



# **Hatton National Bank PLC**

**Interim Financial Statements  
for the Six Months Ended 30th June 2012**

## INCOME STATEMENT

	BANK						GROUP					
	For the Six Months ended 30th June			For the Quarter ended 30th June			For the Six Months ended 30th June			For the Quarter ended 30th June		
	2012 Rs. 000	2011 Rs. 000	% Increase/ (Decrease)	2012 Rs. 000	2011 Rs. 000	% Increase/ (Decrease)	2012 Rs. 000	2011 Rs. 000	% Increase/ (Decrease)	2012 Rs. 000	2011 Rs. 000	% Increase/ (Decrease)
<b>Income</b>	<b>24,249,009</b>	17,619,191	38	<b>12,883,478</b>	9,089,063	42	<b>25,993,659</b>	19,230,151	35	<b>13,662,387</b>	9,924,953	38
<b>Interest Income</b>	<b>21,419,642</b>	15,460,881	39	<b>11,556,286</b>	7,881,761	47	<b>21,723,316</b>	15,653,968	39	<b>11,715,637</b>	7,978,612	47
Interest Income on Loans and Advances	<b>18,266,731</b>	13,009,810	40	<b>9,747,164</b>	6,708,763	45	<b>18,171,793</b>	12,903,645	41	<b>9,701,627</b>	6,654,665	46
Interest Income on other Interest Earning Assets	<b>3,152,911</b>	2,451,071	29	<b>1,809,122</b>	1,172,998	54	<b>3,551,523</b>	2,750,323	29	<b>2,014,010</b>	1,323,947	52
<b>Less: Interest Expense</b>	<b>11,575,830</b>	7,628,108	52	<b>6,289,254</b>	4,008,774	57	<b>11,628,262</b>	7,676,411	51	<b>6,313,342</b>	4,031,845	57
Interest Expenses on Deposits	<b>9,788,257</b>	6,491,383	51	<b>5,193,260</b>	3,404,674	53	<b>9,772,541</b>	6,487,557	51	<b>5,183,649</b>	3,402,682	52
Interest Expenses on other Interest Bearing Liabilities	<b>1,787,573</b>	1,136,725	57	<b>1,095,994</b>	604,100	81	<b>1,855,721</b>	1,188,854	56	<b>1,129,693</b>	629,163	80
<b>Net Interest Income</b>	<b>9,843,812</b>	7,832,773	26	<b>5,267,032</b>	3,872,987	36	<b>10,095,054</b>	7,977,557	27	<b>5,402,295</b>	3,946,767	37
<b>Non- Interest Income</b>	<b>2,829,367</b>	2,158,310	31	<b>1,327,192</b>	1,207,302	10	<b>4,270,343</b>	3,576,183	19	<b>1,946,750</b>	1,946,341	-
Foreign Exchange Income	<b>840,662</b>	526,649	60	<b>366,689</b>	250,205	47	<b>844,047</b>	529,196	59	<b>368,716</b>	251,425	47
Other Income	<b>1,988,705</b>	1,631,661	22	<b>960,503</b>	957,097	-	<b>3,426,296</b>	3,046,987	12	<b>1,578,034</b>	1,694,916	(7)
	<b>12,673,179</b>	9,991,083	27	<b>6,594,224</b>	5,080,289	30	<b>14,365,397</b>	11,553,740	24	<b>7,349,045</b>	5,893,108	25
<b>Less: Non - Interest Expenses</b>	<b>6,820,823</b>	6,013,388	13	<b>3,544,312</b>	3,036,642	17	<b>8,233,734</b>	7,294,777	13	<b>4,193,666</b>	3,710,184	13
Personnel Costs	<b>2,699,448</b>	2,416,154	12	<b>1,435,387</b>	1,217,099	18	<b>2,980,395</b>	2,665,605	12	<b>1,570,471</b>	1,332,771	18
Provision for Staff Retirement Benefits	<b>496,329</b>	461,732	7	<b>253,870</b>	219,645	16	<b>504,935</b>	468,028	8	<b>259,102</b>	222,927	16
Premises, Equipment & Establishment Expenses	<b>1,647,662</b>	1,471,614	12	<b>855,962</b>	750,189	14	<b>1,623,357</b>	1,393,986	16	<b>856,100</b>	710,135	21
Loss on Trading / Investment Securities	<b>154,785</b>	41,437	274	<b>89,239</b>	37,983	135	<b>213,321</b>	41,437	415	<b>116,484</b>	37,983	207
Amortization of Intangible Assets	<b>84,826</b>	85,944	(1)	<b>42,558</b>	41,288	3	<b>91,239</b>	92,466	(1)	<b>45,707</b>	44,609	2
Other Operating Expenses	<b>1,737,773</b>	1,536,507	13	<b>867,296</b>	770,438	13	<b>2,820,487</b>	2,633,255	7	<b>1,345,802</b>	1,361,759	(1)
<b>Less: Provision for Bad &amp; Doubtful Debts &amp; Loans written off</b>	<b>611,722</b>	(152,554)	501	<b>381,887</b>	(73,257)	621	<b>611,722</b>	(152,554)	501	<b>381,887</b>	(73,256)	621
Provisions -General	<b>77,277</b>	(90,876)	185	<b>18,967</b>	(22,130)	186	<b>77,277</b>	(90,876)	185	<b>18,968</b>	(22,129)	186
Provisions -Specific	<b>784,599</b>	176,579	344	<b>512,617</b>	94,467	443	<b>784,599</b>	176,579	344	<b>512,617</b>	94,467	443
Recoveries(-)	<b>(250,154)</b>	(238,455)	5	<b>(149,697)</b>	(145,772)	3	<b>(250,154)</b>	(238,455)	5	<b>(149,698)</b>	(145,772)	3
Loans Written -Off	-	198	(100)	-	178	(100)	-	198	(100)	-	178	(100)
<b>Provision Charged / (Reversal) for decline in value of Investments (Net)</b>	<b>19,302</b>	-	-	<b>(5,932)</b>	-	-	<b>19,302</b>	4,672	313	<b>(5,932)</b>	4,672	(227)
<b>Operating Profit on Ordinary Activities before Taxes</b>	<b>5,221,332</b>	4,130,249	26	<b>2,673,957</b>	2,116,904	26	<b>5,500,639</b>	4,406,845	25	<b>2,779,423</b>	2,251,508	23
Less: Value Added Tax on Financial Services	<b>734,437</b>	687,402	7	<b>314,498</b>	371,971	(15)	<b>734,437</b>	687,402	7	<b>314,498</b>	371,971	(15)
<b>Operating Profit on Ordinary Activities before Corporate Tax</b>	<b>4,486,895</b>	3,442,847	30	<b>2,359,459</b>	1,744,933	35	<b>4,766,202</b>	3,719,443	28	<b>2,464,925</b>	1,879,537	31
Share of Associate Companies Profit / (Loss)	-	-	-	-	-	-	<b>(2,647)</b>	(12,246)	78	<b>9,576</b>	(1,727)	654
<b>Operating Profit before Corporate Tax</b>	<b>4,486,895</b>	3,442,847	30	<b>2,359,459</b>	1,744,933	35	<b>4,763,555</b>	3,707,197	28	<b>2,474,501</b>	1,877,810	32
Less: Tax on Profits on Ordinary Activities	<b>1,413,555</b>	1,126,893	25	<b>722,459</b>	562,236	28	<b>1,442,995</b>	1,165,412	24	<b>741,698</b>	575,702	29
<b>Operating Profit after Corporate Tax</b>	<b>3,073,340</b>	2,315,954	33	<b>1,637,000</b>	1,182,697	38	<b>3,320,560</b>	2,541,785	31	<b>1,732,803</b>	1,302,108	33
Less: Minority Interest	-	-	-	-	-	-	<b>79,640</b>	27,944	185	<b>25,199</b>	9,581	163
<b>Extraordinary Items (Net)</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating Profit for the Period</b>	<b>3,073,340</b>	2,315,954	33	<b>1,637,000</b>	1,182,697	38	<b>3,240,920</b>	2,513,841	29	<b>1,707,604</b>	1,292,527	32
Basic Earnings per Ordinary Share (Rs.)	<b>7.75</b>	6.34	22	<b>4.13</b>	3.24	28	<b>8.17</b>	6.88	19	<b>4.31</b>	3.54	22
Diluted Earnings per Ordinary Share (Rs.)	<b>7.73</b>	6.29	23	<b>4.12</b>	3.22	28	<b>8.15</b>	6.82	19	<b>4.29</b>	3.51	22

