14,360)	-	-	(14,363)	-
Total Unquoted Shares - Bank		27,456	27,456		207,456	207,456		387,956	387,956

\* During 2011 the investment in Browns' Group Motels Ltd was disposed and the resultant gain of Rs 0.444 Mn has been reported under Note 12 - Net gain/(loss) from financial investment.

\*\* As shares of Magpek Exports Ltd has been de-listed, the market value is shown as nil. Impairment provision of Rs 14.36 Mn has been made in the Financial Statements.

**28 (d) Government of Sri Lanka Treasury Bonds Held by the Bank**

As at	31.12.2012			31.12.2011		01.01.2011	
Face Value	Year of Maturity	Carrying Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000
Rs 3,376 Mn	2013	3,458,066					
Rs 2,150 Mn	2014	2,129,349					
Total Government of Sri Lanka Treasury Bonds - Bank			5,679,886	5,587,415	10,727,152	10,598,527	8,047,349

**28 (e) Government of Sri Lanka Treasury Bills Held by the Bank**

Face Value	Year of Maturity	Carrying Value Rs 000	31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000
Rs 42,291 Mn	2013	47,804,967						
Total Government of Sri Lanka Treasury Bills - Bank			47,681,212	47,804,967	36,063,373	35,929,393	33,503,443	33,525,659



**28 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE (Contd.)****28 (f) Foreign Government Bonds Held by the Bank**

As at	31.12.2012		31.12.2011		01.01.2011	
	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000
Total Foreign Government Bonds - Bank	-	-	150,753	75,352	145,537	140,948

These bonds were issued by the Government of Greece and the investment was fully provided for. During 2012 these bonds matured and the Bank received further bonds from the issuer which are classified as financial investments - Loans and receivables.

**28 (g) Quoted Shares Held through Joint Venture**

As at	31.12.2012			31.12.2011			01.01.2011		
	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000
Hayleys PLC	7,491	558	2,269	7,491	558	2,809	7,491	1116	2,577
John Keels Holdings PLC	6,240	22	1,372	4,680	22	1,062	4,680	22	1,395
Central Finance PLC	16	-	3	3	-	4	3	-	2
Total Quoted Shares - Joint Venture		580	3,644		580	3,875		1,138	3,974

**28 (h) Unquoted Shares Held through Joint Venture**

As at	31.12.2012			31.12.2011			01.01.2011		
	No of Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Shares	Cost of Investment Rs 000	Market Value Rs 000	No of Shares	Cost of Investment Rs 000	Market Value Rs 000
Durdans Heart Surgical Centre (Private) Ltd	-	-	-	750,000	7,313	7,313	750,000	7,313	7,313
Durdans Medical & Surgical Centre (Private) Ltd	1,061,225	13,357	13,357	1,000,000	12,500	12,500	1,000,000	12,500	12,500
Tudawe Brothers Limited (Preference Shares)	-	-	-	-	-	-	100,000	10000	10000
Nividhu (Private) Limited (Preference Shares)	1,640,000	16,490	44,975	1,640,000	16,490	49,181	1,640,000	16,490	54,144
Total Unquoted Shares - Joint Venture		29,847	58,332		36,303	68,994		46,303	83,957

**28 (i) Quoted Units in Unit Trusts Held by Subsidiaries and through Joint Venture**

As at	31.12.2012			31.12.2011			01.01.2011		
	No of Units	Cost of Investment Rs 000	Market Value Rs 000	No of Units	Cost of Investment Rs 000	Market Value Rs 000	No of Units	Cost of Investment Rs 000	Market Value Rs 000
Namal Acuity Value Fund	-	-	-	2,436,870	25,000	26,367	2,436,870	25,000	27,050
Total Quoted Units - Subsidiaries and Joint Venture		-	-		25,000	26,367		25,000	27,050

## Notes to the Financial Statements

**28 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE (Contd.)****28 (j) Unquoted Units in Unit Trusts Held through Joint venture**

As at	31.12.2012			31.12.2011			01.01.2011		
	No of Units	Cost of Investment Rs 000	Market Value Rs.000	No of Units	Cost of Investment Rs 000	Market Value Rs.000	No of Units	Cost of Investment Rs 000	Market Value Rs.000
Guardian Acuity Fixed Income fund	2,250,000	22,500	24,094	-	-	-	-	-	-
Total Unquoted Units in Unit Trusts - Subsidiaries		22,500	24,094	-	-	-	-	-	-

**28 (k) Government of Sri Lanka Treasury Bonds Held by Subsidiaries**

As at			31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)						
Rs 150 Mn	2013	154,486						
Rs 150 Mn	2014	146,135						
Rs 150 Mn	2015	142,309						
Rs 100 Mn	2016	88,048						
Rs 150 Mn	2017	128,060						
Rs 125 Mn	2018	108,183						
Total Government of Sri Lanka Treasury Bonds - Subsidiaries and Joint Venture			742,266	767,221	98,268	96,685	123,272	132,062

**28 (l) Government of Sri Lanka Treasury Bills Held by Subsidiaries**

Face Value	Year of Maturity	Carrying Value (Rs 000)						
Rs 215 Mn	2013	206,459						
Total Government of Sri Lanka Treasury Bills - Subsidiaries			205,169	206,459	-	-	-	-



**28 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE (Contd.)****28 (m) Assets Pledged as Security**

The following amount of financial investments - available for sale is pledged as security for re-purchase agreements entered into by the Bank / Group.

As at	Bank			Group		
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Treasury bills	4,027,950	5,867,639	10,926,033	5,880,845	7,280,925	11,666,907
Treasury bonds	543,333	691,449	1,025,694	705,810	1,396,260	1,996,589
	4,571,283	6,559,088	11,951,727	6,586,655	8,677,185	13,663,496

**28 (n) Investment in government securities on behalf of Investment Fund Account**

There were no investments in government securities on behalf of Investment Fund Account as at 31st December 2012.

**29 FINANCIAL INVESTMENTS - HELD TO MATURITY**

As at	Cost 31.12.2012 Rs 000	Group Cost 31.12.2011 Rs 000	Cost 01.01.2011 Rs 000
Government of Sri Lanka treasury bills - Subsidiaries and Joint Venture [Note 29 (a)]	34,902	155,989	906,621
Government of Sri Lanka treasury bonds - Subsidiaries and Joint Venture [Note 29 (b)]	1,533,066	1,466,644	631,095
Unquoted debentures - Joint Venture [Note 29 (c)]	71,593	70,831	74,493
Quoted debentures - Joint Venture [Note 29 (d)]	4,291	4,176	4,215
Total held-to-maturity investment securities - Group	1,643,852	1,697,640	1,616,424

Financial investment - held to maturity through the Joint Venture reported above represent only 50% of the total financial investments - Held to maturity of the Joint Venture, being the shareholding of the Bank on the same.

**29 (a) Held-to-maturity Government of Sri Lanka Treasury Bills Held by Subsidiaries and through Joint Venture**

Face Value	Year of Maturity	Carrying Value (Rs 000)	31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000	Cost of Investment Rs 000	Market Value Rs 000
Rs 35 Mn	2013	34,902						
Total Government of Sri Lanka Treasury Bills - Subsidiaries and Joint Venture			34,902	34,897	155,989	155,850	906,621	908,475

## Notes to the Financial Statements

**29 FINANCIAL INVESTMENTS - HELD TO MATURITY (Contd.)****29 (b) Government of Sri Lanka Treasury Bonds Held by Subsidiaries and through Joint Venture**

As at			31.12.2012		31.12.2011		01.01.2011	
			Cost of Investment	Market Value	Cost of Investment	Market Value	Cost of Investment	Market Value
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)						
Rs 608 Mn	2013	606,959						
Rs 150 Mn	2014	155,370						
Rs 310 Mn	2015	327,686						
Rs 300 Mn	2016	288,306						
Rs 175 Mn	2018	154,745						
Total Government of Sri Lanka Treasury Bonds - Subsidiaries and Joint Venture			1,533,066	1,498,605	1,466,644	1,498,441	631,095	754,158

**29 (c) Unquoted Debentures Held by Subsidiaries and through Joint Venture**

As at		31.12.2012		31.12.2011		01.01.2011	
		No of Debentures	Cost of Investment	No of Debentures	Cost of Investment	No of Debentures	Cost of Investment
			Rs 000		Rs 000		Rs 000
Ceylon Hospital PLC (Rs 10/- each)		5,000,000	50,000	5,000,000	50,000	5,000,000	50,011
Neluwa Cascade Hydro Power (Private) Limited		2,000,000	21,593	2,000,000	20,831	2,000,000	24,482
Total Unquoted Debentures - Subsidiaries and Joint Venture		7,000,000	71,593	7,000,000	70,831	7,000,000	74,493

**29 (d) Quoted Debentures Held by Subsidiaries and through Joint Venture**

As at		31.12.2012		31.12.2011		01.01.2011	
		No of Debentures	Cost of Investment	No of Debentures	Cost of Investment	No of Debentures	Cost of Investment
			Rs 000		Rs 000		Rs 000
Quoted Debentures Held by Subsidiaries and through Joint Venture							
Bank of Ceylon (Rs.100/- each)		40,000	4,291	40,000	4,176	40,000	4,215
Total Quoted Debentures - Subsidiaries and Joint Venture		40,000	4,291	40,000	4,176	40,000	4,215

**30 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES**

As at	Cost of Investment 31.12.2012	Cost of Investment 31.12.2011	Cost of Investment 01.01.2011
	Rs 000	Rs 000	Rs 000
Sri Lanka Development bonds and Sovereign bonds - Bank [Note 30 (a)]	17,520,959	12,139,597	10,247,979
CBSL securities - Bank [Note 30 (b)]	-	-	3,998,408
Foreign government bonds - Bank [Note 30 (c)]	-	-	-
Other long term investments - Bank [Note 30 (d)]	2,509,710	2,526,400	1,124,400
Total financial investments - loans and receivables - Bank	20,030,669	14,665,997	15,370,787
Unquoted debentures - Subsidiaries [Note 30 (e)]	340,060	251,275	80,864
Quoted debentures - Subsidiaries [Note 30 (f)]	533,443	419,871	262,742
Unquoted units in Unit Trust - Subsidiaries [Note 30 (g)]	-	25,000	25,000
Total financial investments measured as loans and receivables - Subsidiaries	873,503	696,146	368,606
Total financial investments measured as loans and receivables - Group	20,904,172	15,362,143	15,739,393

**30 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (Contd.)****30 (a) Sri Lanka Development Bonds & Sovereign Bonds Held by the Bank**

As at			31.12.2012 Cost of Investment Rs 000	31.12.2011 Cost of Investment Rs 000	01.01.2011 Cost of Investment Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)			
Rs 2,553 Mn	2014	2,553,885			
Rs 14,679 Mn	2015	14,967,074			
Total Sri Lanka Development Bonds and Sovereign Bonds - Bank			17,520,959	12,139,597	10,247,979

**30 (b) CBSL Securities Held by the Bank**

As at			31.12.2012 Cost of Investment Rs 000	31.12.2011 Cost of Investment Rs 000	01.01.2011 Cost of Investment Rs 000
Total CBSL Securities - Bank			-	-	3,998,408

**30 (c) Foreign Government Bonds Held by the Bank**

As at			31.12.2012 Cost of Investment Rs 000	31.12.2011 Cost of Investment Rs 000	01.01.2011 Cost of Investment Rs 000
Face Value	Year of Maturity	Carrying Value (Rs 000)			
Rs 53 Mn	2042	53,032			
Impairment loss investments		(53,032)			
Total Foreign Government Bonds - Bank			-	-	-

These bonds are issued by the Government of Greece and the investment is fully provided for.

**30 (d) Other Long Term Investments Held by the Bank**

As at	31.12.2012		31.12.2011		01.01.2011	
	Cost Rs 000	Directors' Valuation Rs 000	Cost Rs 000	Directors' Valuation Rs 000	Cost Rs 000	Directors' Valuation Rs 000
Long term non-negotiable bonds						
maturing on 14th November 2016	489,000	489,000	489,000	489,000	489,000	489,000
Central Finance PLC - securitised notes*	18,000	18,000	92,000	92,000	-	-
LB Finance PLC - securitised notes trust 19*	686,000	686,000	700,000	700,000	-	-
People's Leasing Co. Ltd. - securitised notes trust 71*	581,232	581,232	730,000	730,000	-	-
People's Leasing Co. Ltd. - securitised notes trust 65*	345,700	345,700	365,400	365,400	365,400	365,400
Singer Sri Lanka PLC Debentures*	389,778	389,778	150,000	150,000	270,000	270,000
Total Other Long Term Investments - Bank	2,509,710	2,509,710	2,526,400	2,526,400	1,124,400	1,124,400

\*Rs 411 Mn out of these investments will be redeemed in 2013.

## Notes to the Financial Statements

**30 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (Contd.)****30 (e) Unquoted Debentures Held by Subsidiaries**

As at	31.12.2012		31.12.2011		01.01.2011	
	No of Debentures	Cost of Investment Rs 000	No of Debentures	Cost of Investment Rs 000	No of Debentures	Cost of Investment Rs 000
Abans (Pvt) Ltd	100,000	101,068	75,000	75,227	-	-
People's Leasing Co. Ltd	750,000	75,000	750,000	79,400	-	-
National Development Bank PLC	40,000	41,234	40,000	40,013	-	-
Seylan Bank PLC (Rs 100/- each)	-	-	-	-	150,000	15,228
Senkadagala Finance Co. Ltd (Rs 1000/-each)	-	-	40,000	40,135	40,000	40,136
DSI Holdings Ltd (Rs 1000/-each)	-	-	16,500	16,500	30,000	25,500
Ceylon Hospital PLC (Rs 10/- each)	-	-	-	-	-	-
Neluwa Cascade Hydro Power (Private) Limited	-	-	-	-	-	-
Singer (Sri Lanka) PLC	490,000	50,248	-	-	-	-
Sampath Leasing and Factoring Limited	385,000	72,510	-	-	-	-
Total Unquoted Debentures held by Subsidiaries		340,060		251,275		80,864

**30 (f) Quoted Debentures Held by Subsidiaries**

As at	31.12.2012		31.12.2011		01.01.2011	
	No of Debentures	Cost of Investment Rs 000	No of Debentures	Cost of Investment Rs 000	No of Debentures	Cost of Investment Rs 000
DFCC Bank (Rs 1000/- each)	5,000	5,698	5,000	5,694	10,000	10,976
Lanka Orix Leasing Company PLC	750,000	79,475	750,000	78,619	-	-
Merchant Bank of Sri Lanka PLC	675,000	71,515	675,000	68,482	-	-
National Development Bank PLC	-	-	-	-	-	-
Seylan Bank PLC (Rs 100/- each)	-	-	100,000	10,982	100,000	10,982
Sampath Bank PLC (Rs 100/- each)	283,100	29,334	250,000	25,535	250,000	25,594
Singer (Sri Lanka) PLC (Rs 100/- each)	302,170	30,217	240,000	24,708	240,000	24,726
Bank of Ceylon (Rs 100/- each)	1,800,000	183,039	700,000	71,724	550,000	56,337
Nations Trust Bank PLC (Rs 1000/- each)	17,000	18,764	17,000	18,759	17,000	18,759
Urban Development Authority (Rs 100/- each)	1,124,199	115,401	1,124,199	115,368	1,124,199	115,368
Total Quoted Debentures held by Subsidiaries		533,443		419,871		262,742

**30 FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES (Contd.)****30 (g) Unquoted Units in Unit Trusts Held by Subsidiaries**

As at	31.12.2012		31.12.2011		01.01.2011	
	No of Debentures	Cost of Investment Rs 000	No of Debentures	Cost of Investment Rs 000	No of Debentures	Cost of Investment Rs 000
Namal Giltedge Funds	-	-	1,000,000	10,000	1,000,000	10,000
Cey Bank	-	-	1,500,000	15,000	1,500,000	15,000
Total Unquoted Units - Subsidiaries				25,000		25,000

**31 INVESTMENTS IN ASSOCIATES****31 (a) Bank**

As at	Principal Activity	31.12.2012			31.12.2011			01.01.2011		
		% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000
<b>Unquoted</b>										
Browns Engineering (Pvt) Ltd (2,056,000 ordinary shares)	Engineering	-	-	-	-	-	-	32.64	20,560	-
Delma Exchange (simple limited partnership)	Dealing in foreign exchange	-	-	-	20.00	83,674	83,674	20.00	83,651	83,651
Impairment provision			-			-			(20,560)	
Total for the Bank			-			83,674			83,651	

**Delma Exchange**

Investment in Delma Exchange was disposed during the year and the gain on disposal is disclosed in Note 13 Other operating income.

**Browns Engineering (Pvt) Ltd**

Investment in Browns Engineering (Pvt) Ltd was written off against the provision during the year 2011.



## Notes to the Financial Statements

## 31 INVESTMENTS IN ASSOCIATES (Contd.)

## 31 (b) Group

As at	Quoted Investments			Unquoted Investments			Total		
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Investment in Associate companies (at cost)	-	-	132,326	391,955	192,271	71,730	391,955	192,271	204,056
Investment in Associate company through Joint Venture	-	-	-	-	-	59,870	-	-	59,870
Additional investment in Associate company by the Bank	-	-	-	-	23	12,171	-	23	12,171
Additional investment in Associate company held by Subsidiary	-	-	-	-	7,661	-	-	7,661	-
Additional investment in Associate company held through Joint Venture	-	-	-	20,000	192,000	48,500	20,000	192,000	48,500
Negative goodwill on acquisition recognised in Income Statement	-	-	5,830	5,629	5,629	3,416	5,629	5,629	9,246
Group share of Associate company	-	-	14,206	(16,422)	(693)	(4,648)	(16,422)	(693)	9,558
Current year's share of profits / (loss) after tax	-	-	(6,384)	16,632	(15,729)	3,955	16,632	(15,729)	(2,429)
Exchange effect on revaluation of investment	-	-	-	5,996	3,157	1,015	5,996	3,157	1,015
Disposal of Associate company	-	-	(145,978)	(37,618)	-	-	(37,618)	-	(145,978)
Group Investment in Associate companies (equity basis)	-	-	-	386,172	384,319	196,009	386,172	384,319	196,009

**Splendor Media (Pvt) Ltd (Splendor Media)**

The Bank's fully owned Subsidiary Sithma Development (Pvt) Ltd (Sithma) increased its holding in Splendor Media from 25% as at 31st December 2010 to 49.99% during 2011. Accordingly Splendor Media continues to be accounted for as an Associate of Sithma.

Associates through the Joint Venture reported above represent only 50% of the total investment in Associate, being the shareholding of the Bank on the same.

The Board of Directors carried out an internal assessment of impairment as at 31st December 2012 and concluded that there was no indication of impairment of these investment.

## 31 (c) Summarised Financial Information of Associates

## 31 (c) i Associates Held by the Bank

Delma Exchange As at	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Revenue	83,964	50,014	17,670
Expenses	(138,993)	(147,771)	(97,057)
Tax	-	-	-
Loss after tax	(55,029)	(97,757)	(79,387)
Current assets	-	224,644	257,615
Non-current assets	-	47,422	45,568
Total assets	-	272,066	303,183
Current liabilities	-	60,204	2,683
Non-current liabilities	-	4,187	2,993
Total liabilities	-	64,391	5,676

\*This associate was disposed on 17th December 2012.