## BALANCE SHEET

	As at 30.06.2012 Rs. 000	BANK As at 31.12.2011 Rs. 000 (Audited)	% Increase/ (Decrease)	As at 30.06.2012 Rs. 000	GROUP As at 31.12.2011 Rs. 000 (Audited)	% Increase/ (Decrease)
<b>ASSETS</b>						
Cash in Hand	5,861,675	6,919,918	(15)	5,939,443	6,953,990	(15)
Statutory Deposit with Central Bank of Sri Lanka	19,620,645	18,683,405	5	19,620,645	18,683,405	5
Statutory Deposit with Central Bank of Oman	-	-	-	17,389	14,792	18
Due from Banks and other Financial Institutions	16,501,955	9,217,314	79	19,180,582	12,251,489	57
<b>Investments - Trading account</b>	<b>830,526</b>	<b>1,142,064</b>	<b>(27)</b>	<b>1,276,654</b>	<b>1,867,368</b>	<b>(32)</b>
Government Securities	243,191	418,748	(42)	250,675	888,048	(72)
Other Securities	587,335	723,316	(19)	1,025,979	979,320	5
<b>Investments - Held to Maturity</b>	<b>65,174,547</b>	<b>63,102,771</b>	<b>3</b>	<b>68,529,661</b>	<b>66,115,203</b>	<b>4</b>
Government Securities	61,327,255	58,941,727	4	63,639,902	61,049,603	4
Other Securities	3,847,292	4,161,044	(8)	4,889,759	5,065,600	(3)
Less. Provision for decline in value of investment	(120,418)	(160,270)	(25)	(132,918)	(172,770)	(23)
Investments in Associates and Subsidiaries	2,440,959	2,440,959	-	408,102	384,319	6
Investments in Joint Venture Company	655,000	655,000	-	-	-	-
<b>Total Loans and Advances</b>						
<b>Total Performing Loans and Advances</b>	<b>277,427,956</b>	<b>251,710,525</b>	<b>10</b>	<b>276,062,179</b>	<b>250,103,231</b>	<b>10</b>
Bills of Exchange	456,254	347,323	31	456,254	347,323	31
Overdrafts	51,111,954	46,878,540	9	50,746,154	46,355,672	9
Receivable on Leases	25,343,327	24,031,886	5	25,343,327	24,031,886	5
Other Loans and Advances	200,516,421	180,452,776	11	199,516,444	179,368,350	11
<b>Total Non-performing Loans and Advances</b>	<b>15,015,385</b>	<b>11,966,700</b>	<b>25</b>	<b>15,015,385</b>	<b>11,966,700</b>	<b>25</b>
Bills of Exchange	106,302	106,026	-	106,302	106,026	-
Overdrafts	2,192,235	1,242,986	76	2,192,235	1,242,986	76
Receivable on Leases	920,470	536,893	71	920,470	536,893	71
Other Loans and Advances	11,796,378	10,080,795	17	11,796,378	10,080,795	17
Interest Receivable	-	-	-	-	-	-
<b>Total Gross Loans and Advances</b>	<b>292,443,341</b>	<b>263,677,225</b>	<b>11</b>	<b>291,077,564</b>	<b>262,069,931</b>	<b>11</b>
Less:						
Suspended Interest	1,684,354	1,670,016	1	1,684,354	1,670,016	1
Specific Loan loss Provision	3,903,978	3,146,829	24	3,903,978	3,146,829	24
General Loan loss Provision	1,132,345	1,037,448	9	1,132,345	1,037,448	9
<b>Net Loans and Advances</b>	<b>285,722,664</b>	<b>257,822,932</b>	<b>11</b>	<b>284,356,887</b>	<b>256,215,638</b>	<b>11</b>
Other Assets	11,112,188	9,592,752	16	12,234,926	10,642,999	15
Intangible Assets	493,717	549,503	(10)	609,845	670,774	(9)
Investment Properties	347,080	349,374	(1)	166,743	169,028	(1)
Property, Plant & Equipment (net)	7,828,118	7,834,866	-	14,711,749	14,789,627	(1)
<b>Total Assets</b>	<b>416,468,656</b>	<b>378,150,588</b>	<b>10</b>	<b>426,919,708</b>	<b>388,585,862</b>	<b>10</b>