**31 INVESTMENTS IN ASSOCIATES (Contd.)****31 (c) Summarised Financial Information of Associates (Contd.)****31 (c) ii Associate Held by Subsidiary - Sithma Development (Pvt) Ltd**

Splendor Media (Pvt) Ltd As at		31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Revenue		144,964	90,778	81,525
Expenses		(142,198)	(83,520)	(68,767)
Tax		(1,145)	(1,072)	(7,472)
Profit after tax		1,621	6,186	5,286
Current assets		111,480	102,924	115,195
Non-current assets		3,526	4,344	1,728
Total assets		115,006	107,268	116,923
Current liabilities		65,925	59,648	75,851
Non-current liabilities		1,397	1,096	483
Total liabilities		67,322	60,744	76,334

**31 (c) iii Associates Held through Joint Venture - Acuity Partners (Pvt) Ltd**

As at	Unit Energy Lanka (Pvt) Ltd				Hayleys Hydro Energy (Pvt) Ltd		Pavan Danavi (Pvt) Ltd*	
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000
Revenue	87,085	101,462	160,867	68,508	-	-	104,996	
Expenses	(71,963)	(76,256)	(96,645)	(53,318)	(393)	(93)	(21,377)	
Tax	(4,883)	(4,663)	(4,257)	(6,929)	-	-	(24,364)	
Profit / (loss) after tax	10,239	20,543	59,965	8,261	(393)	(93)	59,255	
Current assets	29,485	28,232	76,336	34,812	-	26	140,618	
Non-current assets	451,792	469,744	487,697	475,335	119,100	119,100	2,650,748	
Total assets	481,277	497,976	564,033	510,147	119,100	119,126	2,791,366	
Current liabilities	91,037	20,807	32,886	65,729	1,212	844	334,632	
Non-current liabilities	137,082	234,250	284,553	229,308	-	-	1,320,670	
Total liabilities	228,119	255,057	317,439	295,037	1,212	844	1,655,302	

The above companies are Associates of Lanka Ventures PLC which is a Subsidiary of Acuity Partners (Pvt) Ltd.

\*This company commenced commercial operations in 2012.

**31 (d) Movement in impairment provision during the year**

	Bank		Group	
	2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
Opening balance	-	20,560	-	-
Write off against the investment	-	(20,560)	-	-
Closing balance	-	-	-	-

## Notes to the Financial Statements

**32 INVESTMENT IN JOINT VENTURE**

Bank As at				31.12.2012		31.12.2011		01.01.2011	
Principal Activity	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000
<b>Unquoted</b>									
Acuity Partners (Pvt) Ltd	Investment banking	50.00	655,000	655,000	50.00	655,000	655,000	50.00	655,000
Total for the Bank			655,000	655,000		655,000	655,000		655,000

Bank's interest in Acuity Partners (Pvt) Ltd include:

	2012 Rs 000	2011 Rs 000	2010 Rs 000
Assets	3,353,510	3,327,626	3,031,399
Liabilities	2,118,402	2,268,998	2,054,071
Income	200,473	399,628	484,785
Expenses	163,646	211,062	225,641
Tax	11,258	25,694	69,569

Acuity Partners (Pvt) Ltd, the Joint Venture of the Bank entered into a Joint Venture "Guardian Acuity Asset Management Ltd" on 17th June 2011.

**33 INVESTMENTS IN SUBSIDIARIES****33 (a) Quoted**

Bank As at				31.12.2012		31.12.2011		01.01.2011	
Principal Activity	% Holding	Cost of Investment Rs 000	Market Value Rs 000	% Holding	Cost of Investment Rs 000	Market Value Rs 000	% Holding	Cost of Investment Rs 000	Market Value Rs 000
<b>HNB Assurance PLC</b> (29,993,000 shares) *	Insurance	60.00	384,285	1,469,657	60.00	384,285	1,709,601	60.00	149,965
Total Quoted			384,285			384,285			149,965

\*The Bank subscribed for the rights issue of HNB Assurance PLC during 2011. As a result the number of shares held by the Bank in HNB Assurance PLC increase from 22,494,750 to 29,993,000.

**33 (b) Unquoted**

Bank As at				31.12.2012		31.12.2011		01.01.2011	
Principal Activity	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000	% Holding	Cost of Investment Rs 000	Directors' Valuation Rs 000
Sithma Development (Pvt) Ltd (206,000,000 ordinary shares)	Property development	100.00	1,973,000	1,973,000	100.00	1,973,000	1,973,000	100.00	1,973,000
Majan Exchange LLC (200,000 shares)	Dealing in foreign exchange	40.00	56,121	-	40.00	56,121	-	40.00	56,121
Commercial Interlink Services Inc (o/a Delma Exchange Canada) (100,001 shares)	Dealing in foreign exchange	-	-	-	100.00	10,063	-	100.00	10,063
Impairment provision			(56,121)			(66,184)			(10,063)
Total Unquoted			1,973,000			1,973,000			2,029,121
Total for the Bank [33 (a) and 33 (b)]			2,357,285			2,357,285			2,179,086

Bank together with 40% shareholding in Majan Exchange LLC and management control over the activities of the company can govern the financial and operating policies of the company. Accordingly the investment in Majan Exchange LLC has been classified as investment in Subsidiary.

The Bank's investment in Majan Exchange LLC of Rs 56,121 Mn was fully provided for in 2011 in view of the continuous losses incurred by the subsidiary.

Bank's investment in Commercial Interlink Services Inc (o/a of Delma Exchange Canada) was written off against the provision during the year.

**33 INVESTMENTS IN SUBSIDIARIES (Contd.)****33 (c) Movement in impairment during the year**

	Bank		Group	
	2012 Rs 000	2011 Rs 000	2012 Rs 000	2011 Rs 000
Balance as at 1st January	66,184	10,063	-	-
Charge to income statement	-	56,121	-	-
Write off against the investment	(10,063)	-	-	-
Balance as at 31st December	56,121	66,184	-	-

**34 INVESTMENT PROPERTIES**

As at	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Cost</b>						
Opening Balance	377,145	376,750	369,503	248,746	248,746	243,250
Improvements	5,085	395	7,247	139	-	5,496
Closing Balance	382,230	377,145	376,750	248,885	248,746	248,746
<b>Accumulated depreciation</b>						
Opening Balance	27,771	23,187	18,743	79,718	75,151	70,695
Charge for the year	4,751	4,584	4,444	4,569	4,566	4,456
Closing Balance	32,522	27,771	23,187	84,287	79,717	75,151
Net book value as at	349,708	349,374	353,563	164,598	169,029	173,595

**34 (a) Valuation of Investment Properties - Bank**

As at 31st December 2012	Building sq.ft	Extent Perches	Land (Cost) Rs 000	Cost / Carrying Amount Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Fair Value Building Rs 000	Total Rs 000
23 & 23 1/1, Independence Avenue, Colombo 7	10,470	105	37,081	40,744	77,825	525,000	45,000	570,000
479 T B Jayah Mawatha, Colombo 10 *	Land	112.96	75,783	-	75,783	82,700	-	82,700
21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1 *	Land	26.62	34,889	-	34,889	39,930	-	39,930
10, Sri Uttarananda Mawatha, Colombo 03 **	57,917	40	72,000	89,211	161,211	200,000	262,000	462,000
			219,753	129,955	349,708	847,630	307,000	1,154,630

## Notes to the Financial Statements

**34 INVESTMENT PROPERTIES (Contd.)****34 (b) Valuation of Investment Properties - Group**

As at 31st December 2012	Building sq.ft	Extent Perches	Land (Cost) Rs 000	Cost / Carrying Amount Building (Net Book Value) Rs 000	Total Rs 000	Land Rs 000	Fair Value Building Rs 000	Total Rs 000
23 & 23 1/1, Independence Avenue, Colombo 7	10,800	105	37,084	40,744	77,828	525,000	45,000	570,000
Smart building, 21, 21A, 23 & 25, Janadhipathi Mawatha, Colombo 1	41,688	-	-	86,770	86,770	-	208,450	208,450
			37,084	127,514	164,598	525,000	253,450	778,450

The Bank carries investment properties at cost. Market valuations of the above investment properties were carried out as at 31st December 2012 by Messrs J M J Fernando, FIV, DIV (Sri Lanka) and K T D Tissera, FIV, FRICS (Eng), who are independent valuers not connected with the Bank.

Since the fair values of the investment properties were above the carrying value, the Board of Directors concluded that there was no impairment in investment properties.

\* Land situated at No 479, T B Jayah Mw, Colombo 10 on which HNB Towers is built, and No 21, 21A, 23 and 25 Janadhipathi Mawatha, Colombo 01 are leased to Sithma Development (Pvt) Ltd by the Bank and the Bank receives ground rent. Accordingly, these lands have been classified as investment property in the Statement of Financial Position of the Bank. However, according to Sri Lanka Accounting Standard (LKAS 40) "Investment Property", the said lands are treated as property, plant and equipment in the Consolidated Statement of Financial Position, since these are leased to a Group entity.

\*\* Building situated at No 10, Sri Uttarananda Mw, Colombo 03 is leased out to HNB Assurance PLC and Royal Ceramics Lanka PLC. Accordingly this building is classified as investment property in the Statement of Financial Position of the Bank. However, according to Sri Lanka Accounting Standard (LKAS 40) "Investment Property", the said building is treated as property, plant and equipment in the Consolidated Statement of Financial Position, since Group uses a significant portion of the building for use in the production or supply of goods and services.

**35 PROPERTY, PLANT AND EQUIPMENT**

Bank	Leasehold Buildings  Note 35 (b) Rs 000	Freehold Land and Buildings  Note 35 (a) Rs 000	Computer Equipment  Rs 000	Equipment Furniture and Fixtures Rs 000	Motor Vehicles  Rs 000	Capital Work-in- Progress  Rs 000	2012 Total  Rs 000	2011 Total  Rs 000
<b>Cost / valuation</b>								
as at 1st January	1,398,905	5,402,863	2,447,399	3,270,264	233,256	140,456	12,893,143	11,898,903
Revaluation adjustment on accumulated depreciation	-	(267,947)	-	-	-	-	(267,947)	-
Revaluation surplus	-	1,597,923	-	-	-	-	1,597,923	-
Net impairment charge	-	(70,411)	-	-	-	-	(70,411)	-
Additions and improvements	41,398	51,756	193,881	273,757	17,960	293,644	872,396	1,210,302
Disposals during the year	(21,174)	(18,359)	(57,202)	(95,962)	(10,801)	-	(203,498)	(216,062)
Sub category transfers during the year	(33,676)	27,141	-	6,535	-	-	-	-
Transferred from capital work-in-progress	32,141	124,783	-	59,997	-	(216,921)	-	-
<b>Cost / valuation as at 31st December</b>	<b>1,417,594</b>	<b>6,847,749</b>	<b>2,584,078</b>	<b>3,514,591</b>	<b>240,415</b>	<b>217,179</b>	<b>14,821,606</b>	<b>12,893,143</b>
<b>Accumulated depreciation</b>								
as at 1st January	833,815	213,608	1,676,560	2,190,715	143,581	-	5,058,279	4,471,383
Revaluation adjustment on accumulated depreciation	-	(267,947)	-	-	-	-	(267,947)	-
Charge for the year	138,309	55,794	252,003	314,535	34,994	-	795,635	737,628
Sub category transfers during the Year	(4,625)	4,507	(2)	120	-	-	-	-
Disposals during the year	(19,451)	(1,284)	(56,945)	(94,082)	(10,514)	-	(182,276)	(150,734)
<b>Accumulated depreciation as at 31st December</b>	<b>948,048</b>	<b>4,678</b>	<b>1,871,616</b>	<b>2,411,288</b>	<b>168,061</b>	<b>-</b>	<b>5,403,691</b>	<b>5,058,277</b>
<b>Net book value</b>								
as at 31st December 2012	469,546	6,843,071	712,462	1,103,303	72,354	217,179	9,417,915	-
<b>Net book value</b>								
as at 31st December 2011	565,090	5,189,255	770,839	1,079,549	89,675	140,456	-	7,834,866

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year.



## Notes to the Financial Statements

**35 PROPERTY, PLANT AND EQUIPMENT (Contd.)**

Group	Leasehold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment Furniture and Fixtures	Civil Works	Motor Vehicles	Capital Work-in- Progress	2012 Total	2011 Total
	Note 34 (b) Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cost / valuation as at 1st January without exchange effect	1,418,959	11,443,112	2,600,999	5,495,691	6,610	256,452	140,779	21,362,602	20,333,437
Effect of movements in exchange rates	-	-	35	60	100	-	-	195	155
Cost / Valuation as at 1st January	1,418,959	11,443,112	2,601,034	5,495,751	6,710	256,452	140,779	21,362,797	20,333,592
Revaluation adjustment on accumulated depreciation	-	(597,385)	-	-	-	-	-	(597,385)	-
Revaluation surplus	-	2,530,099	-	-	-	-	-	2,530,099	-
Net impairment charge	-	(70,411)	-	-	-	-	-	(70,411)	-
Adjustment on accumulated Depreciation for changing remaining useful life	-	-	-	(110,310)	-	-	-	(110,310)	-
Additions and improvements	41,587	61,974	213,600	297,176	-	17,960	293,644	925,940	1,260,080
Disposals during the year	(21,174)	(18,359)	(61,478)	(99,696)	-	(12,664)	-	(213,370)	(231,528)
Written off during the year	-	-	(781)	(122)	-	-	-	(903)	-
Sub category transfers during the year	(33,676)	27,141	-	6,535	-	-	-	-	-
Transferred from capital work-in-progress	32,141	124,783	-	59,997	-	-	(216,921)	-	-
Effect of movements in exchange rates	-	-	1,346	560	810	-	-	2,716	653
Cost / Valuation as at 31st December	1,437,837	13,500,954	2,753,721	5,649,891	7,520	261,749	217,502	23,829,173	21,362,797
Accumulated depreciation as at 1st January without exchange effect	845,740	535,076	1,760,166	2,651,212	1,586	153,303	-	5,947,083	5,217,852
Effect of movements in exchange rates	-	-	34	21	24	-	-	79	(21)
Accumulated depreciation as at 1st January	845,740	535,076	1,760,200	2,651,233	1,610	153,303	-	5,947,162	5,217,831
Revaluation adjustment on accumulated depreciation	-	(597,385)	-	-	-	-	-	(597,385)	-
Adjustment on accumulated Depreciation for changing remaining useful life	-	-	-	(110,310)	-	-	-	(110,310)	-
Charge for the year	143,060	115,758	271,535	392,955	783	41,540	-	965,630	889,860
Sub category transfers during the year	(4,625)	4,507	(2)	120	-	-	-	-	-
Disposals during the year	(19,451)	(1,284)	(60,965)	(97,259)	-	(12,377)	-	(191,335)	(160,785)
Written off during the year	-	-	(781)	(122)	-	-	-	(903)	-
Effect of movements in exchange rates	-	-	490	221	189	-	-	900	256
Accumulated Depreciation as at 31st December	964,724	56,672	1,970,477	2,836,838	2,582	182,466	-	6,013,759	5,947,162
Net book value as at 31st December 2012	473,113	13,444,282	783,244	2,813,053	4,938	79,283	217,502	17,815,411	-
Net book value as at 31st December 2011	573,219	10,908,036	840,834	2,844,518	5,100	103,149	140,779	-	15,415,636

As set out in Note 4.12.4, the Bank / Group had revalued its freehold land and buildings as at 1st December 2012, by professionally qualified independent valuers. The revaluation was carried out by taking into account the observable prices in active market or recent market transactions on arm's length term. The revaluation surplus, amounting to Rs 1,597.9 Mn / Rs 2,530.1 Mn had been credited to the revaluation reserve account in respect of Bank / Group respectively in 2012. Net impairment loss of Rs 70.4 Mn was recognised in 2012 in respect of freehold land and buildings based on revaluation of such properties.

Based on the assessment of potential impairment carried out internally by the Board of Directors as at 31st December 2012, no provision was required to be made in the Financial Statements as at reporting date other than those disclosed above.



**35 PROPERTY, PLANT AND EQUIPMENT (Contd.)****35 (a) Freehold Land and Buildings - Bank**

As at 31st December 2012

	Buildings Sq.ft.	Extent (perches)	Cost / Valuation of Land Rs 000	Cost / Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	Net Book Value 2012 Rs 000	Net Book Value 2011 Rs 000
14, Main Street, Akkaraipattu.	9,097	17.00	23,000	25,000	48,000	25	47,975	35,482
94/1, New Galle Road, Ambalangoda.	5,081	29.90	65,000	15,000	80,000	17	79,983	43,182
30, Maithripala Senanayake Mawatha, Anuradhapura.	9,505	58.99	65,114	24,886	90,000	33	89,967	60,651
15, 15 1/1, Udayaraja Mawatha, Badulla.	5,680	27.75	35,000	11,700	46,700	16	46,684	37,935
24, Maharagama Road, Boralesgamuwa.	5,107	30.34	60,600	29,400	90,000	32	89,968	47,062
16, Janadhipathi Mawatha, Colombo 1.	44,807	84.00	168,000	126,400	294,400	164	294,236	324,908
285, Galle Road, Colombo 04.	16,170	20.00	150,000	70,000	220,000	91	219,909	171,916
100 & 102, Galle Road, Colombo 06.	16,082	36.05	180,250	110,250	290,500	105	290,395	194,640
53/1, D S Senanayake Mawatha, Colombo 08.	10,102	28.00	119,000	89,000	208,000	95	207,905	144,614
90, Vinayalankara Mawatha, Colombo 10.	10,250	249.00	996,000	37,584	1,033,584	34	1,033,550	1,030,412
168, Panchikawatta Road, Colombo 10.	16,366	22.55	78,900	83,700	162,600	84	162,516	130,341
60, Sea Street Colombo 11.	9,608	6.93	55,440	42,039	97,479	55	97,424	70,786
88, Main Street, Colombo 11.	3,708	-	-	53,000	53,000	53	52,947	63,730
149-151, Main Street, Colombo 11.	11,460	13.03	130,000	70,000	200,000	91	199,909	124,852
11, Mohandiram's Road, Colombo 12.	7,377	42.57	96,800	23,600	120,400	31	120,369	125,011
182, St Joseph Street, Colombo 14.	11,221	24.00	66,000	71,000	137,000	78	136,922	56,535
700/B, Anuradhapura Road, Dambulla.	7,456	94.50	80,325	20,275	100,600	22	100,578	56,969
3, Wakkwella Road, Galle.	7,035	13.80	41,000	19,000	60,000	25	59,975	60,372
148, Colombo Road, Gampaha.	16,779	25.00	50,000	158,200	208,200	206	207,994	134,441
12, Kandy Road, Gampola.	6,190	11.88	21,384	9,616	31,000	13	30,987	24,830

## Notes to the Financial Statements

**35 PROPERTY, PLANT AND EQUIPMENT (Contd.)****35 (a) Freehold Land and Buildings - Bank (Contd.)**

As at 31st December 2012

	Buildings Sq.ft.	Extent (perches)	Cost / Valuation of Land Rs 000	Cost / Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	Net Book Value 2012 Rs 000	Net Book Value 2011 Rs 000
142, Kandy Road, Gampola	12,130	17.05	34,000	78,061	112,061	822	111,239	28,028
Bank House -No 295/6,Dimbula Road, Hatton	4,113	53.80	16,140	5,860	22,000	8	21,992	1,605
Cottage-78, Dimbulla Road, Hatton.	2,114	42.20	13,752	2,748	16,500	4	16,496	6,034
No 88,90 &90A, Dimbula Road,Hatton	6,028	15.68	28,208	9,792	38,000	12	37,988	40,000
16, Mount Road Hatton	5,088	160.00	24,000	6,000	30,000	8	29,992	22,991
73,Old Negombo Road,Kanuwana Ja-Ela	5,017	19.00	33,200	21,800	55,000	23	54,977	22,852
212,214 Hospital Road Jaffna.	Under Construction	62.36	276,000	-	276,000	-	276,000	48,863
772 A, Main Street, Kahawatte.	10,554	16.14	16,000	25,763	41,763	45	41,718	50,650
30A, Batticaloa Road Kalmunai.	7,000	25.10	19,800	46,774	66,574	682	65,892	19,779
1, Dalada Veediya, Kandy.	29,196	57.65	490,025	147,975	638,000	191	637,809	657,570
451, Kandy Road Kegalle.	Bare Land	58.70	27,500	-	27,500	-	27,500	15,600
225, Main Street, Kuliyapitiya.	3,815	32.80	37,440	10,560	48,000	13	47,987	33,185
6, St. Anne's Street, Kurunegala.	17,970	36.25	119,063	84,937	204,000	110	203,890	107,870
68, Main Street, Mannar.	5,680	23.00	20300	17,960	38,260	17	38,243	15,564
534, Colombo Road, Marawila.	7,286	43.80	32,850	27,250	60,100	35	60,065	34,545
7/11, New Town, Maskeliya.	7,382	20.32	6,072	20,428	26,500	26	26,474	34,689
58D, Esplanade Road, Matara.	9,580	26.00	39,000	31,000	70,000	40	69,960	52,932
41, Samarakkody Road Minuwangoda.	3,452	20.51	25,637	14,162	39,799	14	39,785	26,331
No 67/11, Kumaradola Road, Monaragala.	Bare Land	20.00	1,600	-	1,600	-	1,600	1,455
605, Galle Road, Mount Lavinia.	11,350	22.66	62,300	58,600	120,900	75	120,825	63,250

**35 PROPERTY, PLANT AND EQUIPMENT (Contd.)****35 (a) Freehold Land and Buildings - Bank (Contd.)**

As at 31st December 2012

	Buildings Sq.ft.	Cost / Extent (perches)	Cost / Valuation of Land Rs 000	Valuation of Buildings Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	Net Book Value 2012 Rs 000	Net Book Value 2011 Rs 000
92, Gampola Road, *	-	-	-	-	-	-	-	12,284
Nawalapitiya.								
18, Rajapakse Broadway, Negombo.	4,845	8.88	22,000	8,000	30,000	10	29,990	58,132
201, Colombo Road Negombo.	25,770	51.98	103,900	206,100	310,000	267	309,733	208,193
22, Kandy Road, Nittambuwa.	10,411	44.9	67,000	161,339	228,339	385	227,954	202,049
10, Puttalam Road, ** Nochchiyagama.	8,265	-	-	24,000	24,000	31	23,969	23,932
181, High Level Road, Nugegoda.	11,096	15.71	74,000	61,000	135,000	79	134,921	107,608
42, Queen Elizabeth Drive, Nuwara Eliya.	14,145	149.03	89,418	38,995	128,413	92	128,321	69,307
467, Main Street, Kaduruwela ** Polonnaruwa.	9,882	-	-	48,000	48,000	47	47,953	34,184
510, Nuwaraeliya Road, Pussellawa.	6,163	15.95	10,840	14,160	25,000	14	24,986	32,153
9 Senanayake Mw Ratnapura.	8,236	43.4	64,800	20,200	85,000	26	84,974	37,025
59, Ehamparam Road, Trincomalee.	9,156	31.75	47,625	32,376	80,001	33	79,968	43,221
43, Inner Circular Road, ** Vavuniya.	8,340	-	-	28,740	28,740	199	28,541	29,315
270, 270/1, Negombo Road, Wattala.	8,579	53	119,200	46,800	166,000	54	165,946	90,133
35, Nuwara Eliya Road, Wellimada.	3,450	14.37	19,500	5,500	25,000	5	24,995	-
70, Kumaradasa Mawatha, Wellawaya.	6,560	30	12,110	18,126	30,236	41	30,195	19,257
Total freehold land and buildings			4,435,093	2,412,656	6,847,749	4,678	6,843,071	5,189,255

\*Nawalapitiya Branch property was disposed in 2012.

\*\*Building constructed on State Lands given on lease.

## Notes to the Financial Statements

**35 PROPERTY, PLANT AND EQUIPMENT (Contd.)****35 (b) Leasehold Buildings**

As at	Bank				Group			
	Cost of Buildings Rs 000	31.12.2012 Accumulated Depreciation Rs 000	31.12.2011 Net Book Value Rs 000	31.12.2011 Net Book Value Rs 000	Cost of Buildings Rs 000	31.12.2012 Accumulated Depreciation Rs 000	31.12.2011 Net Book Value Rs 000	31.12.2011 Net Book Value Rs 000
01 - 05 years	561,134	479,625	81,309	99,791	581,377	496,500	84,877	107,917
05 - 10 years	786,195	419,889	366,306	88,234	786,195	419,889	366,306	88,234
10 - 15 years	56,456	38,624	17,832	324,682	56,456	38,625	17,833	324,682
15 - 20 years	13,809	9,710	4,099	13,989	13,809	9,710	4,099	13,992
20 - 30 years	-	-	-	38,394	-	-	-	38,394
	1,417,594	948,048	469,546	565,090	1,437,837	964,724	473,113	573,219

**35 (c) Fully Depreciated Property, Plant and Equipment - Bank**

The initial cost of fully depreciated property, plant and equipment as at 31st December 2012, which are still in use as at reporting date is as follows.

As at	31.12.2012 Rs 000	31.12.2011 Rs 000
Motor vehicles	101,645	86,469
Leasehold building	353,105	286,834
Computer equipment	1,012,534	956,702
Equipment, furniture and fixtures	1,365,611	1,291,100
Intangible assets	624,313	609,964

**35 (d) Temporarily Idle Property, Plant and Equipment - Bank**

Two lands worth of Rs 29.100 Mn were idle as at 31st December 2012 (2011 : Rs 17.055 Mn) as these lands were not identified as available for immediate use. The Bank has identified plans to develop and sell these lands in the near future.

**35 (e) Property, Plant and Equipment Retired from Active Use - Bank**

The carrying amount of property, plant and equipment which are retired from active use and not classified as held for sale as at 31st December 2012 is Rs 0.282 Mn (2011 - Nil).

**35 (f) Title Restriction on Property, Plant and Equipment - Bank / Group**

There were no restrictions on the title of property, plant and equipments as at 31st December 2012.

**35 (g) Property, Plant and Equipment Pledged as Security for Liabilities - Bank / Group**

There were no items of property, plant and equipments pledged as securities for liabilities.

**35 (h) Compensation from Third Parties for Items of Property, Plant and Equipment - Bank**

Rs 5.9 Mn (2011 : Rs. 3.1 Mn) was received as compensation from third parties for items of property, plant and equipment that were impaired, lost or given up.

**36 INTANGIBLE ASSETS**

As at	Bank			Group		
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Cost</b>						
Opening balance without exchange effect	1,614,977	1,469,575	1,399,071	1,798,083	1,645,230	1,470,140
Effect of movement in exchange rates	-	-	-	-	354	301
Opening balance	1,614,977	1,469,575	1,399,071	1,798,083	1,645,584	1,470,441
Additions and improvements during the year	181,982	145,402	70,504	208,214	155,408	102,426
Acquisitions of Subsidiaries by Joint Venture	-	-	-	-	-	2,475
Goodwill on acquisition through Joint Venture [Note 36 (a)]	-	-	-	-	-	70,188
Effect of movement in exchange rates	-	-	-	-	57	54
Disposals / write offs during the year	-	-	-	(919)	(2,966)	-
Closing balance	1,796,959	1,614,977	1,469,575	2,005,378	1,798,083	1,645,584
<b>Accumulated amortisation</b>						
Opening balance without exchange effect	1,065,474	892,560	723,799	1,127,309	942,590	760,385
Effect of movement in exchange rates	-	-	-	-	64	47
Opening balance	1,065,474	892,560	723,799	1,127,309	942,654	760,432
Amortisation for the year	175,314	172,914	168,761	189,099	185,624	179,997
Acquisition of Subsidiaries by Joint Venture	-	-	-	-	-	2,209
Effect of movement in exchange rates	-	-	-	-	6	15
Disposals / write offs during the year	-	-	-	(531)	(977)	-
Closing balance	1,240,788	1,065,474	892,560	1,315,877	1,127,307	942,653
Net book value as at	556,171	549,503	577,015	689,501	670,776	702,931
<b>36 (a) Analysis of Intangible Assets</b>						
Computer Software	556,171	549,503	577,015	619,313	600,588	632,743
Goodwill [Note 36 (b)]	-	-	-	70,188	70,188	70,188
	556,171	549,503	577,015	689,501	670,776	702,931

As stated in Note 4.10.1 (b), all computer software costs incurred by the Bank / Group which are not integrally related to associated hardware have been classified as intangible assets.

There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

**36 (b) Goodwill**

As at	Bank			Group		
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Opening balance	-	-	-	70,188	70,188	-
Goodwill recognised during the year	-	-	-	-	-	70,188
Closing balance	-	-	-	70,188	70,188	70,188

Goodwill was recognised during 2010 in respect of acquisition of Lanka Ventures PLC by the Joint Venture Acuity Partners (Pvt) Ltd. 50% of the goodwill created through this transaction has been recognised in Consolidated Financial Statements being the shareholding of the Bank in the Joint Venture.



## Notes to the Financial Statements

**37 OTHER ASSETS**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Deposits, prepayments	5,611,526	4,922,541	4,407,385	5,187,829	4,501,137	4,154,843
Items in transit	3,237,945	3,037,183	2,540,450	3,237,945	3,037,183	2,540,450
VAT recoverable	1,379,435	1,598,932	1,109,223	1,379,456	1,601,378	1,109,518
Related party receivable - exchange houses *	-	-	11,937	-	-	-
Items held for use	52,152	137,709	141,023	52,152	137,709	141,023
Inventory - residential apartment complex **	-	-	-	162,990	557,710	941,055
Receivable from pension fund	513,748	-	-	513,748	-	-
Other debtors	1,297,391	436,930	423,349	2,145,836	1,147,193	1,018,822
	12,092,197	10,133,295	8,633,367	12,679,956	10,982,310	9,905,711

\* Rs 18.885 Mn included under related party receivable from Commercial Interlink Services Inc (o/a Delma Exchange Canada) has been fully provided in 2010 while a further provision of Rs 4.767 Mn was made against the receivable from the said Subsidiary in 2011 which are reported in Note 15 - Operating Expenses.

Rs 13.896 Mn included under related party receivable from Majan Exchange LLC has been fully provided in 2011 and the provision has been reported in Note 15 - Operating Expenses.

\*\* Rs 7.728 Mn has been charged as provision in the Consolidated Financial Statements for impairment of inventory - residential apartment complex held by the Subsidiary, Sithma Development (Pvt) Ltd in 2012.

**38 DUE TO BANKS**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Call and time deposits	530,000	-	-	530,000	-	-
Refinance borrowings	6,085,541	6,633,873	5,941,801	6,085,541	6,633,873	5,941,801
Foreign bank borrowings	15,012,146	8,177,847	4,478,359	15,012,146	8,177,847	4,478,359
Borrowings from local banks	8,773,293	5,073,716	1,019	8,773,293	5,073,716	1,019
	30,400,980	19,885,436	10,421,179	30,400,980	19,885,436	10,421,179

**39 DERIVATIVE FINANCIAL INSTRUMENTS**

Foreign exchange derivatives						
Currency swaps	1,240,783	308,441	36,543	1,240,783	308,441	36,543
Forward foreign exchange contracts	195,660	309,261	129,978	195,660	309,261	129,978
	1,436,443	617,702	166,521	1,436,443	617,702	166,521



**40 DUE TO OTHER CUSTOMERS**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Total amount due to other customers	341,423,986	291,356,578	239,033,783	340,847,606	290,911,558	238,838,573
<b>40 (a) Product wise analysis of due to other customers</b>						
Current account deposits	23,390,690	21,771,048	25,008,108	23,073,949	21,648,708	24,928,389
Savings deposits	109,176,640	111,121,508	99,020,314	109,169,526	111,114,760	99,005,565
Time deposits	200,801,761	151,352,012	108,656,567	200,549,236	151,036,080	108,555,825
Certificates of deposit	8,054,895	7,112,010	6,348,794	8,054,895	7,112,010	6,348,794
	341,423,986	291,356,578	239,033,783	340,847,606	290,911,558	238,838,573
<b>40 (b) Currency wise analysis of due to other customers</b>						
Sri Lankan rupee	280,644,472	243,138,771	196,671,010	280,191,283	242,799,572	196,558,408
United State Dollar	45,632,264	35,050,757	31,197,472	45,509,073	34,944,936	31,114,864
Great Britain Pound	4,313,126	3,839,231	3,755,676	4,313,126	3,839,231	3,755,676
Euro	5,815,462	4,981,406	4,039,456	5,815,462	4,981,406	4,039,456
Australian Dollar	4,254,395	3,534,034	2,625,534	4,254,395	3,534,034	2,625,534
Others	764,267	812,379	744,635	764,267	812,379	744,635
	341,423,986	291,356,578	239,033,783	340,847,606	290,911,558	238,838,573
<b>41 DIVIDENDS PAYABLE</b>						
Balance as at 1st January	168,080	49,558	215,607	169,876	51,121	214,045
Final cash dividends declared in the prior year	1,166,032	1,310,975	1,179,807	1,217,078	1,350,180	1,209,965
Final scrip dividends declared in the prior year	116,603	-	-	116,603	-	-
Interim dividends declared during the year	595,870	582,560	338,570	595,870	582,560	338,570
Reversal of dividend declared in prior years	-	-	(175,712)	-	-	(175,712)
Dividends paid	(1,825,130)	(1,775,013)	(1,508,714)	(1,876,176)	(1,813,985)	(1,537,309)
Unclaimed balance of Subsidiary acquired by Joint Venture	-	-	-	-	-	1,561
Balance as at 31st December	221,455	168,080	49,558	223,251	169,876	51,120

**41 (a) Proposed Final Dividend**

The Directors recommend that a final cash dividend of Rs 7.00 per share (2011 : Rs 3.00 per share - cash and Rs 3.00 per share - scrip) on both voting and non-voting shares of the Bank, be paid for the financial year ended 31st December 2012.

Further this dividend is to be approved at the Annual General Meeting to be held on 28th March 2013. In accordance with Sri Lanka Accounting Standard (LKAS 10), "Events after the reporting period", this proposed final dividend has not been recognised as a liability as at 31st December 2012. Under the Inland Revenue Act No 10 of 2006, a withholding tax of 10% has been imposed on dividends declared. An interim dividend of Rs 1.50 per share (2011 : Rs 1.50) was paid to the shareholders on 20th December 2012. Final dividends proposed for the year 2012 amounts to Rs 2,782.153 Mn (2011 : Rs 2,332.064 Mn).

**41 (b) Compliance with Section 56 and 57 of Companies Act No 7 of 2007**

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the directors on 21st February 2013 has been audited by Messrs KPMG.

## Notes to the Financial Statements

## 42 OTHER BORROWINGS

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Securities sold under repurchase agreements	4,601,484	6,589,667	12,058,463	6,282,546	8,353,999	13,636,082
Refinance borrowings	343,025	411,504	493,664	343,025	411,504	493,664
Others	6,026	7,570	20,873	121,573	110,694	13,818
	4,950,535	7,008,741	12,573,000	6,747,144	8,876,197	14,143,564

## 43 DEBT SECURITIES ISSUED

	Face value Rs 000	Interest rate	Repayment terms	Issue date	Maturity date	As at 31.12.2012 Rs 000	Bank As at 31.12.2011 Rs 000	As at 01.01.2011 Rs 000	As at 31.12.2012 Rs 000	Group As at 31.12.2011 Rs 000	As at 01.01.2011 Rs 000
Issued through joint venture											
(i) Year of issuance 2012	30,000	AWPLR + 0.5%	6 Year	31st Dec 2012	30th Sep 2013	-	-	-	30,000	-	-
	30,000	AWPLR + 0.5%	6 Year	31st Dec 2012	30th Sep 2014	-	-	-	30,000	-	-
	30,000	AWPLR + 0.5%	6 Year	31st Dec 2012	30th Sep 2015	-	-	-	30,000	-	-
	30,000	AWPLR + 0.5%	6 Year	31st Dec 2012	30th Sep 2016	-	-	-	30,000	-	-
	30,000	AWPLR + 0.5%	6 Year	31st Dec 2012	30th Sep 2017	-	-	-	30,000	-	-
Total						-	-	-	150,000	-	-
Due within one year						-	-	-	30,000	-	-
Due after one year						-	-	-	120,000	-	-
Total						-	-	-	150,000	-	-

\* Lanka Ventures PLC, a subsidiary of joint venture, Acuity Partners (Pvt) Ltd issued redeemable preference shares. Only 50% of the value is accounted for in the Consolidated Financial Statements.

## 44 SUBORDINATED DEBENTURES

	Face value Rs 000	Interest rate	Repayment terms	Issue date	Maturity date	As at 31.12.2012 Rs 000	Bank As at 31.12.2011 Rs 000	As at 01.01.2011 Rs 000	As at 31.12.2012 Rs 000	Group As at 31.12.2011 Rs 000	As at 01.01.2011 Rs 000
Issued by the Bank											
(i) Year of issuance 2002	112,594	14.20%	10 Year	11th Sep 2002	10th Sep 2012	-	118,814	118,638	-	118,814	118,638
	630	6 months net TB + 1.25%	10 Year	11th Sep 2002	10th Sep 2012	-	663	663	-	663	663
(ii) Year of issuance 2006	262,500	6 months net TB + 2.25%	6 Year	1st Apr 2006	31st Mar 2012	-	276,712	262,500	-	276,712	262,500
	250,000	6 months net TB + 2.25%	7 Year	1st Apr 2006	31st Mar 2013	250,000	263,535	250,000	250,000	263,535	250,000
	300,000	6 months net TB + 2.25%	8 Year	1st Apr 2006	31st Mar 2014	312,254	327,608	315,539	312,254	327,608	315,539
	217,658	11.00%	15 Year	1st Apr 2006	31st Mar 2021	217,658	196,088	176,656	202,463	169,244	151,147
	411,159	11.25%	18 Year	1st Apr 2006	31st Mar 2024	411,159	369,581	332,208	411,159	369,581	332,208
(iii) Year of issuance 2007	500,000	16.00%	10 Year	1st Aug 2007	31st Jul 2017	540,000	540,000	540,000	540,000	540,000	540,000
	700,000	16.75%	15 Year	1st Aug 2007	31st Jul 2022	758,625	758,625	758,625	758,625	758,625	758,625
(iv) Year of issuance 2008	89,704	1 year net TB + 1.00%	5 Year	5th Jun 2008	4th Jun 2013	95,872	93,454	94,314	88,510	86,432	87,228
(v) Year of issuance 2011	2,000,000	11.50%	10 Year	5th Sep 2011	4th Sep 2021	2,000,000	2,078,136	-	2,000,000	2,078,136	-
Total						4,585,568	5,023,216	2,849,143	4,563,011	4,989,350	2,816,548
Due within one year						250,000	396,189	381,801	250,000	396,189	381,801
Due after one year						4,335,568	4,627,027	2,467,342	4,313,011	4,593,161	2,434,747
Total						4,585,568	5,023,216	2,849,143	4,563,011	4,989,350	2,816,548

\* Lanka Ventures PLC, a Subsidiary of Acuity Partners (Pvt) Ltd the Joint Venture holds Rs 13.5 Mn debentures of the Bank. 50% of this is recognised being the shareholding of the Bank in the Joint Venture.

HNB Assurance PLC, a Subsidiary of the Bank holds 75,000 debentures amounting to Rs 7.5 Mn.

**45 INSURANCE PROVISION-LIFE**

The insurance provision - life balance represents the life fund of the Subsidiary HNB Assurance PLC, which is carrying out life and general insurance business. This balance represents the amounts attributable to life policy holders included in the Group's net assets. The valuation of the insurance provision - life as at 31st December 2012 was made by Mr M Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd for and on behalf of HNB Assurance PLC. The life fund stands at Rs 3,626.2 Mn as at 31st December 2012 (2011 : Rs 3,021.3 Mn) and in the opinion of the Actuary this amount is adequate to cover the liabilities pertaining to the long term insurance business of HNB Assurance PLC, as per the actuary's report dated 6th February 2013.

**46 INSURANCE PROVISION - GENERAL**

Insurance provision general represents the following which are included in the financial statements of HNB Assurance PLC, Subsidiary of the Bank, as required by the Statement of Recommended Practice of the Institute of Chartered Accountants of Sri Lanka and in accordance with the regulation of Insurance Industry Act No 43 of 2000.