BALANCE SHEET						
	As at 30.06.2012 Rs. 000	BANK As at 31.12.2011 Rs. 000 (Audited)	% Increase/ (Decrease)	As at 30.06.2012 Rs. 000	GROUP As at 31.12.2011 Rs. 000 (Audited)	% Increase/ (Decrease)
<b>LIABILITIES</b>						
<b>Total Deposits</b>	<b>314,112,252</b>	<b>288,029,227</b>	<b>9</b>	<b>313,591,948</b>	<b>287,595,380</b>	<b>9</b>
Demand Deposits	22,018,528	21,771,035	1	21,909,792	21,648,695	1
Savings Deposits	109,370,097	111,117,054	(2)	109,361,987	111,110,306	(2)
Time Deposits	180,526,645	151,257,873	19	180,134,259	150,953,114	19
Margin Deposits	1,056,333	1,377,110	(23)	1,056,333	1,377,110	(23)
Other Deposits	1,140,649	2,506,155	(54)	1,129,577	2,506,155	(55)
<b>Total Borrowings</b>	<b>38,854,980</b>	<b>30,143,821</b>	<b>29</b>	<b>40,134,371</b>	<b>31,972,208</b>	<b>26</b>
Borrowings from CBSL	1,804,868	1,713,317	5	1,804,868	1,713,317	5
Borrowings from Banks and Financial Institutions in Sri Lanka	13,156,388	9,731,549	35	13,256,388	9,841,904	35
Borrowings from Banks and Financial Institutions Abroad	14,126,450	6,947,900	103	14,140,739	6,940,330	104
Securities sold under Repurchase Agreements	4,842,121	6,559,088	(26)	6,021,473	8,311,440	(28)
Subordinate Term Debentures	4,549,359	4,781,098	(5)	4,535,109	4,754,348	(5)
Other Borrowings	375,794	410,869	(9)	375,794	410,869	(9)
Insurance provision -Life	-	-	-	3,342,280	2,990,998	12
Insurance provision -General	-	-	-	926,342	924,262	-
Deferred Taxation	1,169,696	1,168,800	-	1,164,928	1,164,032	-
Current Taxation	2,375,833	1,679,787	41	2,470,205	1,750,987	41
Other Liabilities	21,054,469	20,041,090	5	21,958,734	21,022,002	4
<b>Total Liabilities</b>	<b>377,567,230</b>	<b>341,062,725</b>	<b>11</b>	<b>383,588,808</b>	<b>347,419,869</b>	<b>10</b>
<b>EQUITY CAPITAL AND RESERVES</b>						
Stated Capital	12,522,656	11,451,451	9	12,522,656	11,451,451	9
Statutory Reserves	3,426,312	2,778,337	23	3,426,312	2,778,337	23
Total Other Reserves	22,952,458	22,858,075	-	26,499,737	26,143,908	1
	<b>38,901,426</b>	<b>37,087,863</b>	<b>5</b>	<b>42,448,705</b>	<b>40,373,696</b>	<b>5</b>
Minority Interest	-	-	-	882,195	792,297	11
	<b>38,901,426</b>	<b>37,087,863</b>	<b>5</b>	<b>43,330,900</b>	<b>41,165,993</b>	<b>5</b>
<b>Total Liabilities &amp; Shareholder's Funds</b>	<b>416,468,656</b>	<b>378,150,588</b>	<b>10</b>	<b>426,919,708</b>	<b>388,585,862</b>	<b>10</b>
<b>Contingencies</b>	<b>168,367,983</b>	<b>145,448,691</b>	<b>16</b>	<b>168,367,983</b>	<b>145,448,691</b>	<b>16</b>
<b>Commitments &amp; Contra Accounts</b>	<b>8,674,474</b>	<b>7,140,352</b>	<b>21</b>	<b>8,674,474</b>	<b>7,140,532</b>	<b>21</b>
<b>Net asset value per share</b>	<b>Rs. 98.06</b>	<b>Rs. 93.54</b>	<b>5</b>	<b>Rs. 107.00</b>	<b>Rs. 101.83</b>	<b>5</b>
No of Employees	4,634	4,584				
No of Customer centers	243	240				

## 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 30th June 2012 and its profit for the 6 months ended 30th June 2012.