As at	Group		Group		Group	
	31.12.2012 Rs 000	31.12.2011 Rs 000	31.12.2011 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	01.01.2011 Rs 000
<b>Unearned premium</b>						
Gross		845,279		897,426		748,856
Reinsurance		(169,636)		(212,097)		(196,675)
Net		675,643		685,329		552,181
Deferred acquisition expenses		20,446		20,030		12,374
Unexpired risk reserve		80		179		267
		696,169		705,538		564,822
Claims outstanding - Gross	240,349		211,524		154,176	
Claims incurred but not reported - Gross	32,923	273,272	27,260	238,784	24,051	178,227
Total		969,441		944,322		743,049

**47 DEFERRED TAX ASSETS/LIABILITIES**

As at	Bank		Group		Group	
	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Deferred tax liabilities [Note 47 (a)]	1,478,341	1,174,862	890,602	1,556,312	1,225,349	960,016
Deferred tax assets [Note 47 (b)]	(369,726)	(313,785)	(506,348)	(372,193)	(318,895)	(508,534)
	1,108,615	861,077	384,254	1,184,119	906,454	451,482

**47 (a) Deferred Tax Liabilities****47 (a) i Deferred Tax Liabilities on other Temporary Differences**

As at	Bank				Group			
	31.12.2012		31.12.2011		31.12.2012		31.12.2011	
	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000
Balance as at 1st January	4,195,941	1,174,862	3,180,727	890,602	4,197,156	1,175,204	3,183,139	891,279
Reversal of deferred tax liabilities attributable to revaluation surplus charged to equity	(9,050)	(2,534)	(15,682)	(4,391)	(9,050)	(2,534)	(15,682)	(4,391)
Deferred tax liability attributable to revaluation surplus charged to equity	483,357	135,339	-	-	483,357	135,339	-	-
Originating during the year	609,550	170,674	1,030,896	288,651	618,020	173,046	1,029,699	288,316
	5,279,798	1,478,341	4,195,941	1,174,862	5,289,483	1,481,055	4,197,156	1,175,204

## Notes to the Financial Statements

## 47 DEFERRED TAX ASSETS/LIABILITIES (Contd.)

## 47 (a) ii Deferred Tax Liabilities on Undistributed Profits of Subsidiaries

As at	Bank				Group			
	31.12.2012		31.12.2011		31.12.2012		31.12.2011	
	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000
Balance as at 1st January	-	-	-	-	501,450	50,145	687,370	68,737
Deferred tax liability attributable to undistributed profits of Subsidiaries	-	-	-	-	251,130	25,112	(185,920)	(18,592)
	-	-	-	-	752,580	75,257	501,450	50,145
	1,478,341		1,174,862		1,556,312		1,225,349	

**Deferred Tax Liability Charged Directly to Equity**

According to Sri Lanka Accounting Standard (LKAS 12) "Income Taxes", deferred tax shall be charged or credited to equity through other comprehensive income if the tax relates to items that are credited or charged, in the same or in a different period, directly to equity.

Accordingly, the deferred tax liability arising on revaluation of property, plant and equipment of Rs 135,339 Mn have been charged to revaluation reserve through Other Comprehensive Income during the year (2007 : Rs 17,547 Mn). Reversals of Rs 2,534 Mn (2011 : Rs 4,091 Mn) have been credited to the revaluation reserve in the Statement of Changes in Equity from deferred tax liability. The reversal of deferred tax liability credited to revaluation reserve results from the excess depreciation resulting from the revaluation of property, plant and equipment that took place in 2007 and 2012.

No deferred tax liability has been recognised for Sithma Development (Pvt) Ltd, in view of the tax holiday enjoyed by the company. The details have been given in Note 18 (i).

## 47 (b) Deferred Tax Asset

As at	Bank				Group			
	31.12.2012		31.12.2011		31.12.2012		31.12.2011	
	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000	Temporary Difference Rs 000	Tax Effect Rs 000
Balance as at 1st January	1,120,660	313,785	1,808,385	506,348	1,138,911	318,895	1,816,193	508,534
Deferred tax asset recognised / (reversed) on deductible temporary differences	199,791	55,941	(687,725)	(192,563)	190,352	53,298	(677,282)	(189,639)
	1,320,451	369,726	1,120,660	313,785	1,329,263	372,193	1,138,911	318,895

Deferred tax asset of the Bank represents the income tax recoverable in future periods in respect of deductible temporary differences arising from cash settled share based payment transactions recognised as per SLFRS 2 "Share Based Payment".



**48 OTHER LIABILITIES**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Cheques sent on clearing	3,215,781	2,865,652	2,191,687	3,215,781	2,865,652	2,191,687
Items in transit	123,225	5,332	5,782	123,225	5,332	5,782
Margins	1,219,804	1,377,110	1,162,309	1,219,804	1,377,110	1,162,309
Refundable deposits and advances*	-	-	-	109,353	254,105	356,980
Balance held o/a of Pension Fund	237,474	1,245,519	2,207,605	237,474	1,245,519	2,207,605
Balance held o/a of Widows' / Widowers' and Orphans' Pension Fund (WW&OP)	16,878	20,792	41,047	16,878	20,792	41,047
Balance held o/a of Employees' Provident Fund (EPF)	105,143	43,235	110,365	105,143	43,235	110,365
Payable to pension fund	-	739,222	1,057,567	-	739,222	1,057,567
Liability for EPF interest guarantee [Note 48 (a)]	17,696	14,882	13,663	17,696	14,882	13,663
Liability for accumulated leave [Note 48 (b)]	109,174	110,601	103,358	109,174	110,601	103,358
Liability for cash settled share based payment [Note 48 (c)]	1,320,451	1,120,660	1,808,385	1,320,451	1,120,660	1,808,385
Provision for retiring benefits	-	-	-	56,119	48,434	33,777
Payable to vendors for lease equipments	144,605	414,884	640,469	144,605	414,884	640,469
Other creditors	1,392,555	1,069,264	1,315,898	1,938,578	1,665,728	2,253,951
	7,902,786	9,027,153	10,658,135	8,614,281	9,924,156	11,986,945

\*Refundable deposits and advances include the advances taken from customers on account of the apartments in the Residential Apartments Complex which is developed by Sithma Development (Pvt) Ltd.

**48 (a) Employee Provident Fund (EPF) Interest Rate Obligation**

EPF is an approved provident fund which has been set up to meet the provident fund liabilities of the Bank. Staff members who are members of the fund are entitled to receive a minimum interest rate higher of one year fixed deposit rate of HNB or National Savings Bank on their balance on a semi annual basis. Accordingly this obligation was treated as a defined benefit liability and an actuarial valuation was conducted to value the Bank's obligation of the same with the following actuarial assumptions.

	31.12.2012
Discount rate as at	11.00%
Future salary increases	9.75%

**48 (b) Liability for accumulated leave**

Employees are entitled to accumulate annual leave upto a maximum of ninety days and such accumulated leave to be utilised prior to their retirement. This has been treated as other long term benefit in terms of LKAS 19 "Employee benefits" and an actuarial valuation has been conducted on the same with the following assumptions.

	31.12.2012
Discount rate as at	11.00%
Future salary increases	9.75%

**48 (c) Liability for cash settled share based payments**

In 2005 the Bank set up an Employee Share Benefit Trust for the benefit of the executive employees that entitle those employees to a cash payment. The amount of cash payment is determined based on the increase in the share price of the Bank between grant date and vesting date adjusted for interest and the related charges.

The benefits under Employee Share Benefit Trust are settled in cash.

	31.12.2012 Rs. 000	31.12.2011 Rs. 000	01.01.2011 Rs. 000
Total carrying amount of liabilities for cash-settled arrangements	1,320,451	1,120,660	1,808,385

The fair value of the liability under Employee Share Benefit Trust is determined using the Black-Scholes formula. The model inputs on the reporting dates are as follows.

	31.12.2012
Share price	Rs 112.50
Exercise price	Rs 0 - Rs 130.40
Expected volatility	30.20%
Expected dividends	30.00%
Term to maturity	2.10 Years
Risk-free interest rate	11.00%

The fair value of the liability is remeasured at each reporting date.

## Notes to the Financial Statements

**49 EMPLOYEE BENEFITS****49 (a) Pension Fund - Bank**

An actuarial valuation of the Pension Fund was carried out as at 31st December 2012 by Mr M Poopalanathan, AIA, Messrs Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuaries to value the Fund is the "Projected Unit Credit Method", the method recommended by the Sri Lanka Accounting Standard (LKAS 19) "Employee Benefits".

Accordingly, the Bank contributes on the following basis for the employees to the Pension Fund:

Pensionable Employees - 24.34%

Employees who opted for the Optional Scheme - 23%

The assets of the Fund, which are independently administered by the Trustees as per the provision of the Trust Deed are held separately from those of the Bank.

No additional provision has been made in the Financial Statements of the Bank for gratuities to employees who have completed five or more years of service payable under the payment of Gratuity Act No 12 of 1983 as the Bank contributes for all permanent employees to its own non-contributory pension scheme, which is in force.

**49 (a) i Amounts Recognised in the Statement of Financial Position are as follows**

As at	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Present value of unfunded obligation	-	-	-
Present value of funded obligation	9,469,694	9,315,060	8,415,678
Total present value of obligations	9,469,694	9,315,060	8,415,678
Fair value of plan assets	(10,063,990)	(8,575,838)	(7,358,111)
Present value of net obligations/(surplus)	(594,296)	739,222	1,057,567
Less: Unrecognised actuarial losses	-	-	-
Recognised liability/(asset) for defined benefit obligations	(594,296)	739,222	1,057,567

**49 (a) ii Plan Assets Consist of the Following**

As at	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Equity securities and debentures	825,211	322,549	402,302
Government bond	1,866,908	3,358,777	4,347,510
Balance with Hatton National Bank PLC	237,474	1,245,519	2,207,605
Fixed deposits	6,773,001	3,417,413	255,936
Others	361,396	231,580	144,758
	10,063,990	8,575,838	7,358,111

**49 (a) iii Movement in the Present Value of Defined Benefit Obligations**

Liability for defined benefit obligations as at	9,315,060	8,415,678	6,927,747
Actuarial (gains)/losses	(575,840)	45,996	741,662
Benefits paid by the plan	(557,391)	(394,418)	(373,470)
Current service cost and interest cost	1,287,865	1,247,804	1,119,739
Liability for defined benefit obligations as at	9,469,694	9,315,060	8,415,678

**49 (a) iv Movement in Plan Assets**

Fair value of plan assets as at	8,575,838	7,358,111	5,977,832
Contributions paid into plan	1,049,968	893,507	825,160
Benefits paid by the plan	(557,391)	(394,418)	(373,470)
Actuarial gains	11,654	80,866	408,190
Expected return on plan assets	983,921	637,772	520,399
Fair value of plan assets as at	10,063,990	8,575,838	7,358,111



**49 EMPLOYEE BENEFITS (Contd.)****49 (a) v Actuarial Assumptions**

As at	31.12.2012 %	31.12.2011 %	01.01.2011 %
Discount rate as at 31st December	10.50	9.50	9.75
Expected return on plan assets as at 1st January	9.87	8.33	8.38
Future salary increases	9.75	9.99	9.77
Future pension increases	Nil	Nil	Nil
Increase in cost of living allowance	10.00	5.00	10.00

The overall expected long term rate of return on assets is 9.87%.

The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

**49 (a) vi Historical Information**

As at	31.12.2011 Rs 000	31.12.2010 Rs 000	31.12.2009 Rs 000	31.12.2008 Rs 000	31.12.2007 Rs 000
Present value of the defined benefit obligation	9,315,060	8,415,678	6,927,747	6,496,902	5,275,079
Fair value of plan assets	(8,575,838)	(7,358,111)	(5,977,832)	(4,338,509)	(3,857,705)
Deficit in the plan	739,222	1,057,567	949,915	2,158,393	1,417,374

**49 (b) Widows', Widowers' and Orphans' Pension Fund**

The results of the actuarial valuation of the Widows', Widowers' and Orphans' Pension Fund indicates that the actuarial present value of the promised benefit is Rs 292.92 Mn and that the fair value of the fund assets is Rs 745.04 Mn resulting in a past service surplus of Rs 452.11 Mn (2011 : Rs 317.2 Mn) in the Widows', Widowers' and Orphans' Pension Scheme as at 31st December 2012.

No contribution is made by the Bank and the members contribution during the period amounted to Rs 56 Mn.

**50 STATED CAPITAL**

In accordance with Section 58 of Companies Act No 7 of 2007, which became effective from 3rd May 2007, share capital and share premium have been classified as stated capital.

**50 (a) Stated Capital**

As at 31st December	2012		2011	
	Rs 000	Rs 000	Rs 000	Rs 000
Voting ordinary shares				
As at 1st January	9,143,326		3,854,980	
Issue of shares under ESOP	64,975		59,702	
Scrip dividend*	840,958		-	
Rights issue***	-		4,175,044	
Private placement****	-		1,053,600	
As at 31st December		10,049,259		9,143,326
Non-voting ordinary shares				
As at 1st January	2,308,125		1,463,570	
Issue of shares under ESOP	13,624		6,400	
Scrip dividend*	208,471		-	
Rights issue***	-		339,159	
Private placement****	-		498,996	
As at 31st December		2,530,220		2,308,125
Stated Capital as at 31st December		12,579,479		11,451,451

## Notes to the Financial Statements

**50 STATED CAPITAL (Contd.)****50 (b) Reconciliation of Number of Shares**

As at 31st December	2012	2011
Voting ordinary shares		
As at 1st January	311,406,247	191,275,606
Issue of shares under ESOP	561,707	509,874
Scrip dividend*	5,682,148	-
Sub division of shares**	-	95,800,065
Rights issue***	-	19,020,702
Private placement****	-	4,800,000
As at 31st December	317,650,102	311,406,247
Non-voting ordinary shares		
As at 1st January	77,190,596	46,693,416
Issue of shares under ESOP	197,371	103,614
Scrip dividend*	2,208,380	-
Sub division of shares**	-	23,379,717
Rights issue***	-	2,838,149
Private placement****	-	4,175,700
As at 31st December	79,596,347	77,190,596

The non-voting shares rank *pari passu* in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay dividends for three consecutive years, these shares will automatically be converted into voting ordinary shares.

\*Pursuant to a resolution adopted by the shareholders of the Bank at the Annual General Meeting held on 30th March 2012 a scrip dividend was approved according to which a total of 7,890,528 new ordinary shares (comprising of 5,682,148 voting shares and 2,208,380 non-voting shares) were issued on 30th March 2012.

\*\*Based on the resolution approved by the shareholders on the Annual General Meeting held on 31st March 2011 a sub division of shares took place on 5th April 2011 on the basis of one ordinary voting share for every existing two ordinary voting shares and one ordinary non-voting share for every existing two ordinary non-voting shares without making any changes to the Bank's Stated Capital.

\*\*\*A resolution was approved by the shareholders at the Extra Ordinary General Meeting held on 1st July 2011 to issue 35,753,936 new ordinary shares comprising 28,740,020 shares (voting) and 7,013,916 shares (non-voting) by way of a rights issue on the basis of one ordinary voting share for every existing ten ordinary voting shares and one ordinary non-voting share for every existing ten ordinary non-voting shares (1:10) priced at Rs 219.50 per voting share and Rs 119.50 per non voting share. Based on shareholders' response, the Bank had issued 21,858,851 shares on 1st August 2011 comprising of 19,020,702 shares (voting) and 2,838,149 shares (non-voting).

\*\*\*\*Further 8,975,700 shares were issued on 7th September 2011 by way of a private placement comprising of 4,800,000 shares (voting) and 4,175,700 shares (non-voting).

**50 STATED CAPITAL (Contd.)****50 (c) Share-based payment transactions**

On 28th March 2008 the Bank established an Employee Share Option Scheme that entitles employees in the rank of management and above to purchase shares in the Bank. On 20th April 2010 a further grant on similar terms (except for exercise price) was offered to these employee groups. In accordance with these programs, holders of vested options are entitled to purchase shares at the given exercise prices.

The recognition and measurement principles in SLFRS 2 "Share based payment" standard have not been applied to these grants based on the transitional provisions available in SLFRS 2 where by the standard is applied for share options granted after 1st January 2012 and have not yet vested on the effective date of SLFRS 2.

The Bank made a further grant under the Employee Share Option Scheme on 30th March 2012, which is recognised and measured in terms of SLFRS 2.

All options are to be settled by physical delivery of shares.

**50 (c) i Employee Share Option Plan (Equity-settled share based payment scheme)**

The number and weighted average exercise price of share options are as follows:

As at	31.12.2012		31.12.2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding as at the beginning of the year	101.71	4,365,075	147.02	3,184,291
Granted during the year	133.01	4,818,863	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	100.66	(926,656)	107.75	(613,488)
Expired during the year	-	-	-	-
Additional options due to share split, rights issue and scrip dividend	98.09	84,056	101.68	1,794,272
Outstanding as at 31st December	119.64	8,341,338	101.71	4,365,075
Exercisable as at 31st December	101.93	3,717,400	101.71	4,365,075

The options outstanding as at 31st December 2012 have an exercise price in the range of Rs. 35.07 to Rs. 145.79 (2011: Rs 35.07 to Rs 145.79) and a weighted average contractual life of 3.36 years (2011 : 3.25)

The weighted average share price at the date of exercise for share options exercised during the year ended 31st December 2012 was Rs 141.31 (2011: Rs 278.28).

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial lattice model, with the following inputs:

Allocation 2012	
Fair value of share options and assumptions	
Fair value at measurement date Rs. 000	176,515
Share price	Voting - Rs 153, Non voting - Rs 94.50
Exercise price	Voting - Rs 145.79, Non voting - Rs 81.43
Expected volatility*	Voting - 26%, Non voting - 30%
Option life (expected weighted average life)	5 Years
Expected dividends*	30.00%
Risk free interest rate (based on government bonds)	11.80%
* Annual rates	

## Notes to the Financial Statements

**51 COMMITMENTS AND CONTINGENCIES - BANK AND GROUP**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations. No material losses are anticipated as a result of these transactions.

**51 (a) Capital Commitments**

Capital expenditure approved by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs 477 Mn.

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
Approved and contracted for	357,263	641,514	297,780	357,263	669,014	495,780
Approved and not contracted for	119,893	104,427	49,163	119,893	104,427	49,163
	477,156	745,941	346,943	477,156	773,441	544,943

**51 (b) Future Monthly Commitments on Operating Leases**

As at	31.12.2012 Rs 000	Bank 31.12.2011 Rs 000	01.01.2011 Rs 000	31.12.2012 Rs 000	Group 31.12.2011 Rs 000	01.01.2011 Rs 000
0-1 year	1,576	1,959	-	29,131	28,381	17,721
1-5 years	75,765	63,114	61,631	112,287	89,707	71,982
6-10 years	11,957	10,507	7,233	13,093	11,124	7,233
11-15 years	799	828	304	799	828	304
16-20 years	15	15	15	15	15	15
	90,112	76,423	69,183	155,325	130,055	97,255

**51 (c) Irrevocable Commitments - Bank**

Commitments as at Balance Sheet date that cannot be revoked at the discretion of the Bank without the risk of incurring significant penalty or expense amounted to Rs 46.53 Mn (2011 : Rs 48.46 Mn).

**51 (d) Contingent Liabilities**

As at	31.12.2012 Rs 000	31.12.2011 Rs 000	01.01.2011 Rs 000
Acceptances	7,568,098	6,715,619	6,487,793
Documentary credit	11,243,091	17,939,376	14,290,864
Guarantees	35,284,487	30,521,320	28,220,189
Bills for collection	5,800,704	7,140,247	5,842,576
Interest rate swap	-	105	394
	59,896,380	62,316,667	54,841,816
Forward exchange contracts	104,470,632	90,272,376	69,328,734
Total - Bank / Group	164,367,012	152,589,043	124,170,550

Contingent liabilities of Joint Venture as at 31st December 2012 was nil.

**51 COMMITMENTS AND CONTINGENCIES - BANK AND GROUP (Contd.)****51 (e) Litigation against the Bank**

The Bank confirms that there is no case (including the LT cases) filed against the Bank which is not disclosed which would have a material impact on the financial position of the Bank.

**51 (f) Tax assessments against the Bank**

The following tax assessments are outstanding, against which the Bank has duly appealed,

- (1) VAT on financial services for 2003 and 2004, taxes amounting to Rs 207 Mn, on Assessment Nos. VATFS/06/0312/06, VATFS/U6/0401/01, VATFS/U6/0402/02, VATFS/U6/0403/03, VATFS/U6/0404/04 and VATFS/U6/0405/05. (Pursuant to the determination made by the Board of Review on the appeal made for VAT on financial Services, the Bank filed a case in the Court of Appeal - CA No.01/2010 – BRA/VAT- 06)
- (2) PAYE taxes amounting to Rs 407 Mn on Assessments Nos.8018210, 8202714 & 8364152 for the years 2003, 2004 & 2005 respectively.
- (3) VAT on financial services for 2010 taxes amounting to Rs 1,718.3 Mn, on Charge Nos. VATFS/BFSU/2013/377 to VATFS/BFSU/2013/388.

The Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

**52 RELATED PARTY DISCLOSURES**

The Bank carries out transactions in the ordinary course of its business with parties who are defined as related parties in the Sri Lanka Financial Reporting Standard (LKAS 24) "Related Party Disclosures", the details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

**52 (a) Parent and Ultimate Controlling Party**

The Bank does not have an identifiable parent of its own.

**52 (b) Transactions with Key Management Personnel (KMP)**

According to Sri Lanka Financial Reporting Standard (LKAS 24) "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. The Bank considered the members of its Corporate Management Team, Chief Accountant and Chief Manager-Operations as KMP with effect from 01st January 2012 since they have the authority and responsibility for planning, directing and controlling the activities of the Bank.

Accordingly, the Directors of the Bank (including executive and non-executive Directors), members of the Corporate Management, Chief Accountant, Chief Manager-Operations and their immediate family members have been classified as KMP of the Bank as at 31st December 2012.

Bank is the ultimate parent of its Subsidiaries listed out in Note 33. Thus the Board of Directors, the members of Corporate Management, Chief Accountant, Chief Manager- Operations have the authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly the Board of Directors, members of Corporate Management, Chief Accountant, Chief Manager - Operations and their immediate family members have been identified as KMP of the Group.

Therefore, officers who are only Directors of the Subsidiaries and not of the Bank have been classified as KMP of that respective Subsidiary only.

Immediate family member is defined as spouse or dependent. Dependent is defined as anyone who depends on the respective KMP for more than 50% of his / her financial needs.

Mr L U D Fernando, Mr D T S H Mudalige, Ms D S C Jayawardena & Mr R S Captain were appointed to the Board with effect from 02nd April 2012. Accordingly transactions with the Bank from the date of their appointment as Directors have been reported below.



## Notes to the Financial Statements

## 52 RELATED PARTY DISCLOSURES (Contd.)

## 52 (b) Transactions with Key Management Personnel (KMP) (Contd.)

## 52 (b) i Compensation to KMP

	Bank		Group	
	2012 Rs' 000	2011 Rs' 000	2012 Rs' 000	2011 Rs' 000
<b>Short term employment benefits</b>				
Board of Directors (including MD/CEO)	85,920	83,393	86,080	83,553
Other KMP*	240,086	-	240,128	-
<b>Post employment benefits</b>				
Board of Directors (including MD/CEO)	9,440	8,586	9,440	8,586
Other KMP*	36,199	-	36,199	-
<b>Termination benefits</b>				
Board of Directors (including MD/CEO)	-	25,000	-	25,000
	371,645	116,979	371,847	117,139

\* Other KMP includes members of the Corporate Management, Chief Accountant and the Chief Manager Operations. The Bank considered the members of its Corporate Management Team, Chief Accountant and Chief Manager-Operations as KMP with effect from 01st January 2012. Accordingly comparative figures have not been disclosed for Other KMP.

All employees including Other KMP are eligible for prior to retirement paid leave up to a maximum of 90 days provided such employees have unutilised accumulated leave at the time of retirement. As per LKAS 19, the Bank fair valued the above benefit and a total liability of Rs 109.174 Mn is accounted as provision for other long term benefits [Other Liabilities (Note 48)] being the total fair value of unutilised leave of all employees as at 31st December 2012.

In addition to their salaries / fees, the Bank provides non cash benefits to KMP. The Bank also contributes to a post employment defined benefit plan on behalf of KMP excluding non executive Directors who also participate in the Employee Share Option Plan and the Employee Share Benefit Trust.

## Benefits offered to KMP under Employee Share Option Plan

	Bank		Group	
	2012	2011	2012	2011
<b>MD/CEO</b>				
Voting (No of shares) - Exercised	-	-	-	-
- Remaining	114,992	59,942	114,992	59,942
Non-voting (No of shares) - Exercised	-	-	-	-
- Remaining	28,418	14,626	28,418	14,626

Increase in number of shares in 2012 is due to new share options granted in 2012 and issue of scrip dividends.

## Other KMP

Voting (No of shares) - Exercised	254,958	-	254,958	-
- Remaining	1,426,804	-	1,426,804	-
Non-voting (No of shares) - Exercised	91,344	-	91,344	-
- Remaining	347,994	-	347,994	-

Bank has fair valued the options granted in 2012 and the total fair value of the options granted to all employees above management grade including Other KMP is accounted under Personnel Expenses (Note 16) "Equity settled share based payment transactions".

## Benefits offered to KMP under Employee Share Benefit Trust

	Bank		Group	
	2012	2011	2012	2011
<b>Non-voting (No of shares)</b>				
MD/CEO	97,383	94,675	97,383	94,675
Other KMP	1,482,947	-	1,482,947	-

The Bank has fair valued the liability under Employee Share Benefit Trust as at 31st December 2012 and a total liability of Rs 1.32 Bn is accounted under Other Liabilities (Note 48) on behalf of all employees in the grades of executive and above including Other KMP.

Bank has paid Rs 22.584 Mn to Other KMP who retired during the year ended 31st December 2012 as termination benefits under Employee Share Benefit Trust.



**52 RELATED PARTY DISCLOSURES (Contd.)****52 (b) Transactions with Key Management Personnel (KMP) (Contd.)****52 (b) ii Credit Card Facilities to KMP**

As at 31st December

	Limit Rs 000	2012 Outstanding Balance Rs 000	Limit Rs 000	2011 Outstanding Balance Rs 000
Board of Directors (including MD/CEO)	6,150	906	13,400	1,244
Other KMP	44,805	5,089	-	-
	50,955	5,995	13,400	1,244

From the total outstanding of Rs 5.995 Mn as at 31st December 2012 (2011 - Rs 1.244 Mn), Rs 0.552 Mn (2011 : Rs 0.995 Mn) is secured by cash as at that date.

**52 (b) iii Lending Facilities Granted to KMP**

	As at 31st December 2012		As at 31st December 2011		Security
	Aggregate Limit Rs 000	Amount of Accommodation Outstanding Rs 000	Aggregate Limit Rs 000	Amount of Accommodation Outstanding Rs 000	
Board of Directors (including MD/CEO)	21,000	15,000	20,000	19,000	EPF Balance
Other KMP	434,572	375,405	-	-	EPF Balance/Immovable Property/Movable Property/Lien over Deposit
	455,572	390,405	20,000	19,000	

No losses have been recorded against loan balances outstanding during the period with KMP and no provisions have been made for impairment losses on balances with KMP and their immediate family members as at the date of the Statement of Financial Position.

**52 (b) iv Deposits held by KMP with the Bank**

The aggregate deposits (including Treasury Bills and Repos) held by the KMP with the Bank are as follows:

As at 31st December	2012	2011
Board of Directors (including MD/CEO)		
SLRs '000	346,201	516,390
USD '000	220	238
GBP '000	97	97
EUR '000	147	-
Other KMP		
SLRs '000	212,591	-
USD '000	287	-
GBP '000	13	-
EUR '000	13	-
AUD '000	329	-
CAD '000	1	-
SGD '000	2	-

## Notes to the Financial Statements

**52 RELATED PARTY DISCLOSURES (Contd.)****52 (b) Transactions with Key Management Personnel (KMP) (Contd.)****52 (b) v Other Business Transactions by KMP with the Group**

	2012 Rs 000	2011 Rs 000
Transactions with HNB Assurance PLC Board of Directors (including MD/CEO)		
Insurance Premium - General	101	541
Insurance Premium - Life	297	23
Claims - General	13	331
Other KMP		
Insurance Premium - General	1,396	-
Insurance Premium - Life	1,224	-
Claims - General	116	-

**52 (c) Transactions with / between Subsidiaries**

Details of the Subsidiaries are given in Note 33.

**52 (c) i HNB Assurance PLC**

HNB Assurance PLC ("Assurance"), is a 60% owned Subsidiary of the Bank.

The details of the transactions with the Bank are as follows:

(a) Assurance held deposits and current accounts with the Bank amounting to Rs 250.785 Mn as at 31st December 2012. (2011 : 328.24 Mn)

The Company also held debentures of the Bank amounting to Rs 7.5 Mn as at 31st December 2012 (2011 : Rs 20.0 Mn).

(b) A summary of transactions of Assurance with the Group are given below:

Transaction Type	2012		2011	
	HNB Rs 000	SITHMA Rs 000	HNB Rs 000	SITHMA Rs 000
Premium received	63,979	1,118	52,025	3,994
Claims incurred	6,573	570	8,156	43
Interest received	22,941	-	12,863	-
Office rent paid	22,660	-	16,409	-
Reimbursement of other administrative expenses	132,192	-	95,722	-
Dividend paid	62,985	-	40,491	-

**52 RELATED PARTY DISCLOSURES (Contd.)****52 (c) Transactions with / between Subsidiaries (Contd.)****52 (c) ii Sithma Development (Pvt) Ltd**

Sithma Development (Pvt) Ltd ("Sithma") is a wholly owned Subsidiary of the Bank.

(a) The details of its borrowing transactions with the Bank are as follows:

Type of Facility	Rate of Interest	As at 31st December 2012		As at 31st December 2011		Security
		Limit Rs 000	Outstanding Rs 000	Limit Rs 000	Outstanding Rs 000	
Overdraft	AWPLR To be reviewed monthly.	750,000	125,300	750,000	455,558	Registered primary floating mortgage for Rs 3,000 Mn over the leasehold rights of the land and building at No 479, T.B. Jayah Mw, Colombo 10. Same as for the overdraft
Term Loan	1.5% above the 6 month treasury bill rate (gross). To be reviewed every 6 months Interest payable	2,000,000	999,840 7,627	2,000,000	1,349,920 6,331	

(b) A summary of other transactions of Sithma with the Group are given below:

For the year ended 31st December

Transaction Type	2012		2011	
	HNB Rs 000	HNB ASSURANCE Rs 000	HNB Rs 000	HNB ASSURANCE Rs 000
Lease rental received	660,764	-	660,342	-
Refundable deposit received	478,365	-	430,185	-
Advance payment received - rent	18,941	-	64,399	-
Interest expense on refundable deposit	48,181	-	43,328	-
Insurance premium paid	-	1,118	-	3,994
Claims received	-	570	-	43
Overdraft interest paid	42,550	-	47,961	-
Term loan interest paid	148,806	-	150,859	-
Ground rent paid	3,829	-	3,830	-

**52 (c) iii Majan Exchange LLC**

Majan Exchange LLC (Majan) is a 40% owned Subsidiary of the Bank.

The details of the transactions with the Bank are as follows:

Transaction Type	2012 Rs 000	2011 Rs 000
Deposits including current accounts	6,026	7,533
Guarantees issued	5,744	5,126
Advance payment made	13,896	13,896
Interest received	37	39
Interest paid	312	301

Bank has made a full provision against the investment of Rs 56.121 Mn (2011 : Rs 56.121 Mn) and the advance payment of Rs 13.896 Mn (2011 : Rs 13.896 Mn) as at 31st December 2012.

## Notes to the Financial Statements

**52 RELATED PARTY DISCLOSURES (Contd.)****52 (c) Transactions with / between Subsidiaries (Contd.)****52 (c) iv Commercial Interlink Services Inc (o/a of Delma Exchange Canada)**

Commercial Interlink Services Inc (o/a of Delma Exchange Canada) was a wholly owned Subsidiary of the Bank. The company has ceased its commercial operations on 1st October 2010. The Bank made a full provision of Rs 33.715 Mn against its investment and the amount due from the company as at 31st December 2011. This provision was written off from the books during the year ended 31st December 2012.

**52 (d) Transactions with Associates**

Details of the Associates are given in Note 31.

**52 (d) i Delma Exchange**

Delma Exchange was a 20% owned Associate of the Bank.

The details of the transactions with the Bank are as follows:

Transaction Type	2012 Rs 000	2011 Rs 000
Deposits including current accounts	13,957	21,108
Guarantees issued	97,310	86,826
Interest received	5	6
Interest paid	753	512

Bank sold its stake in Delma Exchange during the year ended 31st December 2012. The net gain on disposal of the Associate company amounting to Rs 38.393 Mn is accounted under Other Operating Income (Note 13) to the financial statements. 50% of the sales proceeds have already been received by the Bank and the balance amount (Rs 63.252 Mn) is to be received on deferred terms as per the sales and purchase agreement entered into with the buyer.

**52 (d) ii Splendor Media (Pvt) Ltd**

Splendor Media (Pvt) Ltd is a 49.99% owned Associate of Sithma, a fully owned Subsidiary of the Bank.

Summary of transactions of Splendor Media (Pvt) Ltd with the Bank and the Group are given below:

Transaction Type	2012			2011		
	HNB Rs 000	Sithma Rs 000	HNB Assurance Rs 000	HNB Rs 000	Sithma Rs 000	HNB Assurance Rs 000
Advertising commission	51,164	239	1,140	65,016	745	-
Interest income	3,903	-	-	3,639	-	-
Rebate paid	7,223	42	-	6,839	111	-
Deposits including current accounts	48,412	-	-	45,458	-	-
Dividend paid	-	230	-	-	563	-
Insurance premium paid	-	-	-	-	-	122
Claims received	-	-	-	-	-	443

**52 (e) Transactions with Joint Venture - Acuity Partners (Pvt) Ltd**

Acuity Partners (Pvt) Ltd is the Joint Venture between DFCC Bank and HNB. Bank holds a 50% stake in Acuity Partners (Pvt) Ltd as at 31st December 2012.

Summary of transactions of the Bank with Acuity Partners (Pvt) Ltd are given below:

Transaction Type	2012 Rs 000	2011 Rs 000
Deposits including current accounts	2,107	7,293
Overdraft	9,736	75,399
Interest and bank charges received	3,528	5,101
Interest paid	208	-

**52 RELATED PARTY DISCLOSURES (Contd.)****52 (f) Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka**

The Government of Sri Lanka indirectly holds more than 25% of the voting rights of the Bank as at 31st December 2012 through Sri Lanka Insurance Corporation Ltd, Employee Provident Fund, National Savings Bank and Employee Trust Fund. The Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (government related entities) as Related Parties according to LKAS 24 "Related Party Disclosures".

During the year ended 31st December 2012, the Bank has carried out transactions with the Government of Sri Lanka and other Government related entities in the ordinary course of its business, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and its unrelated customers.

**52 (f) i Transactions which are Individually Significant**

Bank uses an internal threshold of 5% of total equity of the Bank in order to identify individually significant transactions with the Government and Government related entities. Accordingly the said threshold was Rs 2,324 Mn as at 31st December 2012. All transactions with the Government of Sri Lanka and Government related entities that exceeded the above threshold has been reported below.

Name of the Government Entity	Relationship with the Bank	Nature of the Transactions	Amount (Rs'000)
Government of Sri Lanka	Shareholder with significant influence	Government of Sri Lanka Treasury Bills [Note 25 (c)]	19,790
		Government of Sri Lanka Treasury Bonds [Note 25 (d)]	1,446
		Sri Lanka Development & Sovereign Bonds [Note 30 (a)]	17,520,959
		Government of Sri Lanka Treasury Bonds [Note 28 (d)]	5,587,415
		Government of Sri Lanka Treasury Bills [Note 28 (e)]	47,804,967

Interest income recognized during the year from the above investments is disclosed under Net Interest Income from Sri Lanka Government Securities [Note 9 (c)] to the financial statements.

Central Bank of Sri Lanka	Government related entity	Statutory deposit (Note 22)	19,933,463
Peoples' Bank	Government related entity	Short term placements	4,914,750
Bank of Ceylon	Government related entity	Short term placements	4,391,250

Interest income recognized during the year from the placements with Peoples' Bank and Bank of Ceylon is included under Interest Income [Note 9 (a)] to the financial statements.

NSB Fund Management Company Ltd (Wholly owned Subsidiary of the National Savings Bank)	Government related entity	Long term borrowings	4,000,000
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Interest expense recognized during the year on borrowings from NSB Fund Management Ltd is included under Interest Expense [Note 9 (b)] to the financial statements.

## Notes to the Financial Statements

**52 RELATED PARTY DISCLOSURES (Contd.)****52 (f) Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka (Contd.)****52 (f) i Transactions which are Individually Significant (Contd.)**

Name of the Government Entity	Relationship with the Bank	Nature of the Transactions	Amount (Rs'000)
Ministry of Finance	Government related entity	Foreign currency advances	3,339,672
Interest income recognised during the year on advances granted to Ministry of Finance is included under Interest Income [Note 9 (a)] to the financial statements.			
Central Bank of Sri Lanka	Government related entity	Derivative contracts (Swaps : USD 100 Mn)	12,765,000
Net unrealised foreign exchange loss to the Bank from the above derivatives amounted to Rs 360.258 Mn as at 31st December 2012.			

**52 (f) ii Transactions which are not Individually Significant**

Employee Provident Fund of the Government of Sri Lanka has invested Rs 2 Bn in HNB debentures details of which are given in [Note 44 (v)].

The Bank has granted/approved advances for a total value of Rs 4,345 Mn to Ministry of Defense and Urban Development Authority as at 31st December 2012. The total outstanding of the above advances as at the said date was only Rs 434.59 Mn.

The Bank has granted/approved advances for a total value of Rs 2,061 Mn to Road Development Authority as at 31st December 2012. The total outstanding of the above advances as at the said date was only Rs 309.12 Mn.

Apart from the transactions listed above, the Bank/Group has carried out transactions with the Government of Sri Lanka and other Government related entities in the form of loans and advances, deposits, short and long term borrowings, payment of taxes, payment of utility bills etc. during the year ended 31st December 2012. Such transactions were carried out on an arms length basis and on comparable terms which are applied to transactions between the Bank and its unrelated customers.



**52 RELATED PARTY DISCLOSURES (Contd.)****52 g Transactions with Other Related Entities****52 (g) i Lending Transactions with Other Related Entities by the Bank**

Company	Relationship	Nature of Transaction	Aggregate Amount of Accommodation		Security	
			as at 31st December 2012		as at 31st December 2011	
			Limit (Rs Mn)	Outstanding (Rs Mn)	Limit (Rs Mn)	Outstanding (Rs Mn)
Acuity Stockbrokers (Pvt) Ltd	Subsidiary of the Joint Venture "Acuity"	Overdraft	130.00	-	130.00	-
		<b>Total</b>	<b>130.00</b>	-	<b>130.00</b>	-
Acuity Securities Limited	Subsidiary of the Joint Venture "Acuity"	Overdraft	1,100.00	-	1,100.00	-
		<b>Total</b>	<b>1,100.00</b>	-	<b>1,100.00</b>	-
CIC Holdings PLC	Mr R S Captain (Director having control over the company)	Letters of Credit	250.00	-	-	-
		Overdraft	(150.00)	148.02	-	-
		Money Market Loan	(150.00)	-	-	-
		<b>Total</b>	<b>250.00</b>	<b>148.02</b>	-	-
Paints & General Industries (Pvt) Ltd	Mr R S Captain (Managing Director having control over the company)	Overdraft	2,208.00	2,046.02	-	-
		Letters of Credit	200.00	30.39	-	-
		<b>Total</b>	<b>2,408.00</b>	<b>2,076.41</b>	-	-
A K K Engineers (Pvt) Ltd	Dr L R Karunaratne (Director having control over the company)	Term Loan	3.50	3.50	6.50	6.50
		Overdraft	30.00	9.99	30.00	2.99
		Letters of Guarantee	44.00	30.20	44.00	21.47
		<b>Total</b>	<b>77.50</b>	<b>43.69</b>	<b>80.50</b>	<b>30.96</b>
Chemane PLC	Subsidiary of CIC Holdings PLC	Letters of Credit	50.00	-	-	-
		Money Market Loan / Short Term Loan/	-	-	-	-
		Overdraft	100.00	98.09	-	-
		Letters of Guarantee	5.00	-	-	-
CIC Agri Businesses (Pvt) Ltd	Subsidiary of CIC Holdings PLC	<b>Total</b>	<b>155.00</b>	<b>98.09</b>	-	-
		Letters of Credit	700.00	515.53	-	-
		Overdraft	(200.00)	166.66	-	-
		Money Market Loan	(200.00)	-	-	-
		Money Market Loan	300.00	300.00	-	-
		Short Term Loan	350.00	350.00	-	-
Link Natural Products (Pvt) Ltd	Subsidiary of CIC Holdings PLC	<b>Total</b>	<b>1,350.00</b>	<b>1,332.19</b>	-	-
		Letters of Credit	20.00	-	-	-
		Import Loan	(20.00)	-	-	-
		Packing Credit	20.00	18.11	-	-
		Term Loan	8.31	8.31	-	-
CIC Cropguard (Pvt) Ltd	Subsidiary of CIC Holdings PLC	<b>Total</b>	<b>48.31</b>	<b>26.42</b>	-	-
		Letters of Credit	100.00	-	-	-
		Overdraft / Money	-	-	-	-
		Market Loan	30.00	28.85	-	-
CIC Cropguard (Pvt) Ltd	Subsidiary of CIC Holdings PLC	<b>Total</b>	<b>130.00</b>	<b>28.85</b>	-	-

Transactions with those entities that deemed to be related to the Bank with the appointment of new Directors [Note 52 (b)] had been reported from the date of appointment of the Director. Accordingly comparative figures have not been reported for such entities.