(Sgd.)

**Ajantha de Vas Gunasekara**

Chief Financial Officer

31st July 2012

We the undersigned, being the Managing Director / Chief Executive Officer and the Senior Director 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, it's Associate, Joint Venture and Subsidiary Companies unless indicated as audited.

(Sgd.)

**Rajendra Theagarajah**

Managing Director / Chief Executive Officer

31st July 2012

(Sgd.)

**Pamela C. Cooray**

Senior Director

31st July 2012

## STATEMENT OF CHANGES IN EQUITY

BANK	Stated Capital		Statutory Reserves		Capital Reserve	Other Reserves		Total
	Ordinary Voting	Ordinary Non-voting	Statutory Reserve Fund	Investment Fund Account *		General Reserve	Retained Earnings	
	Rs.000	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
For the Six months ended 30.06.2012								
Balance as at 01.01.2012	9,143,326	2,308,125	1,800,000	978,337	3,009,986	15,400,000	4,448,089	37,087,863
Final Dividend 2011 - Cash	-	-	-	-	-	-	(1,166,032)	(1,166,032)
Final Dividend 2011 - Scrip	840,958	208,471	-	-	-	-	(1,166,032)	(116,603)
Deferred Tax Liability for Revaluation Reserve	-	-	-	-	1,082	-	-	1,082
Shares Issued under ESOP	18,320	3,456	-	-	-	-	-	21,776
Transferred to Investment Fund	-	-	-	647,975	-	-	(647,975)	-
Net Profit for the Six Months	-	-	-	-	-	-	3,073,340	3,073,340
Balance as at 30.06.2012	10,002,604	2,520,052	1,800,000	1,626,312	3,011,068	15,400,000	4,541,390	38,901,426
For the Six months ended 30.06.2011								
Balance as at 01.01.2011	3,854,980	1,463,570	1,510,000	-	3,024,969	13,000,000	4,420,248	27,273,767
Final Dividend 2010	-	-	-	-	-	-	(1,310,978)	(1,310,978)
Deferred Tax Liability for Revaluation Reserve	-	-	-	-	3,308	-	-	3,308
Shares Issued under ESOP	39,611	3,930	-	-	-	-	-	43,541
Transferred to Investment Fund	-	-	-	386,643	-	-	(386,643)	-
Dividend Reversal	-	-	-	-	-	-	67,285	67,285
Transfer of Revaluation Reserve for disposal of PPE	-	-	-	-	(19,374)	-	19,374	-
Net Profit for the Six Months	-	-	-	-	-	-	2,315,954	2,315,954
Balance as at 30.06.2011	3,894,591	1,467,500	1,510,000	386,643	3,008,903	13,000,000	5,125,240	28,392,877

GROUP	Stated Capital		Statutory Reserves		Capital Reserve	Other Reserves		Retained Earnings	Minority Interest	Total
	Ordinary Voting	Ordinary Non voting	Statutory Reserve Fund	Investment Fund Account *		General Reserve	Exchange Equalization Reserve			
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
For the Six months ended 30.06.2012										
Balance as at 01.01.2012	9,143,326	2,308,125	1,800,000	978,337	5,776,808	15,400,000	5,733	4,961,367	792,297	41,165,993
Final Dividend 2011- Cash	-	-	-	-	-	-	-	(1,166,032)	(43,389)	(1,209,421)
Final Dividend 2011- Scrip	840,958	208,471	-	-	-	-	-	(1,166,032)	-	(116,603)
Deferred tax liability for Revaluation Reserve	-	-	-	-	1,082	-	-	-	-	1,082
Exchange gain on translation of Financial Statements of foreign operations	-	-	-	-	-	-	11,146	-	11,367	22,513
Shares Issued under ESOP	18,320	3,456	-	-	-	-	-	-	-	21,776
Transferred to investment fund	-	-	-	647,975	-	-	-	(647,975)	-	-
Subsidiary write off	-	-	-	-	-	-	3,665	(3,665)	-	-
Increase in Minority Interest on Deemed Disposal	-	-	-	-	-	-	-	82,720	42,280	125,000
Net profit for the Six Months	-	-	-	-	-	-	-	3,240,920	79,640	3,320,560
Balance as at 30.06.2012	10,002,604	2,520,052	1,800,000	1,626,312	5,777,890	15,400,000	20,544	5,301,303	882,195	43,330,900
For the Six months ended 30.06.2011										
Balance as at 01.01.2011	3,113,130	2,205,420	1,510,000	-	5,791,791	13,000,000	2,744	4,355,024	588,592	30,566,701
Final Dividend for 2010	-	-	-	-	-	-	-	(1,310,978)	(31,548)	(1,342,526)
Deferred tax liability for Revaluation Reserve	-	-	-	-	3,308	-	-	-	-	3,308
Exchange loss on translation of Financial Statements of foreign operation	-	-	-	-	-	-	(1,622)	-	(94)	(1,716)
Shares Issued under ESOP	39,611	3,930	-	-	-	-	-	-	-	43,541
Transferred to investment fund	-	-	-	386,643	-	-	-	(386,643)	-	-
Dividend Reversal	-	-	-	-	-	-	-	67,285	-	67,285
Transfer of Revaluation Reserve for disposal of PPE	-	-	-	-	(19,374)	-	-	19,374	-	-
Investment made by Minority Share holders in Right issue	-	-	-	-	-	-	-	-	156,250	156,250
Net profit for the Six Months	-	-	-	-	-	-	-	2,513,841	27,944	2,541,785
Balance as at 30.06.2011	3,152,741	2,209,350	1,510,000	386,643	5,775,725	13,000,000	1,122	5,257,903	741,144	32,034,628