No losses have been recorded against loan balances outstanding during the period with the above entities and no provisions have been made for impairment losses as at the date of the Statement of Financial Position.

Figures in brackets indicate sub limits granted to the respective entities.

## Notes to the Financial Statements

## 52 RELATED PARTY DISCLOSURES (Contd.)

## 52 (g) Transactions with Other Related Entities (Contd.)

## 52 (g) II Other Business Transactions with Other Related Entities by the Bank

Company	Relationship	Nature of Transaction	Amount (Rs Mn)	
			2012	2011
Hatton National Bank Retirement Pension Fund	Post employment benefit plan	Investment in term deposits	6,637.57	3,417.41
		Investment in HNB debentures	8.86	36.15
		Balance held by the Bank on behalf of the fund	237.47	1,245.52
		Interest paid	564.23	150.07
		Contributions made	303.94	610.03
		Receivable from pension fund	513.75	-
		Payable to pension fund	-	739.22
Hatton National Bank Employee Provident Fund	Post employment benefit plan	Investment in term deposits	2,957.00	4,285.09
		Investment in Repos	-	704.00
		Balance held by the Bank on behalf of the fund	105.14	43.24
		Investment in HNB shares - Voting	4.84	4.51
		- Non-voting	16.31	14.80
		Contribution made	400.48	358.18
		Interest paid	425.93	348.18
		Dividends paid	2.84	3.03
Employee Share Benefit Trust	Post employment benefit plan	Overdraft	292.26	308.19
		Additional loan granted during the year	-	163.71
		Interest paid	29.27	20.03
		Dividends paid	68.46	72.84
		Benefits paid to employees	92.32	90.88
Widows', Widowers' and Orphans' Pension Fund	Post employment benefit plan	Balance held by the Bank on behalf of the fund	16.88	20.79
		Time deposits	706.66	-
		Interest paid	71.07	7.09
Acuity Securities Limited	Subsidiary of the Joint Venture "Acuity"	Interest received	-	0.06
		Commission and other charges received	1.39	1.20
		Interest paid	-	0.59
		Current account balance as at year end	8.45	70.01
Acuity Stockbrokers (Pvt) Ltd	Subsidiary of the Joint Venture "Acuity"	Bank charges	0.12	0.09
		Interest received	-	1.04
		Commission paid	-	18.46
		Current account balance as at year end	30.61	5.38
Guardian Acuity Asset Management Ltd	Joint Venture of "Acuity"	Repurchase agreements	9.39	35.24
		Interest on repurchase agreements	2.38	1.21
		Bank charges	0.78	-
		Deposits including current accounts	0.54	0.05
Lanka Ventures PLC	Subsidiary of the Joint Venture "Acuity"	Interest paid	17.20	3.95
		Bank charges and overdraft interest received	1.20	0.59
		Overdraft	-	58.40
		Deposits including current accounts	533.09	127.89
		Debentures	13.50	13.50

**52 RELATED PARTY DISCLOSURES (Contd.)****52 (g) Transactions with Other Related Entities (Contd.)****52 (g) II Other Business Transactions with Other Related Entities by the Bank (Contd.)**

Company	Relationship	Nature of Transaction	Amount (Rs Mn)	
			2012	2011
Rainforest Eco lodge (Pvt) Ltd	Associate of CIC Holdings PLC	Merchant Commission	0.01	-
Polypack Secco Ltd	Mr R S Captain (Managing Director having control over the company)	Customer Deposits	0.01	-
507 Holdings (Pvt) Ltd	Other KMP of the Bank having control over the company	Customer Deposits	1.36	-

Transactions with those entities that deemed to be related to the Bank with the appointment of new Directors [Note 52 (b)] had been reported from the date of appointment of the Director. Accordingly comparative figures have not been reported for such entities.

**52 (g) III Other Business Transactions with Other Related Entities by the Group**

Company	Relationship	Nature of Transaction	Amount (Rs Mn)	
			2012	2011
HNB Assurance PLC				
Acuity Stockbrokers (Pvt) Ltd	Subsidiary of "Acuity"	Insurance premium received	1.12	1.84
		Claims paid	1.07	0.37
		Brokerage fees	0.20	0.86
Acuity Securities Limited	Subsidiary of "Acuity"	Insurance premium received	0.53	0.30
		Claims paid	0.69	0.25
		Interest received	12.52	15.53
		Investments (Repo)	128.07	242.16
Acuity Partners (Pvt) Ltd	Subsidiary of "Acuity"	Insurance premium received	0.88	1.66
		Claims paid	0.69	0.16

## Notes to the Financial Statements

## 53 MATURITY ANALYSIS

## 53 (a) Maturity Analysis - Bank

	Upto 3 Months Rs. 000	3--12 Months Rs. 000	1--3 years Rs. 000	3--5 Years Rs. 000	More than 5 years Rs. 000	Total 2012 Rs. 000
<b>Interest earning assets</b>						
Cash and cash equivalents	300,205	-	-	-	-	300,205
Placements with banks	10,321,832	-	-	-	-	10,321,832
Other financial assets held for trading	21,235	-	-	-	-	21,235
Loans and receivables to banks	-	-	-	-	-	-
Loans and receivables to other customers	101,579,257	54,101,386	75,607,561	37,431,802	34,040,974	302,760,980
Financial investments - Available-for-sale	26,528,142	24,734,891	2,129,349	-	-	53,392,382
Financial investments - Held-to-maturity	-	-	-	-	-	-
Financial investments - Loans and receivables	122,400	503,000	18,916,269	489,000	-	20,030,669
	138,873,071	79,339,277	96,653,179	37,920,802	34,040,974	386,827,303
<b>Non interest earning assets</b>						
Cash and cash equivalents	8,469,001	-	-	-	-	8,469,001
Balances with Central Banks	19,933,463	-	-	-	-	19,933,463
Derivative financial instruments	281,269	63,283	-	-	-	344,552
Other financial assets held for trading	452,848	-	-	-	-	452,848
Financial investments - Available-for-sale	-	-	-	-	4,477,164	4,477,164
Investments in Associates	-	-	-	-	-	-
Investment in Joint Venture	-	-	-	-	655,000	655,000
Investments in Subsidiaries	-	-	-	-	2,357,285	2,357,285
Investment properties	-	-	-	-	349,708	349,708
Property, plant and equipment	-	-	-	-	9,417,915	9,417,915
Intangible assets	-	-	-	-	556,171	556,171
Deferred tax assets	-	-	-	-	369,726	369,726
Other assets	4,770,525	754,195	2,008,092	-	4,559,385	12,092,197
	33,907,106	817,478	2,008,092	-	22,742,354	59,475,030
<b>Total assets</b>	<b>172,780,177</b>	<b>80,156,755</b>	<b>98,661,271</b>	<b>37,920,802</b>	<b>56,783,328</b>	<b>446,302,333</b>
Percentage - 31st December 2012	38.71	17.96	22.11	8.50	12.72	100
Percentage - 31st December 2011	42.12	16.89	17.34	10.83	12.83	100
<b>Interest bearing liabilities</b>						
Due to banks	9,597,009	2,103,364	6,492,974	7,738,140	4,469,493	30,400,980
Due to other customers	225,659,802	81,395,823	8,349,977	1,318,064	1,309,630	318,033,296
Other borrowings	4,644,289	306,246	-	-	-	4,950,535
Subordinated debentures	250,000	89,705	300,000	500,000	3,445,863	4,585,568
	240,151,100	83,895,138	15,142,951	9,556,204	9,224,986	357,970,379
<b>Non- interest bearing liabilities</b>						
Derivative financial instruments	493,358	943,085	-	-	-	1,436,443
Due to other customers	23,390,690	-	-	-	-	23,390,690
Dividends payable	221,455	-	-	-	-	221,455
Current tax liabilities	-	1,755,429	-	-	-	1,755,429
Bills payable	1,430,578	-	-	-	-	1,430,578
Deferred tax liabilities	-	-	-	-	1,478,341	1,478,341
Other provisions	1,336,762	-	2,903,731	-	-	4,240,493
Other liabilities	7,902,786	-	-	-	-	7,902,786
Shareholders' funds	-	-	-	-	46,475,739	46,475,739
	34,775,629	2,698,514	2,903,731	-	47,954,080	88,331,954
<b>Total Liabilities &amp; shareholders' funds</b>	<b>274,926,729</b>	<b>86,593,652</b>	<b>18,046,682</b>	<b>9,556,204</b>	<b>57,179,066</b>	<b>446,302,333</b>
Percentage - 31st December 2012	61.60	19.40	4.04	2.14	12.81	100
Percentage - 31st December 2011	62.82	18.89	4.34	1.65	12.31	100

\* Upto 3 months deposits include the Bank's Savings Deposit Base of Rs. 109.177 billion (2011 - Rs. 111.122 billion)

## 53 MATURITY ANALYSIS (Contd.)

## 53 (b) Maturity Analysis - Group

	Upto 3 Months Rs 000	3--12 Months Rs 000	1--3 years Rs 000	3--5 Years Rs 000	More than 5 years Rs 000	Total 2012 Rs 000
<b>Interest earning assets</b>						
Cash and cash equivalents	379,745	-	-	-	-	379,745
Placements with banks	10,791,633	749,042	126,742	-	-	11,667,417
Other financial assets held for trading	625,276	-	-	-	-	625,276
Loans and receivables to banks	-	-	-	-	-	-
Loans and receivables to other customers	103,719,697	54,040,310	75,151,818	37,254,105	33,756,162	303,922,092
Financial investments - Available-for-sale	26,604,930	25,019,050	2,441,885	216,108	170,159	54,452,132
Financial investments - Held-to-maturity	196,172	467,283	487,350	288,306	204,741	1,643,852
Financial investments - Loans and receivables	122,399	542,010	19,442,578	797,185	-	20,904,172
	141,439,852	80,817,695	97,650,373	38,555,704	34,131,062	393,594,686
<b>Non interest earning assets</b>						
Cash and cash equivalents	8,469,001	-	-	-	-	8,469,001
Balances with Central Banks	19,933,463	-	-	-	16,577	19,950,040
Derivative financial instruments	281,269	63,283	-	-	-	344,552
Other financial assets held for trading	452,848	-	-	-	-	452,848
Financial investments - Available-for-sale	-	-	-	-	4,477,164	4,477,164
Investments in Associates	-	-	-	-	386,172	386,172
Investment in Joint Venture	-	-	-	-	-	-
Investments in Subsidiaries	-	-	-	-	-	-
Investment properties	-	-	-	-	164,598	164,598
Property, plant and equipment	-	-	-	-	17,815,411	17,815,411
Intangible assets	-	-	-	-	689,501	689,501
Deferred tax assets	-	-	-	-	372,193	372,193
Non current assets held for sale	-	2,875	-	-	-	2,875
Other assets	5,288,208	1,154,007	2,147,703	131,330	3,958,708	12,679,956
	34,424,789	1,220,165	2,147,703	131,330	27,880,324	65,804,311
<b>Total assets</b>	<b>176,864,641</b>	<b>82,037,860</b>	<b>99,798,076</b>	<b>38,687,034</b>	<b>62,011,386</b>	<b>459,398,997</b>
Percentage - 31st December 2012	38.50	17.86	21.72	8.42	13.50	100
Percentage - 31st December 2011	41.86	16.89	17.10	10.72	13.43	100
<b>Interest bearing liabilities</b>						
Due to banks	9,597,009	2,103,364	6,492,974	7,738,140	4,469,493	30,400,980
Due to other customers	225,238,987	81,289,265	8,324,977	1,318,064	1,286,376	317,457,669
Other borrowings	6,328,657	347,988	10,499	60,000	-	6,747,144
Debt Securities Issued	-	-	-	-	150,000	150,000
Subordinated debentures	249,694	82,649	300,000	500,000	3,430,668	4,563,011
	241,414,347	83,823,266	15,128,450	9,616,204	9,336,537	359,318,804
<b>Non-interest bearing liabilities</b>						
Derivative financial instruments	493,358	943,085	-	-	-	1,436,443
Due to other customers	23,389,937	-	-	-	-	23,389,937
Dividends payable	223,251	-	-	-	-	223,251
Current tax liabilities	-	1,839,714	-	-	-	1,839,714
Bills payable	1,430,578	-	-	-	-	1,430,578
Insurance provisions - Life	-	-	-	-	3,626,239	3,626,239
Insurance provisions - General	-	969,441	-	-	-	969,441
Deferred tax liabilities	-	-	-	-	1,556,312	1,556,312
Other provisions	1,496,367	-	2,903,731	-	-	4,400,098
Other liabilities	8,146,376	317,730	31,280	86,263	32,632	8,614,281
Shareholders' funds	-	-	-	-	52,593,899	52,593,899
	35,179,867	4,069,970	2,935,011	86,263	57,809,082	100,080,193
<b>Total Liabilities &amp; shareholders' funds</b>	<b>276,594,214</b>	<b>87,893,236</b>	<b>18,063,461</b>	<b>9,702,467</b>	<b>67,145,619</b>	<b>459,398,997</b>
Percentage - 31st December 2012	60.21	19.13	3.93	2.11	14.62	100
Percentage - 31st December 2011	61.79	18.71	4.25	1.61	13.64	100

\* Upto 3 months deposits include the Bank's Savings Deposit Base of Rs. 109.177 billion (2011 - Rs. 111.122 billion)



## Notes to the Financial Statements

## 54 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

## Business segments- Group

	Banking			Leasing			**Dealing			Property			Insurance			Eliminations			Consolidated /Unallocated	
	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000
Revenue from external customers :																				
Interest	43,376,135	30,025,243		3,728,480	2,905,152		251,985	194,479					612,179	442,032		(29,271)	(20,035)		47,939,508	33,546,871
Fee and commission	3,739,489	2,700,158		-	-		93,889	287,275					3,187	(68,900)		-	-		3,833,378	2,987,433
Net gain/loss from trading	(1,632,528)	(347,078)		-	-		5,294	(10,357)					2,918	4,199		(57,291)	(100,206)		(1,624,049)	(426,335)
Net gain/loss from investments	142,479	398,936		-	-		26,099	87,701		207			2,648,036	2,297,874		70,308	66,362		114,412	390,630
Other operating income	1,935,432	1,107,724		-	-		79,885	9,706		163,159									4,896,820	3,623,983
Total revenue from external customers	47,561,007	33,884,993		3,728,480	2,905,152		457,152	569,804		163,366			3,266,320	2,675,205		(16,256)	(53,879)		55,160,069	40,122,582
Inter-segment revenue	269,413	276,166		-	-		9,712	17,552		660,770			95,841	78,006		-	-		1,035,736	1,032,065
Total revenue	47,830,420	34,161,149		3,728,480	2,905,152		466,864	586,356		824,136			3,362,161	2,753,211		(16,256)	(53,879)		56,195,805	41,154,648
Segment result	8,431,007	7,442,735		2,590,399	1,860,258		77,948	134,113		388,478			447,192	312,636		(100,764)	15,743		11,835,260	10,152,242
Unallocated expenses	-	-		-	-		-	-		-			-	-		-	-		(1,159,299)	(1,080,049)
Profit from operations	-	-		-	-		-	-		-			-	-		-	-		10,675,962	9,072,193
Income from associates	-	-		-	-		-	-		-			-	-		-	-		16,632	(15,729)
Income tax expense	-	-		-	-		-	-		-			-	-		-	-		(2,421,431)	(2,156,077)
Profit for the period	-	-		-	-		-	-		-			-	-		-	-		8,271,163	6,900,387
Non controlling interests	-	-		-	-		-	-		-			-	-		-	-		(160,194)	(81,464)
Profit for the Equity Holders of the Bank	-	-		-	-		-	-		-			-	-		-	-		8,110,969	6,818,923
Profit for the year	-	-		-	-		-	-		-			-	-		-	-		8,271,163	6,900,387
Other Comprehensive Income, Net of Tax	2,412,029	(3,295,723)		-	-		(4,210)	(5,745)		828,962			6,208			117,057	4,292		3,360,046	(3,297,176)
Total Comprehensive Income	-	-		-	-		-	-		-			-	-		-	-		11,631,209	3,603,211
Non controlling interests	-	-		-	-		-	-		-			-	-		-	-		(170,621)	(81,613)
Profit for the Equity Holders of the Bank	-	-		-	-		-	-		-			-	-		-	-		11,460,588	3,521,598
Segment assets	395,526,386	333,855,469		24,977,945	24,351,395		3,492,733	3,453,168		7,917,607			7,034,877	6,044,856		(2,956,216)	(3,693,340)		435,993,332	371,671,839



## Business segments - Group

	Banking			Leasing			**Dealing			Property			Insurance			Eliminations			Consolidated /Unallocated	
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Investment in associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	386,172	384,319
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,019,493	19,240,712
Total Assets	359,250,145	300,944,437	24,977,945	24,351,395	2,382,470	1,806,928	2,651,235	4,451,449	5,167,788	(2,176,071)	(3,045,014)	391,206,594	331,736,022	15,598,505	17,204,081	405,805,099	348,940,103	-	391,206,594	331,736,022
Segment liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash flows from operating activities	6,110,582	(205,390)	(711,299)	(10,649,463)	(85,887)	(114,718)	688,745	400,421	287,646	(601,113)	(755,418)	5,689,684	(10,662,759)	56,327	946,869	369,236	6,369,239	10,420,120	1,134,293	1,415,488
Cash flows from investing activities	(7,334,184)	(2,597,862)	-	-	81,681	(99,921)	(3,076)	(10,690)	(163,731)	56,327	946,869	(7,362,963)	(2,633,249)	56,327	946,869	369,236	6,369,239	10,420,120	1,134,293	1,415,488
Cash flows from financing activities	6,263,011	10,107,350	-	-	223,024	60,515	(356,411)	(435,727)	(105,000)	344,615	1,829	33,111	33,344	33,111	33,344	33,111	33,344	33,111	33,344	33,111
Capital Expenditure	1,059,416	1,355,832	47	267	6,751	23,156	3,076	3,029	63,174	1,829	1,829	33,111	33,344	33,111	33,344	33,111	33,344	33,111	33,344	33,111
Depreciation	799,355	741,132	1,031	1,080	12,080	13,861	116,688	110,612	40,154	891	(5,603)	970,199	894,426	970,199	894,426	970,199	894,426	970,199	894,426	894,426
Amortization	175,267	172,691	47	223	534	759	79	79	13,172	11,839	33	189,099	185,624	189,099	185,624	189,099	185,624	189,099	185,624	185,624

\*\*Stock broking, securities dealings, remittances, investment banking, venture capital business and foreign currency related services.

## Notes to the Financial Statements

### 55 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There are no events occurring after the Balance Sheet date which require adjustments to or disclosure in the Financial Statements, other than those disclosed below:

#### 55 (a) Proposed Dividends

Refer Note No 41 (a)

### 56 DIRECTORS' RESPONSIBILITY STATEMENT

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

Please refer to page 204 for the statement of the Directors' Responsibility for Financial Reporting.

### 57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs

As stated in Note 2.1 these are the Bank's first consolidated financial statements prepared in accordance with LKASs/SLFRSs.

The accounting policies set out in Note 4 have been applied in preparing the financial statements for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of an opening SLFRS statement of financial position as at 1st January 2011 (the Bank's date of transition).

In preparing its opening SLFRS statement of financial position, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLAS to SLFRSs has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### 57 (a) Explanation of transition to LKASs/SLFRSs - Bank

Reconciliation of comprehensive income for the year ended 31 December 2011

	Note	Previous SLAS Rs 000	Effect of transition to SLFRSs Rs 000	SLFRSs Rs 000
<b>INCOME</b>		37,968,762	(902,461)	37,066,301
Interest income	57 (a) i, ii, iii, iv, v, vi	33,141,598	34,330	33,175,928
Less: Interest expenses	57 (a) vi, viii	16,745,453	(215,200)	16,530,253
<b>Net interest income</b>		16,396,145	249,530	16,645,675
Fee and commission income	57 (a) vii	2,779,700	(69,148)	2,710,552
Less: Fee and commission expenses		34,520	-	34,520
<b>Net fee and commission income</b>		2,745,180	(69,148)	2,676,032
<b>Net interest, fee and commission income</b>		19,141,325	180,382	19,321,707
Foreign exchange profit	57 (a) xv	988,231	(988,231)	-
Dividend income	57 (a) xv	409,440	(409,440)	-
Other operating income (net)	57 (a) v, xv	649,793	478,170	1,127,963
Net gain/(loss) from trading	57 (a) vi, v, xvii	-	(347,078)	(347,078)
Net gain/(loss) from financial investments	57 (a) xv	-	398,936	398,936
<b>Total Operating income</b>		21,188,789	(687,261)	20,501,528
Less:				
Impairment for loans and other losses	57 (a) iii, v, xii, xx	-	(445,373)	(445,373)
<b>Net operating income</b>		21,188,789	(241,888)	20,946,901

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

Bank	Note	Previous GAAP	Effect of transition to SLFRSs	SLFRSs
		Rs 000	Rs 000	Rs 000
Less:				
<b>OPERATING EXPENSES</b>				
Personnel expenses	57 (a) iv, vi, ix, x, xvii	4,891,183	96,104	4,987,287
Premises, equipment and establishment expenses	57 (a) ii	3,191,644	85,360	3,277,004
Provision charge for employee benefits	57 (a) xi	893,507	(893,507)	-
Diminution in value of investment securities / Subsidiary	57 (a) xii	202,031	(202,031)	-
Loans written off	57 (a) v	2,005	(2,005)	-
Net impairment loss on loans and advances	57 (a) iii, v	(164,562)	164,562	-
Other overhead expenses	57 (a) xv	4,405,379	(1,334,781)	3,070,598
		13,421,187	(2,086,298)	11,334,889
Operating profit/(loss) before value added tax (VAT)		7,767,602	1,844,410	9,612,012
Less: Value added tax (VAT) on financial services	57 (a) xix, xxii	-	1,224,143	1,224,143
Operating profit/(loss) after value added tax (VAT)		7,767,602	620,267	8,387,869
Share of loss of Associates (net of income tax)		-	-	-
<b>PROFIT BEFORE INCOME TAX</b>		7,767,602	620,267	8,387,869
Less: Income tax expense	57 (a) xix	2,197,263	(74,060)	2,123,203
<b>PROFIT FOR THE YEAR</b>		5,570,339	694,327	6,264,666
<b>OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX</b>	-			
Net change of financial assets measured at fair value through other comprehensive income:	-			
Net change in fair value on available-for-sale financial assets	57 (a) xiii	-	(3,334,984)	(3,334,984)
Defined benefit plans actuarial gains/(losses)	57 (a) xi	-	34,870	34,870
Revaluation of property, plant and equipment	-	-	4,391	4,391
<b>Other comprehensive income for the year, net of tax</b>		-	(3,295,723)	(3,295,273)
<b>Total comprehensive income for the year</b>		5,570,339	(2,601,396)	2,968,942

**Material adjustments to the statement of cash flows for 2011**

There are no material differences between the statement of cash flows presented under SLFRSs and the statement of cash flows presented under previous GAAP.

## Notes to the Financial Statements

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

Reconciliation of equity - Bank							
	Note	Previous SLAS	Effect of transition to SLFRSs 1 January 2011	SLFRSs	Previous SLAS	Effect of transition to SLFRSs 31 December 2011	SLFRSs
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>ASSETS</b>							
Cash and cash equivalents	57 (a) xviii	18,005,640	(11,449,302)	6,556,338	14,741,947	(7,199,180)	7,542,767
Balances with central banks		12,491,644	-	12,491,644	18,683,405	-	18,683,405
Placements with banks	57 (a) xiv, xviii	-	11,551,945	11,551,945	-	7,220,151	7,220,151
Derivative financial instruments	57 (a) vi	-	231,124	231,124	-	496,643	496,643
Other financial assets held for trading	57 (a) xvi	1,457,502	(54)	1,457,448	1,142,064	18,435	1,160,499
Securities purchased under re-sale agreements	57 (a) xviii	1,185,831	(1,185,831)	-	781,193	(781,193)	-
Bills of exchange	57 (a) xviii	1,401,130	(1,401,130)	-	959,012	(959,012)	-
Commercial papers	57 (a) xviii	158,963	(158,963)	-	24,986	(24,986)	-
Lease receivable within one year	57 (a) xviii	4,630,492	(4,630,492)	-	7,138,715	(7,138,715)	-
Lease receivable after one year	57 (a) xviii	8,816,761	(8,816,761)	-	16,785,652	(16,785,652)	-
Loans and receivables to other customers	57 (a) iii, iv, v, xiv, xviii	188,033,851	14,219,167	202,253,018	233,521,000	23,677,343	257,198,343
Investment securities	57 (a) xxvii	58,704,102	(58,704,102)	-	62,942,501	(62,942,501)	-
Financial investments - Available for sale	57 (a) xvii, xiv, xxvii	-	49,379,877	49,379,877	-	51,239,058	51,239,058
Financial investments - Loans and receivables	57 (a) i, xiv, xxvii	-	15,370,787	15,370,787	-	14,665,997	14,665,997
Investments in Associates		83,651	-	83,651	83,674	-	83,674
Investment in Joint Venture		655,000	-	655,000	655,000	-	655,000
Investments in Subsidiaries		2,179,086	-	2,179,086	2,357,285	-	2,357,285
Investment properties		353,563	-	353,563	349,374	-	349,374
Property, plant and equipment	57 (a) xxiv	7,473,947	(46,392)	7,427,555	7,847,808	(12,942)	7,834,866
Intangible assets		577,015	-	577,015	549,503	-	549,503
Deferred tax assets	57 (a) xix	-	506,348	506,348	-	313,785	313,785
Other assets	57 (a) ii, iv, vi, xiv, xxiv	7,786,083	847,284	8,633,367	9,587,469	545,826	10,133,295
<b>Total Assets</b>		<b>313,994,261</b>	<b>5,713,505</b>	<b>319,707,766</b>	<b>378,150,588</b>	<b>2,333,057</b>	<b>380,483,645</b>
<b>LIABILITIES</b>							
Due to banks	57 (a) xiv, xxv	-	10,421,179	10,421,179	-	19,885,436	19,885,436
Derivative financial instruments	57 (a) vi	-	166,521	166,521	-	617,702	617,702
Due to other customers	57 (a) viii, xiv, xxvi	234,073,977	4,959,806	239,033,783	284,145,962	7,210,616	291,356,578
Dividends payable		49,558	-	49,558	168,080	-	168,080
Securities sold under re-purchase agreements	57 (a) xxv	11,951,727	(11,951,727)	-	6,559,088	(6,559,088)	-
Other borrowings	57 (a) xiv, xxv	10,810,554	1,762,446	12,573,000	19,998,527	(12,989,786)	7,008,741
Current tax liabilities	57 (a) xix	3,127,622	(540,201)	2,587,421	1,679,787	(658,168)	1,021,619
Bills payable		1,305,161	-	1,305,161	1,404,158	-	1,404,158
Subordinated debentures	57 (a) xiv	2,724,293	124,850	2,849,143	4,781,098	242,118	5,023,216
Deferred tax liabilities	57 (a) xix	735,884	154,718	890,602	1,168,800	6,062	1,174,862
Other provisions	57 (a) ii, vi, xiv, xix, xxvi	-	8,397,841	8,397,841	-	5,812,370	5,812,370
Other liabilities	57 (a) vi, vii, ix, x, xi, xvi, xxvi	21,941,718	(11,283,583)	10,658,135	21,157,225	(12,130,072)	9,027,153
<b>Total Liabilities</b>		<b>286,720,494</b>	<b>2,211,850</b>	<b>288,932,344</b>	<b>341,062,725</b>	<b>(18,448,247)</b>	<b>342,499,915</b>
<b>EQUITY</b>							
Stated capital		5,318,550	-	5,318,550	11,451,451	-	11,451,451
Statutory reserves		1,510,000	-	1,510,000	2,778,337	-	2,778,337
Retained earnings		4,420,248	(2,167,732)	2,252,516	4,448,089	(1,438,537)	3,009,552
Other reserves		16,024,969	5,669,387	21,694,356	18,409,986	2,334,404	20,744,390
<b>Total equity attributable to equity holders of the Bank</b>		<b>27,273,767</b>	<b>3,501,655</b>	<b>30,775,422</b>	<b>37,087,863</b>	<b>895,867</b>	<b>37,983,730</b>
Non-controlling interests		-	-	-	-	-	-
<b>Total Equity</b>		<b>27,273,767</b>	<b>3,501,655</b>	<b>30,775,422</b>	<b>37,087,863</b>	<b>895,867</b>	<b>37,983,730</b>
<b>Total Liabilities and Equity</b>		<b>313,994,261</b>	<b>5,713,505</b>	<b>319,707,766</b>	<b>378,150,588</b>	<b>(17,552,380)</b>	<b>380,483,645</b>

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

- 57 (a) i** The Bank changed its method of recognising interest on Available for Sale treasury bills and bonds to Effective Interest Rate (EIR) method in accordance with LKAS 39 - Financial Instruments - Recognition & Measurement where by the interest was previously accounted for on a straight line basis.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Interest income		
Change of interest recognition	6,665	
Adjustment before income tax	6,665	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Financial investments - Available for sale	(2,771)	(8,191)
Financial investments - Loans and receivables	(3,758)	(5,003)
Adjustment to retained earnings	(6,529)	(13,194)

- 57 (a) ii** The Bank valued the interest free deposits and the prepaid rent at fair value which were earlier held at nominal value. This resulted in recognition of higher rental expense while interest income is unwinded on these deposits.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Interest income		
Unwinding of interest income on interest free deposits	75,741	
Premises, equipment and establishment expenses		
Rent expense	(85,360)	
Adjustment before income tax	(9,619)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Other assets		
Prepaid rent	205,612	211,781
Interest free deposit	(190,931)	(200,349)
Other provisions		
Rent payable	61,687	48,819
Adjustment to retained earnings	(47,006)	(37,387)



## Notes to the Financial Statements

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

- 57 (a) iii** The Bank recognised an impairment provision in respect of loans, which are renegotiated because of financial difficulties of the borrower, based on the original effective interest rate before the modification of terms. Subsequent interest income is recognised at the original effective interest rate.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Interest income		
Unwinding of interest income on rescheduled loans	45,421	
Impairment for loans and other losses		
Impairment on rescheduled loans	(96,057)	
Adjustment before income tax	(50,636)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Loans and receivables to other customers	(120,650)	(70,014)
Adjustment to retained earnings	(120,650)	(70,014)

- 57 (a) iv** The Bank measured the staff loans granted at reduced interest rates at fair value, based on the market interest rates that prevailed at the time of granting the loan. Accordingly the interest benefit accruing to the staff member is treated as a prepaid staff cost while interest is accounted for at the relevant market interest rate. The prepaid staff cost is amortised to the Statement of Comprehensive Income over the tenor of the loan.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Interest income		
Unwinding of interest income on staff loans at market interest rate	79,930	
Personnel expenses		
Amortisation of prepaid staff cost	(74,457)	
Adjustment before income tax	5,473	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Loans and receivables to other customers		
Staff loans	(3,764,737)	(3,406,348)
Other assets		
Unamortised prepaid staff cost	3,834,917	3,471,055
Adjustment to retained earnings	70,180	64,707



**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

- 57 (a) v** The Bank charged an impairment provision for loans and advances in accordance with LKAS 39 - Financial Instruments - Recognition & measurement. The interest in suspense and the provisions made in accordance with Central Bank of Sri Lanka regulations were reversed. Further bad debts recovered was reclassified and netted off against impairment for loans and other losses.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011	
	Rs 000	
<b>Statement of comprehensive income</b>		
Interest income		
Reversal of interest suspended/(charge of interest in suspense reversed)		
based on CBSL guidelines	(27,726)	
Other income		
Bad debts recovered	(528,879)	
Impairment for loans and other losses		
Reversal of loan loss provisions/(charge of loan loss provision reversals)		
based on CBSL guidelines	(1,141,652)	
Bad debts recovered	528,879	
Impairment provision for loans and advances	1,047,767	
Adjustment before income tax	(121,611)	
<b>As at</b>	<b>31.12.2011</b>	<b>01.01.2011</b>
	Rs 000	Rs 000
<b>Statement of financial position</b>		
Loans and receivables to other customers		
Interest in suspense	1,670,016	1,697,742
Loan loss provision based on CBSL	4,187,324	5,328,976
Impairment provision	(6,664,907)	(7,712,674)
Adjustment to retained earnings	(807,567)	(685,956)

## Notes to the Financial Statements

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

**57 (a) vi** The Bank accounted for the derivative contracts at fair value. This resulted in revaluation of forward exchange contracts at bid/offer rates as opposed to mid rates used earlier.

The impact arising from the change is summarised as follows.

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Interest income		
SWAP	(145,700)	
Interest expense		
SWAP	274,286	
Net loss from trading		
Derivative assets and liabilities	(314,248)	
Reversal of unrealised loss on forward exchange contracts as per previous GAAP	99,075	
Reversal of increase in interest payable SWAP	78,068	
Reversal of increase in interest receivable SWAP	(16,648)	
Adjustment before income tax	(25,167)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Derivative financial instruments (assets)	496,643	231,124
Derivative financial instruments (liabilities)	617,702	166,521
Other assets		
Interest receivable	(16,817)	(169)
Other provisions		
Interest payable	(104,850)	(26,782)
Other liabilities		
Unrealised loss on forward exchange contracts	(19,262)	79,813
Adjustment to retained earnings	(13,764)	11,403

**57 (a) vii** The Bank accounted for its off balance sheet items at fair value. Accordingly the commission income earned on these items have been amortised over the tenor of the relevant contracts as opposed to accounting for the commission income upfront under the previous GAAP.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011	
	Rs 000	
<b>Statement of comprehensive income</b>		
Fee and commission income		
Amortisation of fee income on off balance sheet items	(69,148)	
Adjustment before income tax	(69,148)	
<b>As at</b>	<b>31.12.2011</b>	<b>01.01.2011</b>
	Rs 000	Rs 000
<b>Statement of financial position</b>		
Other liabilities		
Unamortised fee income on off balance sheet items	163,027	93,879
Adjustment to retained earnings	(163,027)	(93,879)

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)****57 (a) viii** The Bank accounted for its deposits based on amortised cost as opposed to nominal cost under the previous GAAP.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Interest expense		
Deposits	(59,086)	
Adjustment before income tax	(59,086)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Due to other customers	(384,988)	(444,074)
Adjustment to retained earnings	384,988	444,074

**57 (a) ix** The Bank carried out an actuarial valuation of its long term employee benefits given by way of accumulated leave to be utilised prior to retirement. The Bank accounted for the cost of such accumulated leave in the year of utilisation in the form of salaries under the previous GAAP.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Personnel expenses		
Other long term benefits	(7,243)	
Adjustment before income tax	(7,243)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Other liabilities		
Provision for other long term employee benefits	110,601	103,358
Adjustment to retained earnings	(110,601)	(103,358)

**57 (a) x** The Bank had set up an Employee Share Benefit trust (ESBT) for the benefit of employees in the executive carder and above, where by the Bank had given a loan at a concessional interest to the trust in order to purchase shares on behalf of the employees covered by the plan. The employees are paid the appreciation in value of shares net of taxes, interest cost etc. The Bank treated such payments as further advances to the trust under the previous GAAP. The Bank carried out an option valuation of the trust in order to recognise the expense/liability in relation to the plan.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Personnel expenses		
Cash settled share based payments	596,846	
Adjustment before income tax	596,846	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Loans and receivables to other customers		
ESBT loan	(90,879)	-
Other liabilities		
Provision for cash settled share based payments	1,120,660	1,808,385
Adjustment to retained earnings	(1,211,539)	(1,808,385)

## Notes to the Financial Statements

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

- 57 (a) xi** On adoption of SLAS 16 (Revised 2006) - Employee benefits in 2008 the Bank made an irrevocable choice based on the transitional provisions to amortise the transitional liability of the pension fund as at 1st January 2008 on a straight line basis over a period of five years from 1st January 2008. Accordingly Rs. 283,475 Mn had to be amortised annually. On adoption of SLFRSs the previous unamortised transitional liability of the pension fund was charged against retained earnings as at 1st January 2011 and the amount charged to the Income Statement during 2011 was reversed. Further the Bank adopted the exemption in SLFRS 1 to recognise all cumulative unrecognised actuarial gains and losses on the date of adoption of SLFRSs.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Personnel expenses		
Reversal of amortisation of previous transitional liability	283,475	
Actuarial gain/(loss) on defined benefit plans	34,870	
Adjustment before income tax	318,345	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Other liabilities		
Write off of remaining transitional deficit of pension fund	283,475	566,950
Write off of cumulative unrecognised actuarial losses	455,747	490,617
Adjustment to retained earnings	(739,222)	(1,057,567)

- 57 (a) xii** Bank made a prudential provision for the total value of its investment in the bonds issued by the Government of Greece during 2011. Since this provision was made in anticipation of a loss it was reversed on adoption of SLFRSs. This investments was classified as available-for-sale financial assets and measured at fair value.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Impairment for loans and other losses		
Reversal of provision made on investment in foreign government bonds	145,910	
Adjustment before income tax	145,910	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	
<b>Statement of financial position</b>		
Financial investments - Available for sale	145,910	
Adjustment to retained earnings	145,910	

- 57 (a) xiii** Bank changed the basis of measurement for its available-for-sale investments portfolio from cost method to fair value method.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Gains and losses on re-measuring available for sale financial assets		
Net change in fair value on available-for-sale financial assets	(3,334,984)	
Adjustment before income tax	(3,334,984)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Financial investments - Available for sale	2,334,404	5,669,388
Adjustment to available-for-sale reserve	2,334,404	5,669,388

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)****57 (a) xiv** Bank reclassified interest receivable and interest payable accounted for in other assets and other liabilities respectively to the related asset or the liability.

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Other financial assets held for trading	18,537	107
Financial investments - Available for sale	408,155	321,184
Financial investments - Loans and receivables	80,615	69,184
Loans and receivables to other customers	2,771,618	2,188,309
Placements with banks	20,971	102,644
Other assets		
Interest receivable	(3,299,896)	(2,681,428)
Due to banks	305,348	116,194
Other borrowings	31,213	115,702
Subordinated debentures	242,118	124,850
Deposits from customers	7,606,136	5,415,458
Other provisions		
Interest payable	(8,184,815)	(5,772,204)
Adjustment to retained earnings	-	-

**57 (a) xv** Bank reclassified all gains/(losses) on trading assets into net trading income/(expense) and all gains/(losses) on other financial assets as net gains/(losses) on other financial assets.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000
<b>Statement of comprehensive income</b>	
Foreign exchange profit	(988,231)
Dividend income	(409,440)
Net trading income/(expense)	(193,384)
Net gains/(losses) on financial assets	398,936
Other operating income (net)	1,007,049
Other overhead expenses	185,070
Adjustment before income tax	-

**57 (a) xvi** Bank changed the method of computing fair value of investments held at fair value through profit and loss from mid rate to bid rate.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000
<b>Statement of comprehensive income</b>	
Net trading income/(expense)	59
Adjustment before income tax	59

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Trading assets	(102)	(161)
Adjustment to retained earnings	(102)	(161)

## Notes to the Financial Statements

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

- 57 (a) xvii** EPF is an approved provident fund which has been set up to take care of the provident fund liabilities of the Bank. Staff members who are members of the fund are entitled to receive a minimum interest rate higher of one year fixed deposit rate of HNB or National Savings Bank on a semi annual basis. Accordingly this was treated as a defined benefit liability and an actuarial valuation was conducted to value the bank's obligation of the same.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Personnel expenses	(1,219)	
Adjustment before income tax	(1,219)	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Other liabilities	14,882	13,663
Adjustment to retained earnings	(14,882)	(13,663)

- 57 (a) xviii** Bank reclassified bills of exchange, commercial papers, securities purchased under resale agreements and lease receivables as loans and advances.