\* Tax saving on the reduction of Financial VAT and Income Tax rate transferred to the Investment Fund as per the guidelines issued by the Department of Inland Revenue and the Central Bank of Sri Lanka.

## CASH FLOW STATEMENT

Cash Flow Statement for the 6 months ended 30th June	BANK		GROUP	
	2012 Rs'000	2011 Rs'000	2012 Rs'000	2011 Rs'000
<b>Cash Flows from Operating Activities</b>				
Interest & Commission Receipts	20,740,399	14,918,233	21,027,126	15,196,727
Interest Payments	(10,486,336)	(6,943,376)	(10,542,776)	(6,991,679)
Receipts from Other Operating Activities	991,728	571,077	2,361,821	1,806,098
Cash Payments to Employees	(3,119,950)	(2,958,917)	(3,432,911)	(3,214,664)
Cash Payments to Suppliers	(1,276,679)	(1,104,602)	(1,166,630)	(1,037,706)
Recoveries of Loans Written-off in Previous Years	3,414	2,313	3,414	2,313
Cash Payments to Other Operating Activities	(2,417,979)	(3,803,341)	(3,137,778)	(4,414,734)
Operating Profit before Changes in Operating Assets & Liabilities	4,434,597	681,387	5,112,266	1,346,355
<b>(Increase) / Decrease in Operating Assets</b>				
Deposits held for Regulatory or Monetary Control Purpose	(937,240)	(1,819,621)	(937,240)	(1,819,434)
Loans and Advances	(28,511,453)	(39,058,734)	(28,752,970)	(39,119,398)
Other Short Term Assets	(631,382)	(954,936)	(852,726)	(1,108,911)
	(30,080,075)	(41,833,291)	(30,542,936)	(42,047,743)
<b>Increase / (Decrease) in Operating Liabilities</b>				
Deposits from Customers	25,677,425	18,853,301	25,590,968	18,834,706
Negotiable Certificate of Deposit	405,600	309,520	405,600	309,520
Other Liabilities	(598,368)	201,064	(424,129)	160,514
	25,484,657	19,363,885	25,572,439	19,304,740
<b>Net Cash Generated from / (used in) Operating Activities before Income Tax</b>	<b>(160,821)</b>	<b>(21,788,019)</b>	<b>141,769</b>	<b>(21,396,648)</b>
Income Taxes Paid	(499,603)	(917,142)	(505,871)	(922,143)
<b>Net Cash used in Operating Activities</b>	<b>(660,424)</b>	<b>(22,705,161)</b>	<b>(364,102)</b>	<b>(22,318,791)</b>
<b>Cash Flows from Investing Activities</b>				
Dividend Income	109,296	273,187	71,914	268,635
Net Sales / (Purchase) of Dealing Securities	240,151	(98,821)	467,595	(405,921)
Net (Purchase) / Sales of Investment Securities	(458,655)	2,586,128	(755,950)	2,376,232
Purchase of Property, Plant & Equipment	(395,540)	(538,303)	(405,139)	(551,785)
Purchase of Intangible Assets	(29,040)	(128,174)	(30,867)	(132,640)
Improvements to Investment Properties	-	(393)	-	(393)
Investment in Subsidiary Company	-	(234,320)	-	-
Investment in Associates by subsidiary & joint venture company	-	-	(20,000)	(103,661)
Proceeds from Sale of Property, Plant & Equipment	20,544	45,919	20,897	47,350
Net Cash Flows Generated from / (used in) Investing Activities	(513,244)	1,905,223	(651,550)	1,497,817
<b>Cash Flows from Financing Activities</b>				
Decrease in Debentures	(262,500)	-	(250,000)	-
Increase of Borrowings	8,942,898	12,229,898	8,381,402	12,103,125
Dividends Paid	(1,296,517)	(1,226,202)	(1,339,906)	(1,257,750)
Proceeds from Issue of Shares under ESOP	21,776	43,541	21,776	43,541
Share Issue Expenses	(5,591)	(2,023)	(8,074)	(6,357)
Proceeds from deemed disposal of subsidiary company	-	-	125,000	-
Minority contribution for Right issue	-	-	-	156,250
<b>Net Cash Generated from Financing Activities</b>	<b>7,400,066</b>	<b>11,045,214</b>	<b>6,930,198</b>	<b>11,038,809</b>
<b>Net Increase/ (Decrease) in Cash and Cash Equivalents</b>	<b>6,226,398</b>	<b>(9,754,724)</b>	<b>5,914,546</b>	<b>(9,782,165)</b>
Cash and Cash Equivalents at the Beginning of the period	16,137,232	19,759,625	19,205,479	21,678,304
<b>Cash and Cash Equivalents at the End of the period</b>	<b>22,363,630</b>	<b>10,004,901</b>	<b>25,120,025</b>	<b>11,896,154</b>