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Bills of exchange	(959,012)	(1,401,130)
Commercial papers	(24,986)	(158,963)
Securities purchased under resale agreements	(781,193)	(1,185,831)
Lease receivables within one year	(7,138,715)	(4,630,492)
Lease receivables after one year	(16,785,652)	(8,816,761)
Loans and advances	25,689,558	16,193,177
Adjustment to retained earnings	-	-

- 57 (a) xix** Bank changed the financial VAT expense, income tax expense, current tax liabilities and deferred tax liabilities based on adjusted profit and retained earnings.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000	
<b>Statement of comprehensive income</b>		
Value added tax on financial services (VAT)	(74,432)	
Adjustment before income tax	(74,432)	
Income tax expense	74,060	
Adjustment after income tax	74,060	
<b>As at</b>	<b>31.12.2011 Rs 000</b>	<b>01.01.2011 Rs 000</b>
<b>Statement of financial position</b>		
Other provisions	(229,386)	(303,818)
Current tax liabilities	(658,168)	(540,201)
Deferred tax asset	313,785	506,348
Deferred tax liabilities	6,062	154,718
Adjustment to retained earnings	1,195,277	1,195,649



**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)**

- 57 (a) xx** Bank had reclassified provision charge/(release) for loan losses, diminution in value of investment securities/subsidiary and loans written off as impairment loss on loans and other losses

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000
<b>Statement of comprehensive income</b>	
Provision charge/(release) for loans losses	164,562
Diminution in value of investment securities/subsidiary	(202,031)
Loans written off	(2,005)
Impairment for loans and other losses	39,474
Adjustment before income tax	-

- 57 (a) xxi** Provision charge for employee benefits have been reclassified as personnel expenses

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000
<b>Statement of comprehensive income</b>	
Personnel expenses	893,507
Provision charge/(release) for employee benefits	(893,507)
Adjustment before income tax	-

- 57 (a) xxii** Financial VAT included in other overhead expenses has been reclassified as value added tax on financial services

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs 000
<b>Statement of comprehensive income</b>	
Other overhead expenses	(1,149,711)
Value added tax on financial services	1,149,711
Adjustment before income tax	-

- 57 (a) xxiii** Placements included in cash and cash equivalents have been reclassified as placements with banks

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Cash and cash equivalents	(7,199,180)	(11,449,302)
Placements with banks	7,199,180	11,449,302
Adjustment to retained earnings	-	-

## Notes to the Financial Statements

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (a) Explanation of transition to LKASs/SLFRSs - Bank (Contd.)****57 (a) xxiv** Investment securities have been reclassified as financial assets - Available for sale and financial assets - Loans and receivables

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Investment securities	(62,942,501)	(58,704,102)
Financial assets - Available for sale	48,353,360	43,397,497
Financial assets - Loans and receivables	14,589,141	15,306,605
Adjustment to retained earnings	-	-

**57 (a) xxv** Prepayments made for intangible assets included in capital work-in-progress has been reclassified as other assets

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Property, plant and equipment		
Capital work-in-progress	(12,942)	(46,392)
Other assets	12,942	46,392
Adjustment to retained earnings	-	-

**57 (a) xxvi** Borrowings from banks have been reclassified as due to banks and securities sold under repurchase agreements have been reclassified as other borrowings

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Due to banks	19,580,088	10,304,984
Securities sold under repurchase agreements	(6,559,088)	(11,951,727)
Other borrowings	(13,021,000)	1,646,743
Adjustment to retained earnings	-	-

**57 (a) xxvii** Provisions included in other liabilities have been reclassified as other provisions while key deposits included under due to customers have been reclassified as other liabilities

The impact arising from the change is summarised as follows:

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
<b>Statement of financial position</b>		
Other provisions	14,269,734	14,451,827
Other liabilities	(14,259,202)	(14,440,249)
Due to customers	(10,532)	(11,578)
Adjustment to retained earnings	-	-

**57 EXPLANATION OF TRANSITION TO LKASs/SLFRSs (Contd.)****57 (b) Explanation of Impact from Transition to LKASs/SLFRSs Group**

Apart from the adjustments to the Bank figures reflected above and the reclassifications performed in the financial statements of group entities, following are the material changes to the consolidated financial statements from the transition to LKASs/SLFRSs.

**57 (b) i Consolidation of Employee Share Benefit Trust (ESBT)**

ESBT which had been set up to administer the employee share ownership plan has been treated as a special purpose entity and had been consolidated. Accordingly the shares held by the trust has been treated as treasury shares in the consolidated financial statements.

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
Treasury shares	310,938	147,224

**57 (b) ii Classification of securities based on LKAS 32 and 39, previously held in the trading and investment portfolio**

Investments held in trading, investment portfolio and as treasury bills were classified as other financial assets held for trading, financial assets - held to maturity, financial assets - loans and receivables and financial assets - available for sale.

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
Dealing securities - accounted under previous GAAP	(725,304)	(1,046,781)
Transferred to financial assets - Fair value through PL	725,304	1,046,781
	-	-
Investment securities - accounted under previous GAAP	(2,455,111)	(1,544,882)
Transferred to financial assets - Available for sale	160,152	184,946
Transferred to financial assets - Fair value through PL	70,453	38,703
Transferred to financial assets - Loans and receivables	677,420	358,920
Transferred to financial assets - Held to maturity	1,538,786	954,013
Transferred to financial assets - Other assets	8,300	8,300
	-	-
Treasury bills accounted under previous GAAP	(544,821)	(976,447)
Transferred to financial assets - Available for sale	388,832	-
Transferred to financial assets - Fair value through PL		99,604
Transferred to financial assets - Held to maturity	155,989	876,843
	-	-

**57 (b) iii Revaluation impact on reclassification of investment properties as property, plant and equipment**

Two properties accounted for as investment properties in the Bank are classified as property, plant & equipment in the consolidated financial statements. The revaluation impact on these properties have been accounted for in the consolidated financial statements.

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
Increase in revaluation reserve	626,009	626,375

**57 (b) iv Other material reclassifications performed in the consolidated financial statements are as follows**

As at	31.12.2011 Rs 000	01.01.2011 Rs 000
Transfer of investment in securities purchased under resale agreements to loans and advances to other customers	2,148,673	1,527,760
Transfer of securities sold under re purchase agreement to other borrowings	1,752,352	1,571,386
Transfer of commercial papers to loans and advances to other customers	62,551	53,082

## ANNEX I – STATUTORY DECLARATIONS

### Statutory Declaration by the Directors

We the undersigned, who are named in the Prospectus as Directors of HNB, hereby declare and confirm that we have read the provisions of the CSE Listing Rules and of the Companies Act No. 07 of 2007 and any amendments to its relating to the issue of this Prospectus and those provisions have been complied with.

This Prospectus has been seen and approved by us and we collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquires and to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of HNB have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to HNB and making assumptions that are considered to be reasonable at the present point in time in our best judgement.

Name	Designation	Signature
Dr R Jayamaha	Chairman	
Mr A J Alles	Managing Director/Chief Executive Officer	
Ms M A R C Cooray	Director	
Dr W W Gamage	Director	
Dr L R Karunaratne	Director	
Mr L U D Fernando	Director	
Mr D T S H Mudalige	Director	
Miss D S C Jayawardena	Director	
Mr R S Captain	Director	

## **Statutory Declaration by Managers to the Issue**

Wednesday, 10 July 2013

We, Capital Alliance Partners Limited, of Level 5, Millennium House, 46/58, Navam Mawatha, Colombo 02 being the Managers to the Issue of Hatton National Bank PLC, hereby declare and confirm to the best of our knowledge and belief the Prospectus constitutes full and true disclosure of all material facts about the Issue and about Hatton National Bank PLC, whose Debentures are being listed.

Signed by two directors of Capital Alliance Partners Limited, being duly authorised thereto, at Colombo on this 10<sup>th</sup> Day of July 2013

Signed  
W.A.T. Fernando  
Executive Director

Signed  
B.A. West  
Chief Executive Officer/ Director

## **Statutory Declaration by the Company**

Thursday, 13 June 2013

An application has been made to the CSE for permission to deal in and for a listing of the Debentures which are the subject of this Issue. Such permission will be granted when Debentures are listed on the CSE. The CSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the CSE is not to be taken as an indication of the merits of the Company or of the Debentures issued.

The Common Seal of Hatton National Bank PLC affixed on this 13<sup>th</sup> Day of June 2013 at Colombo in the presence of two Directors.

Signed  
K A L T Ranaweera (Mrs)  
Board Secretary/AGM Legal

Signed  
Jonathan Alles  
Managing Director/Chief Executive Officer



### Fitch Rates Sri Lanka's HNB's Debentures Final 'AA-(lka)'

Fitch Ratings-Colombo-19 July 2013: Fitch Ratings has assigned Sri Lanka-based Hatton National Bank PLC's (HNB; AA-(lka)/Stable) issue of unsecured, redeemable debentures of up to LKR3bn a final National Long-Term rating of 'AA-(lka)'.

The assignment of the final rating follows the receipt of final documents which conform to information previously received. The final rating is at the same level as the expected rating assigned on 28 June 2013 (see 'Fitch Rates Sri Lanka's HNB's Debentures 'AA-(lka)(EXP)' at [www.fitchratings.com](http://www.fitchratings.com)).

The debentures are rated at the same level as HNB's National Long Term Rating as they constitute direct, unconditional, unsecured and unsubordinated obligations of the bank. The debentures have a tenor of 10 years with a bullet principal payment at maturity and are issued at LKR67.715 per LKR100 face value. Coupon payments are fixed at 8% per annum and paid annually.

HNB is using the proceeds to fund its lending activities.

#### Key Rating Drivers

HNB's ratings reflect its strong domestic franchise in lending and deposit mobilisation as the fourth-largest bank in Sri Lanka, as well as its satisfactory capitalisation and operating performance. The ratings are constrained by HNB's weaker asset quality than higher-rated peers, as reflected in its higher and more volatile non-performing loan (NPL) ratios (3MFY13: 4.86%, FYE12: 3.66%) and lower provisions coverage.

#### Rating Sensitivities

A notable increase in HNB's risk appetite, or a weakening of underwriting standards, which result in more volatile financial performance and asset quality could lead to a downgrade. In particular, a weakening of asset quality accompanied by a faster-than-expected drop in both capitalisation and provisions for NPLs could also lead to downward rating pressure.

HNB has higher business risk than higher-rated peers, stemming from its higher exposure to retail and SME loans which exhibit higher delinquencies. Consequently the bank's asset quality swings have been more pronounced. This, combined with weak economic conditions at present, leads Fitch to believe that potential for a rating upgrade is limited in the medium-term.

For more details on HNB's ratings and credit profile, please refer to [www.fitchratings.com](http://www.fitchratings.com) and [www.fitchratings.lk](http://www.fitchratings.lk)

#### Contacts:

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Prasanka Rajapaksha, CFA  
Assistant Vice President  
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Fitch Ratings Lanka Ltd  
15-04, East Tower, World Trade Center  
Colombo 1, Sri Lanka.

Secondary Analyst  
Hasira De Silva, CFA  
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Committee Chairperson  
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Senior Director  
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Media Relations: Leslie Tan, Singapore, Tel: +65 67 96 7234, Email: [leslie.tan@fitchratings.com](mailto:leslie.tan@fitchratings.com).

Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(lka)' for National ratings in Sri Lanka. Specific letter grades are not therefore internationally comparable.

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

HNB has a 1.79% equity stake in Fitch Ratings Lanka Ltd. No shareholder other than Fitch, Inc. is involved in the day-to-day rating operations of, or credit reviews undertaken by, Fitch Ratings Lanka Ltd.

Applicable criteria, "Global Financial Institutions Rating Criteria", dated 15 August 2012, and "National Ratings Criteria", dated 19 January 2011, are available on [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:  
Global Financial Institutions Rating Criteria  
National Ratings Criteria

Additional Disclosure  
Solicitation Status

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

## ANNEX III – COLLECTION POINTS

Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

### **Managers to the Issue**

Capital Alliance Partners Limited,  
Level 5, Millennium House,  
46/58 Navam Mawatha,  
Colombo 02.

T: +94 11 2317777

F: +94 11 2317788

### **Registrar to the Issue**

SSP Corporate Services (Pvt) Limited,  
No. 101, Inner Flower Road,  
Colombo 03.

T: +94 11 2573894

F: +94 11 2573609

### **Members of the CSE**

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#### **Acuity Stockbrokers (Private) Limited**

Level 6, Acuity House,  
53, Dharmapala Mawatha,  
Colombo 03.

T: +94 11 2206206

F: +94 11 2206298-9

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#### **Asha Phillip Securities Limited**

10, Prince Alfred Towers, 2<sup>nd</sup> Floor,  
Alfred House Gardens,  
Colombo 03.

T: +94 11 2429100

F: +94 11 2429199

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#### **Asia Securities (Private) Limited**

Level 21, West Tower,  
World Trade Centre,  
Colombo 01.

T: +94 11 2423905/5320000

F: +94 11 2336018

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#### **Assetline Securities (Private) Limited**

No 120, 120A, Pannipitiya Road,  
Battaramulla.

T: +94 11 4700111/2307366

F: +94 11 4700112

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#### **Bartleet Religare Securities (Private) Ltd**

Level "G", "Bartleet House",  
65, Braybrooke Place,  
Colombo 02.

T: +94 11 5220200

F: +94 11 2434985

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#### **Capital Trust Securities (Private) Ltd**

42, Sir Mohamed Macan Markar Mawatha,  
Colombo 03.

T: +94 11 5335225

F: +94 11 5365725

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#### **Nation Lanka Equities (Pvt) Limited**

No 44, Guilford Crescent,  
Colombo 07

T: +94 11 4714300/4714388-9

F: +94 11 2387228

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#### **CT Smith Stockbrokers (Pvt) Limited**

4-14, Majestic City,  
10, Station Road,  
Colombo 04.

T: +94 11 2552290-4

F: +94 11 2552289

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<b>D N H Financial (Private) Limited</b> Level 16, West Tower, World Trade Centre, Colombo 01. T: +94 11 5700777 F: +94 11 5736264	<b>J B Securities (Private) Limited</b> 150, St Joseph Street, Colombo 14.  T: +94 11 2490900 F: +94 11 2430070/2446085
<b>John Keells Stockbrokers (Private) Limited</b> 130, Glennie Street, Colombo 02. +94 11 2306250/2338066-7 F: +94 11 2342068/2326863	<b>Lanka Securities (Private) Limited</b> 228/2, Galle Road, Colombo 04. T: +94 11 4706757/2554942 F: +94 11 4706767
<b>NDB Stockbrokers (Private) Limited</b> 5 <sup>th</sup> Floor, NDB Building, 40, Navam Mawatha, Colombo 02. T: +94 11 2314170-8 F: +94 11 2314180	<b>SC Securities (Private) Limited</b> 2 <sup>nd</sup> Floor, 55, D. R. Wijewardena Mawatha, Colombo 10.  T: +94 11 4711000 F: +94 11 2394405
<b>Somerville Stockbrokers (Private) Limited</b> 137, Vauxhall Street, Colombo 02. T: +94 11 2329201-5/2332827/2338292-3 F: +94 11 2338921	

### **Trading Members**

<b>Softlogic Stockbrokers (Pvt) Limited</b> Level 23, East Tower, World Trade Centre, Colombo 01. T: +94 11 7277000-98 F: +94 11 7277099	<b>Capital Alliance Securities (Pvt) Limited</b> Level 5, "Millennium House", 46/58, Navam Mawatha, Colombo 02. T: +94 11 2317777 F: +94 11 2317788
<b>Claridge Stockbrokers (Private) Limited</b> No.10 Gnanartha Pradeepa Mawatha, Colombo 08.  T: +94 11 2697974 F: +94 11 2689250	<b>First Guardian Equities (Pvt) Limited</b> 32 <sup>nd</sup> Floor, East Tower, World Trade Centre, Colombo 01. T: +94 11 5884400 F: +94 11 5884401
<b>Heraymila Securities Limited</b> Level 8, South Wing, Millennium House, 46/58, Navam Mawatha, Colombo 02. T: +94 11 2359100 F: +94 11 2305522	<b>IIFL Securities Ceylon (Private) Limited</b> 27 <sup>th</sup> Floor, East Tower, World Trade Centre, Colombo 01.  T: +94 11 2333000 F: +94 11 2333383

<b>LOLC Securities (Private) Limited</b> Level 18, West Tower, World Trade Centre, Echelon Square, Colombo 01. T: +94 11 7880880	<b>New World Securities (Private) Ltd</b> 2nd Floor, 45/2, Braybrooke Street, Colombo 02.  T: +94 11 2358700/20 F: +94 11 2358701
<b>SMB Securities (Private) Limited</b> 47, Dharmapala Mawatha, Colombo 03. T: +94 11 5232091 F: +94 11 2339292	<b>Serendib Stock Brokers (Pvt) Limited.</b> No 35/1, Alwis Place, Colombo 03. T: +94 11 2344444 F: +94 11 2434198
<b>Taprobane Securities (Private) Limited</b> 2 <sup>nd</sup> Floor, 10, Gothami Road, Colombo 08. T: +94 11 5328200 F: +94 11 5328177	<b>TKS Securities (Private) Limited</b> 19-01, East Tower World Trade Centre Colombo 01 T: +94 11 7857799 F: +94 11 7857857
<b>Richard Pieris Securities (Pvt) Ltd</b> 69, Hyde Park Corner Colombo 02 T: +94 11 7448900 F: +94 11 2675064	

## ANNEX IV – CUSTODIAN BANKS

<b>Bank of Ceylon</b> Head Office, 11th Floor, 04, Bank of Ceylon Mawatha, Colombo 01. T: +94 11 2448348/2338742	<b>Banque Indosuez</b> C/O Hatton National Bank Limited, Cinnamon Garden Branch, 251, Dharmapala Mawatha, Colombo 07 T: +94 11 2686537/2689176
<b>Citi Bank, N A</b> 65 C, Dharmapala Mawatha, P.O. Box 888, Colombo 07.  T: +94 11 2447318/2449061	<b>Commercial Bank of Ceylon PLC</b> Commercial House, 21, Bristol Street, P.O. Box 853, Colombo 01. T: +94 11 2445010-15/238193-5
<b>Deutsche Bank AG</b> P.O. Box 314, 86, Galle Road, Colombo 03 T: +94 11 2447062/2438057	<b>Hatton National Bank PLC</b> HNB Towers, 479, T. B. Jayah Mawatha, Colombo 10 T: +94 11 2664664
<b>The Hong Kong and Shanghai Banking Corporation Limited</b> 24, Sir Baron Jayathilake Mawatha, Colombo 01. T: +94 11 2325435/2446591	<b>People's Bank</b> Head Office, 5th Floor, Sir Chittampalam A Gardiner Mawatha, Colombo 02/ T: +94 11 2781481/237841-9
<b>Standard Chartered Bank</b> 37, York Street, P. O. Box 112, Colombo 01. T: +94 11 4794400/2480000	<b>Sampath Bank PLC</b> 110, Sir James Peiris Mawatha, Colombo 02.  T: +94 11 5331441
<b>State Bank of India</b> 16, Sir Baron Jayathilake Mawatha, Colombo 01.  T: +94 11 2326133-5/2439405-6	<b>Seylan Bank PLC</b> Level 8, Ceylinco Seylan Towers, 90, Galle Road, Colombo 03. T: +94 11 2456789/4701812
<b>Union Bank of Colombo Limited</b> 15A, Alfred Place, Colombo 03. T: +94 11 2370870	<b>Nations Trust Bank PLC</b> 256, Sri Ramanathan Mawatha, Colombo 15. T: +94 11 4313131
<b>National Savings Bank</b> 255, Galle Road, Colombo 03.  T: +94 11 2573008-15	<b>Pan Asia Banking Corporation PLC</b> Head Office, 450, Galle Road, Colombo 03. T: +94 11 2565565