SEGMENT REPORTING														
	Banking		Leasing		Dealing **		Property		Insurance		Elimination / unallocated		Consolidated	
6 months ended 30th June	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	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
Total revenue from														
external customers	22,318,375	16,209,398	1,822,466	1,286,835	229,075	324,702	80,663	150,108	1,565,148	1,298,926	(22,071)	(39,818)	25,993,659	19,230,151
Inter segment revenue	108,168	122,958	-	-	4,886	8,064	307,442	307,503	41,615	27,028	-	-	462,111	465,553
Total revenue	22,426,543	16,332,356	1,822,466	1,286,835	233,961	332,766	388,105	457,611	1,606,763	1,325,954	(22,071)	(39,818)	26,455,767	19,695,704
Segment result	3,736,211	3,070,796	1,233,742	818,897	54,994	124,771	209,020	192,957	133,698	82,891	(28,362)	(40,553)	5,339,303	4,249,759
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	-	-	(573,101)	(530,316)
Profit from operations	-	-	-	-	-	-	-	-	-	-	-	-	4,766,202	3,719,443
Income from associates	-	-	-	-	-	-	-	-	-	-	-	-	(2,647)	(12,246)
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	(1,442,995)	(1,165,412)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(79,640)	(27,944)
Net profit for period	-	-	-	-	-	-	-	-	-	-	-	-	3,240,920	2,513,841
Total assets	390,204,859	326,557,022	26,263,797	19,331,604	2,799,485	3,271,037	7,402,038	8,084,960	6,446,319	5,498,295	(6,196,790)	(6,837,899)	426,919,708	355,905,019
Total liabilities	351,303,433	298,164,145	26,263,797	19,331,604	1,581,918	2,183,461	2,244,911	3,217,665	4,860,247	4,113,805	(2,665,498)	(3,140,289)	383,588,808	323,870,391
Cash flow from operating activities	1,034,593	(17,292,875)	(1,695,017)	(5,412,286)	(84,071)	(61,980)	335,516	30,404	390,993	459,538	(346,116)	(41,593)	(364,102)	(22,318,792)
Cash flow from Investing activities	(513,244)	1,905,223	-	-	2,569	2,790	(2,252)	(8,263)	(443,339)	(847,540)	304,717	445,606	(651,550)	1,497,816
Cash flow from financing activities	7,400,066	11,045,214	-	-	83,621	-	(225,040)	(162,520)	-	387,026	(328,449)	(230,911)	6,930,198	11,038,809

\*\* Stock Broking, Security Dealings, Remittances and Foreign Currency Related Services.

## EXPLANATORY NOTES

- There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year 2011.
- 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.
- The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which have become applicable for financial periods beginning on or after 1st January 2012. However in accordance with the ruling issued by the Institute of Chartered Accountants of Sri Lanka on "Comparative figures in the interim financial statements", the Bank has adopted option 2 as given in such ruling where-by these interim financial statements were prepared in accordance with Sri Lanka Accounting Standards (SLAS) existed immediately prior to 1st January 2012, with disclosures on impact to the Statement of Comprehensive Income for the period and Net Assets based on SLFRS/LKAS. The impact is given in note 12 below.
- These interim financial statements are presented in accordance with SLAS 35 – 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**	
	Voting	Non voting	Voting	Non voting
Number of options brought forward	82,713	15,331	3,427,335	839,696
Number of options exercised	-	-	(164,410)	(52,627)
Number of options expired	-	-	-	-
Number of options remaining	82,713	15,331	3,262,925	787,069
Option exercise price	Rs. 77.33	Rs. 35.07	Rs. 111.43	Rs. 65.67
Average market price	Rs. 149.48	Rs. 93.25	Rs. 149.48	Rs. 93.25

\*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.

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 its associate company Delma Exchange & the Group's interest in Joint Venture Acuity Partners (Pvt) Ltd.
- Pursuant to a resolution adopted by the Shareholders of the Bank at the said 43rd Annual General Meeting (AGM), 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. The basic and the diluted earnings per share (EPS) disclosed in the Income Statement have been adjusted for the said scrip dividend. The net asset value per share as at 31st December 2011, is restated based on the said scrip dividend.
- At the 43rd AGM of the Bank which was held on 30th March 2012, Article 74 of the Articles of Association of the Bank was amended to increase the maximum number of Directors from 10 to 12.
- Bank's investment of Rs. 10.063 Mn in the subsidiary Commercial Interlink Services Inc which ceased commercial activities on 1st October 2010 was written off against the provision during the period. Further the receivable from the said subsidiary of Rs. 23.552 Mn was also written off against the provision.
- There are no material events that took place after the balance sheet date which require adjustment or disclosure in the financial statements.
- Impact on SLFRS/LKAS adoption - Bank**

<b>Impact to the Statement of Comprehensive Income</b>	<b>Rs. 000</b>
<b>Net profit for the 6 months ended 30th June 2012</b>	<b>3,073,340</b>
(as per SLAS applicable immediately prior to 01st January 2012)	
Add/(less) : Impact on SLFRS/LKAS adoption	
Impairment of loans and advances	(50,554)
Measurement of customer deposits at effective interest rate	(70,008)
Measurement of forward exchange contracts & swaps (derivatives) at fair value	67,111
Amortisation of front end fees	96,336
Impact from other adjustments relating to LKAS 32 & 39	30,223

**Adjusted net profit for the 6 months ended 30th June 2012** **3,146,448**

<b>Impact on Statement of Other Comprehensive Income</b>	
Measurement of Available For Sale securities at fair value	(412,344)
<b>Total comprehensive income for the 6 months ended 30th June 2012</b>	<b>2,734,104</b>

<b>Impact to the Net Assets</b>	<b>Rs. 000</b>
<b>Net assets as at 30th June 2012</b>	<b>38,901,426</b>
(as per SLAS applicable immediately prior to 1st January 2012)	
Add/(less) : Impact on SLFRS/LKAS adoption	
Measurement of Available For Sale securities at fair value	2,058,645
Measurement of staff loans at fair value	54,479
Impairment on loans & advances	(957,734)
Measurement of off balance sheet items at fair value	(133,818)
Measurement of customer deposits at effective interest rate	314,980
Measurement of forward exchange contracts & swaps (derivatives) at fair value	53,347
Amortisation of front end fee	96,336
Impact from other adjustments relating to LKAS 32 & 39	(7,048)
<b>Adjusted net assets as at 30th June 2012</b>	<b>40,380,613</b>

The impact from the application of LKAS 32 – Financial Instruments – Presentation and LKAS 39 – Financial Instruments – Recognition & Measurement has been incorporated in the above analysis. The Bank is in the process of assessing the impact from the other standards.

The above figures are provisional and subject to review by the auditors.

The tax impact on the above adjustments relating to the adoption of SLFRS/LKAS has not been considered in computing the adjusted comprehensive income for the 6 months ended 30th June 2012 and the adjusted net assets as at 30th June 2012.



## SELECTED PERFORMANCE INDICATORS

	As at 30.06.2012	As at 31.12.2011	As at 30.06.2012	As at 31.12.2011
	Bank		Group	
<b>Regulatory Capital Adequacy</b>				
Core capital (Tier 1 Capital) Rs.Mn	30,575	31,833	32,547	33,664
Total Capital Base. Rs.Mn	38,275	36,217	40,766	38,557
Core capital adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	11.57%	12.76%	11.80%	12.90%
Total capital adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	14.49%	14.51%	14.78%	14.77%

	As at 30.06.2012	As at 31.12.2011
	<b>Bank</b>	
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non-Performing Advances Ratio,% (net of Interest in Suspense)	4.58%	3.93%
Net Non-Performing Advances Ratio,% (net of Interest in Suspense and provisions)	2.85%	2.33%
<b>Profitability (Annualised)</b>		
Interest Margin, %	4.87%	4.68%
Return on Assets (before Tax), %	2.22%	2.22%
Return on Equity, %	16.21%	17.84%
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets, Rs.Mn		
Domestic Banking Unit	73,392	67,711
Off-Shore Banking Unit	7,766	6,114
Statutory Liquid Assets Ratio % (Minimum requirement 20%)		
Domestic Banking Unit	20.86%	21.45%
Off-Shore Banking Unit	22.99%	21.60%

## LISTED DEBENTURE INFORMATION

Quarter Ended 30th June	Market Value				Yield as at Last Trade Done	2012	2011
	Highest	Lowest	Highest	Lowest			
					Quarter Ended 30th June		
					HNB DEBENTURES 2002		
					10 year Fixed Rate (14.20% p.a.)	N/T	N/T
					10 year Floating Rate (TB + 1.25% p.a.)	N/T	N/T
					HNB DEBENTURES 2006		
					7 year Floating Rate (TB + 2.25% p.a.)	N/T	N/T
					8 year Floating Rate (TB + 2.25% p.a.)	N/T	N/T
					15 year Fixed Rate (11.00% p.a.)	N/T	N/T
					18 year Fixed Rate (11.25% p.a.)	N/T	N/T
					HNB DEBENTURES 2007		
					10 year Fixed Rate (16.00% p.a.)	N/T	N/T
					15 year Fixed Rate (16.75% p.a.)	N/T	N/T
					HNB DEBENTURES 2011		
					10 year Fixed Rate (11.50% p.a.)	N/T	N/A

N/T – Not Traded as at 30th June, N/A – Not Applicable

N/T – Not Traded as at 30th June, N/A – Not Applicable

	Yield to Maturity of Last Trade Done (% p.a.)	
Quarter Ended 30th June	2012	2011
<b>HNB DEBENTURES 2002</b>		
10 year Fixed Rate (14.20% p.a.)	N/T	N/T
10 year Floating Rate (TB + 1.25% p.a.)**	N/A	N/A
<b>HNB DEBENTURES 2006</b>		
7 year Floating Rate (TB + 2.25% p.a.)**	N/A	N/A
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/A	N/A
<b>HNB DEBENTURES 2011</b>		
10 year Fixed Rate (11.50% p.a.)	N/T	N/A

\*\*The yield to maturity calculation is not applicable for floating rate debentures.

N/T – Not Traded as at 30th June, N/A – Not Applicable

RATIOS OF DEBT		
	30.06.2012	31.12.2011
Debt Equity Ratio (%)	11.69	12.89
	30.06.2012	30.06.2011
Interest Cover (Times)	15.68	20.14
Yield of Comparable Govt. Security for the following HNB Debentures (% p.a.)		
2002 series 10 year maturity	12.61	7.68
2006 series 7 year maturity	12.61	7.77
2006 series 8 year maturity	12.61	8.25
2006 series 15 year maturity	N/Q	N/Q
2006 series 18 year maturity	14.34	9.66
2007 series 10 year maturity	14.12	9.15
2007 series 15 year maturity	N/Q	N/Q
2011 series 10 year maturity	14.15	N/A
N/Q - Not Quoted, N/A - Not Applicable		

## SHARE INFORMATION

As at	30-June-2012	31-Dec-2011
<b>Number of Shares</b>		
Voting	317,252,805	311,406,247
Non-voting	79,451,603	77,190,596
<b>Last Traded Price per Share</b>		
Voting (Rs.)	147.00	151.30
Non-voting (Rs.)	91.00	83.20

For the Quarter Ended	30-June-2012	30-June-2011
<b>Highest Price per Share</b>		
Voting (Rs.)	169.00	360.00
Non-voting (Rs.)	98.30	147.00
<b>Lowest Price per Share</b>		
Voting (Rs.)	140.00	200.40
Non-voting (Rs.)	85.10	115.60

## PUBLIC SHAREHOLDING PERCENTAGE

	As at 30th June 2012
Voting	66% approx.
Non-voting	80% approx.

## DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

	Number of shares	
	30-June-2012	31-Dec-2011
1 Dr. Ranee Jayamaha	101	100
2 Mr. R. Theagarajah*	36,788	36,001
3 Mr. D.H.S. Jayawardena**	-	16,516
4 Mr. R.K. Obeyesekere***	-	16,516
5 Mrs. P.C. Cooray	78,473	76,886
6 Mr. N.G. Wickremaratne	8,451	8,300
7 Ms. M.A.R.C. Cooray	5,312	5,165
8 Dr. W.W. Gamage	101	-
9 Dr. L.R. Karunaratne	1,018	1,000
10 Mr. L.U.D. Fernando****	2,667	-
11 Mr. D.T.S.H. Mudalige****	-	-
12 Miss. D.S.C. Jayawardena****	-	-
13 Mr. R.S. Captain****	6,007	-

\* Chief Executive Officer

\*\* Ceased to be a Director with effect from 31st December 2011

\*\*\* Resigned on 30th December 2011

\*\*\*\* Appointed with effect from 2nd April 2012

## 20 MAJOR SHAREHOLDERS (VOTING) AS AT 30TH JUNE 2012

	Name	No. of Shares	% on Total Voting Capital
1.	Sri Lanka Insurance Corporation Ltd.(General fund)	47,796,917	15.07
2.	Employees Provident Fund	30,436,612	9.59
3.	Milford Exports (Ceylon) Limited	25,828,280	8.14
4.	Stassen Exports Ltd	22,387,096	7.06
5.	Brown & Company Ltd A/c No.01	22,186,122	6.99
6.	Mr.Sohli Edelji Captain	18,723,547	5.90
7.	Sonetto Holdings Limited	14,697,921	4.63
8.	HSBC Intl Nom Ltd - SSBT-Janus Overseas Fund	14,469,642	4.56
9.	Distilleries Company of Sri Lanka Limited	10,016,272	3.16
10.	National Savings Bank	9,371,940	2.95
11.	HSBC Intl Nom Ltd - SSBT-Janus Aspen Series Overseas Portfol	6,556,060	2.07
12.	Standard Chartered Bank Singapore S/A HL Bank Singapore	6,216,008	1.96
13.	SBI VEN Holdings Pte Ltd	5,844,308	1.84
14.	HSBC Intl Nominees Ltd-BBH-GMO Emerging Markets Fund	5,658,288	1.78
15.	The Bank of New York Mellon SA/NV-CF Ruffer Total return Fund	5,138,289	1.62
16.	FI-CIBLUX S/A Batterymarch Global Emerging Market Fund	4,448,908	1.40
17.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return Fund	3,448,972	1.09
18.	Ms.Leesha Anne Captain	2,870,020	0.90
19.	BNY-CF Ruffer Investment Funds:CF Ruffer Pacific Fund	2,628,518	0.83
20.	Employees Trust Fund	1,733,527	0.55

## 20 MAJOR SHAREHOLDERS (NON-VOTING) AS AT 30TH JUNE 2012

	Name	No. of Shares	% on Total Non-voting Capital
1.	Legallnc Trustee Services (Pvt) Ltd	15,500,925	19.51
2.	Employees Trust Fund Board	2,718,690	3.42
3.	The Bank of New York Mellon SA/NV-CF Ruffer Total Return Fund	2,557,103	3.22
4.	HINL-JPMCB-Butterfield Trust (Bermuda) LTD	1,985,885	2.50
5.	The Bank of New York Mellon SA/NV-CF Ruffer Absolute Return	1,703,364	2.14
6.	Mr. Sohli Edelji Captain	1,442,839	1.82
7.	Pershing LLC S/A Averbach Grauson & Co.	1,327,062	1.67
8.	Bank of Ceylon No.1 Account	1,221,515	1.54
9.	Mr.Yonmerenne Simon Hewage Indrakumara Silva	1,192,179	1.50
10.	National Savings Bank	1,103,175	1.39
11.	BNY-CF Ruffer Investment Funds:CF Ruffer Pacific Fund	1,011,115	1.27
12.	Bank of Ceylon A/c Ceybank Century Growth Fund	754,757	0.95
13.	DFCC Bank A/c No.01	715,947	0.90
14.	Deutsche Bank AG- National Equity Fund	648,019	0.82
15.	Waldock Mackenzie Ltd/Mr.H M S Abdulhussein	641,487	0.81
16.	Hatton National Bank PLC A/c No.2	574,733	0.72
17.	Akbar Brothers Pvt Ltd A/c No.1	537,516	0.68
18.	Union Assurance PLC No.1 A/c	521,346	0.66
19.	Mr. Jayampathi Divale Bandaranayake	501,589	0.63
20.	Asian Alliance Insurance Plc - Ac 02 (Life fund)	475,471	0.60